From Despair to Hope

Economic Policymaking in Korea
1945-1979
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Map of the Republic of Korea (South Korea)
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Established in March 1971, the Korea Development Institute (KDI) is Korea’s oldest and best-known research institute in the fields of economic and social sciences. Its primary mission is to contribute to Korea’s development by setting long-term national agendas and providing policy recommendations based on rigorous analysis. Internationally, KDI has also sought to share Korea’s development knowledge with other countries that are facing the challenge of initiating and sustaining development.

Since its establishment, KDI has conducted research on Korea’s development experience and sought to contribute to the socio-economic advancement of developing countries. With the Harvard Institute for International Development, KDI carried out *Studies in the Modernization of the Republic of Korea: 1945-1975*, which resulted in the publication of a ten-volume monograph series. This effort was followed by two subsequent joint projects with Harvard, covering Korea’s transition from an authoritarian developmental state to a democratic market economy. KDI also published *The Korean Economy 1945-1995* on the occasion of the 50th anniversary of Korea’s liberation from Japanese colonial rule. Most recently, in cooperation with other public research institutes, KDI published *The Korean Economy: Six Decades of Growth and Development*. In addition, KDI has been leading research projects on the
systemization and modularization of Korea’s development experience to provide benchmark case studies for developing countries under the Knowledge Sharing Program (KSP), covering such cases as the *Saemaul Undong* (New Village Movement) and the post-1997 economic crisis reforms and restructuring. In order to share Korea’s development experience and contribute to international development cooperation, KDI established the International Development Exchange Program (IDEP) in 1982, which in 2010 was expanded into the Center for International Development (CID).

In conjunction with these efforts, and on the occasion of KDI’s 40th year since its founding, it is a great honor to publish Mr. Kim Chung-yum’s memoir. Starting his career as a central banker in the 1940s, Mr. Kim was a leading figure in economic policymaking in Korea for more than 30 years. During Korea’s “take-off” in the 1960s, he played a major role at the Ministry of Finance and the Ministry of Commerce and Industry. Subsequently, he served as President Park Chung Hee’s Chief of Staff for more than nine years, from 1969 to 1978. Although the usual caveats apply to a personal memoir like this, Mr. Kim’s memoir is a true asset not only to KDI’s publications but also to the literature of development.
Lim Wonhyuk, Director of Policy Research at CID, oversaw this project from its inception and wrote the introduction for the memoir. Having first met Mr. Kim in 1995, he is grateful to Mr. Kim for providing valuable advice and guidance over the years and for agreeing to have his memoir translated and published for international distribution. He also thanks CID Research Associates Kim Yoon Jung, Woo Hye Young, Lee Taeyeon, and Kim Ha Yeon for their meticulous work on the manuscript.

I hope that this memoir will be a valuable source of information to policymakers of developing countries and transition economies in promoting their own development in retrospect to the development strategies that enabled Korea to make the leap from one of the poorest countries in the world to the ranks of advanced industrial countries.

Hyun Oh-Seok
President
Korea Development Institute
For more than thirty years, I worked for the central bank of the Republic of Korea and the Korean government, beginning in 1944, when I started out as a clerk at the Bank of Chosun, the forerunner of today’s Bank of Korea, and ending in 1980, when I resigned from my post as Korean Ambassador to Japan. In 1950, I participated in the drafting of the Bank of Korea Act, and in 1953, when I was only twenty-nine, I wrote the entire text of the First Currency Reform. After that I was often involved in major Korean economic policy matters, either directly or indirectly.

I had considered the Bank of Korea my lifetime employer, but in 1959 I was dispatched to the Ministry of Finance. I served as the Director-General of the Bureau of Finance through the end of the First Republic (1948-1960), the transition government (1960), and the beginning of the Second Republic (1960-1961). From 1962 to 1969, I served as Vice Minister of Finance, Vice Minister of Commerce and Industry, Minister of Finance, and, finally, Minister of Commerce and Industry. From 1969 to 1978, I was the Chief of Staff to President Park Chung Hee, and from 1979 to 1980, I was Korea’s Ambassador to Japan.

As for my contributions to the field of banking and finance, I was responsible for the First and the Second Currency Reforms and was
closely involved in the Presidential Emergency Decree of August 3 in 1972, which froze informal money markets. I also supported the introduction of a value added tax (VAT).

In the areas of industrial and social policies, I was involved in the export-oriented industrialization policies of the 1960s. Most of all, I played a critical role in the development of Korea’s heavy and chemical industries and the build-up of the defense industry. Furthermore, I dedicated myself to various issues in which President Park showed an interest: agricultural development, the reforestation of the mountains, the Saemaul Undong (New Village Movement), the construction of expressways, and the establishment of a medical security (national healthcare) system.

Looking back, I must say I was daunted at times by the uphill struggle Korea faced. In the 1950s, when I was helping to rebuild and stabilize the economy after the Korean War (1950-1953), I wondered whether Korea, struggling as it was with “Asian stagnation” and the vicious cycle of poverty, could ever graduate from being a low-income country. In the 1960s, when I was involved in the First and Second Five-Year Economic Development Plans, I was determined to make the economy take off. In the 1970s, when Korea was becoming one of the newly industrialized economies, I recollect
having worked single-mindedly, with a deep sense of achievement.

This memoir is an attempt to record the Korean economic policies in which I was closely involved from the beginning of the 1950s to the end of the 1970s. Rather than simply revisit my past experiences in chronological order, I have concentrated on major policies and themes so as to discuss the background, motivation, contents, processes, and results.

The Korean original of this volume was serialized in the *Joong-Ang Economic Daily* from 1989 to 1990. It was published in book form in October 1990 under the title *A 30-Year History of Korean Economic Policies: Memoirs of Kim Chung-yum*. An abridged English-language version of the 1990 memoir, focusing on President Park’s economic policies, was published by the World Bank in 1994 as the first in a series of EDI Retrospectives in Policymaking under the title *Policymaking on the Front Lines: Memoirs of a Korean Practitioner, 1945-79*. A revised and expanded Korean-language version was published in 2006 under the new title *Once One of the Poorest Countries in the World, Now Arriving at the Doorstep of Advanced Countries*. 
This English version is based on the 2006 version of the memoir; however, the original text has been extensively revised to help non-Korean readers understand the context of the major policies. It has been focused on issues most relevant to policymakers in developing countries and transition economies. I have emphasized my recollections of development strategies from the beginning of Korea’s take-off to Korea’s arrival as one of the newly industrialized economies. President Park Chung Hee oversaw this period of development, and I believe that his strong leadership contributed to the successful outcome.

An enterprise of this sort is singularly dependent on the sum efforts of all its contributors. Foremost, the publication of this English version of my memoir was made possible by the encouragement and support of the Center for International Development (CID) at the Korea Development Institute (KDI). The Korean manuscript was translated by trans-world, and the English manuscript was copyedited by Kim Kwang Sung. Their considerable efforts deserve special thanks for getting this book in shape for publication. As always, I am thankful to my son, Kim Joon-Kyung, for his perceptive readings and contributions. I am especially grateful to Lim Wonhyuk, Director of Policy Research at CID, for taking
stewardship of this enterprise and for his thorough reading and fine editorial work.

Last but not least, I hope that this book will be a useful source of ideas and inspiration for policymakers and scholars in their efforts to understand Korea’s development experience and tackle today’s development challenges in their own country and around the world.
In romanizing Korean, this book uses a system developed by the National Institute of the Korean Language, as formalized by Notification No. 2000-8 of the Ministry of Culture and Tourism on July 7, 2000.* Under this system, romanization is based on standard Korean pronunciation, and no symbols except Roman letters are used as far as possible. The Korean romanization system of 2000 strikes a balance between transcription (based on pronunciation) and transliteration (based on one-to-one correspondence between two writing systems) without using extra symbols such as the apostrophe(‘) in the McCune-Reischauer system, which aims at representing the pronunciation and not the spelling of Korean words.

In ordering the elements of a Korean person’s name, this system adopts the Korean sequence (that is, the opposite of the Western sequence): the family name first, followed by the given name. Syllables in a Korean person’s given name may be separated by a space or connected with or without a hyphen, depending on the person’s preference: for example, President Park Chung Hee and President Kim Dae-jung. One notable exception occurs in this book in references to President Syngman Rhee (not Rhee Syngman or Rhee Seungman), for whom the use of the family name last and the spelling seem to be established by custom and preference. As for

*For details on the Korean romanization system of 2000, see http://www.korean.go.kr/eng/roman/roman.jsp.
non-Korean names in English, this book follows the standard practice in the respective countries: for example, Chinese leader Deng Xiaoping, Japanese Prime Minister Masayoshi Ohira, and US President Lyndon Johnson. To the extent possible, information on proper nouns such as persons’ or companies’ names was collected through literature and internet search.

In this book, Korean words in the plural are not followed by the letter “s.” For example, Korea’s large family-based business groups are referred to as the chaebol, not chaebols.

Finally, Korea in this book generally refers to Daehanminguk, whose official name in English is the Republic of Korea (or South Korea). This book uses the official name, the Republic of Korea (or South Korea), only in passages where a simple reference to Korea may cause confusion with the Democratic People’s Republic of Korea (or North Korea).
Reflections on Korea’s Development

Lim Wonhyuk

Korea’s development experience over the past half-century has been a source of fascination for development specialists and a source of inspiration for other developing countries eager to extract lessons that they can apply. One of the poorest countries in the world at the beginning of the 1960s, Korea joined the ranks of industrial democracies, becoming a member of the Organisation for Economic Co-Operation and Development (OECD) in 1996. As Figure 1 shows, Korea’s gross domestic product (GDP) per capita and trade volume have increased dramatically since the 1960s. Even among

Figure 1 | Korea’s Journey from Poverty to Prosperity

Note: Korea’s trade volume (right axis) and per capita GDP (left axis) are both given in current U.S. dollars.

Director of Policy Research, Center for International Development, KDI (e-mail: wlim@kdi.re.kr). This introductory essay draws extensively from Lim (2011) and Winters, Lim, Hanmer, and Augustin (2010).
successful economies characterized by sustained high growth, Korea stands out with its impressive industrial upgrading and ability to recover quickly from shocks such as the economic crisis of 1997-1998.

In fact, unlike some countries caught in “a middle-income trap,” Korea managed to transform its economic structure and systematically increase the domestic value added as well as the local content of its exports. As Figure 2 shows, the share of manufacturing in Korea’s GDP doubled between the early 1960s and the late 1970s as Korea was able to improve agricultural productivity and reallocate workers from the primary sector. Moreover, as Figure 3 shows, Korea’s exports and imports rose in step with investment over the same period, suggesting that incentives for these activities were strengthened in a similar manner.

Figure 2 | Sectoral Composition of GDP (Percent of GDP)

Source: Bank of Korea, ECOS (http://ecos.bok.or.kr)
Korea is a prime example of a country that has been able to generate and sustain rapid, resilient, and shared growth. Korea’s development took place through the joint discovery and upgrading of comparative advantage. To promote development, the government and the private sector made joint efforts to address innovation and coordination externalities while minimizing negative government externalities such as corruption. They developed “a big-push partnership” in which the government shared the investment risks of the private sector and provided support largely based on performance in competitive global markets. The reinforcement of successful experiments through the feedback mechanism of performance-based rewards led to dramatic changes over time. In fact, the memoirs from the architects of Korea’s development (Park 1963; Kim 1994; O 2009) emphasize the role of performance-oriented leadership and suggest that export-oriented industrialization and human resource development, as encapsulated in the slogans “exportization of all
industries” and “scientification of all people,” capture the essence of Korea’s approach. Committed to human development and social cohesion as well as economic growth, Korea pushed ahead with a coordinated and broad-based program of trade, industrial, and human resource development (Lim 2011).

In this memoir, Mr. Kim Chung-yum, a leading figure in economic policymaking in Korea from the beginning of the 1950s to the end of the 1970s, chronicles Korea’s major policies as it made its remarkable transition from one of the poorest countries in the world to arrive at the doorstep of advanced countries. During Korea’s “take-off” in the 1960s, Mr. Kim played a major role in export-oriented industrialization and market liberalization. Subsequently, as President Park Chung Hee’s Chief of Staff from 1969 to 1978, he played a critical role in industrial upgrading as well as tax and financial reforms. He also supported rural development and reforestation initiatives and infrastructure and human resource development efforts during his long and distinguished career as a public servant.

Consisting of two sections, this introductory essay attempts to place Mr. Kim’s memoir in historical and comparative context. Section 1 provides an overview and summary of the memoir. Section 2 extracts lessons from Korea’s development experience for developing countries, citing relevant examples from the memoir whenever possible. The time horizon is extended beyond the period covered in the memoir (1945-1979) to draw up-to-date implications.
1. Overview and Summary of the Memoir

Mr. Kim Chung-yum’s memoir consists of seven parts. Part I provides an overview of President Park Chung Hee’s economic development policy, based on Mr. Kim’s presentation at a World Bank forum on “Lessons from East Asia” in conjunction with *The East Asian Miracle* project (World Bank 1993). It highlights what Mr. Kim believes are the critical ingredients of Korea’s development: strong government leadership, export-oriented industrialization, heavy and chemical industry (HCI) drive, rural development and reforestation, infrastructure and human resource development, and macroeconomic and financial reforms (Chapter 1).

Part II sheds light on Mr. Kim’s formative years as a young central banker. He was born in Seoul in 1924 when Korea was under Japan’s colonial rule (1910-1945), and went to Japan to study at a commercial college. In 1944, when he was an employee at the Bank of Chosun, forerunner to the Bank of Korea, he went back to Japan to fulfill his military service and was sent to a training unit in Hiroshima. When the atomic bomb was dropped on August 6, 1945, he was within two kilometers from the center of the explosion. In surviving the atomic bomb and rescuing his classmate from the horrors, Mr. Kim displayed many of the same qualities that would serve him well later—dedication, discipline, and judgment (Chapter 2). Soon after rejoining the central bank, he was involved in the drafting of the Bank of Korea Act in 1950 (Bloomfield and Jensen 1951), just before the Korean War (1950-1953) broke out. He was then posted in Japan, where he devoted himself to studying Japan’s postwar reconstruction policies: macroeconomic stabilization (“the Dodge line”), currency reform, exchange rate determination, and
“priority on production”—industrial policy based on the idea of forward and backward linkages. His research in Japan would serve him well in designing Korea’s own reconstruction and development policies (Chapter 3). In fact, after returning to Korea, Mr. Kim drafted the entire text of the currency reform of 1953 and helped to pave the way for macroeconomic stabilization. He was then posted in the United States and supported Korea’s efforts to join the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) in 1954. He also obtained a master’s degree in Economics and enhanced his understanding of banking and finance (Chapter 4).

Part III shows Mr. Kim’s trials and triumphs as a technocrat after he had to leave the central bank to join the government as the Director-General of the Finance Bureau at the Ministry of Finance in 1959. The April 19 Student Revolution of 1960 (or, simply 4.19) and the May 16 Military Revolution of 1961 (5.16) changed the political economy of policymaking in Korea. Mr. Kim soon found himself right at the center of the storm as the new military government under General Park Chung Hee sought his expertise in currency reform. Having nationalized commercial banks, the military government was trying to mobilize domestic savings to promote basic industries. Unlike the first currency reform of 1953, however, the second currency reform of 1962 was botched because the Korean government had not consulted with the United States, which at the time was providing more than half of Korea’s budget through aid (Chapter 5).

Upset by the lack of prior consultation, the United States used its aid leverage to roll back the currency reform and force the military
government to uphold its pledge to restore the electoral regime by 1963. Although the military government had little choice but to acquiesce, the lessons were not lost on the policymakers. Reassessing the import-substituting industrialization strategy that they had initially favored, they began to search for radically different options that would save them from ever being trapped in such a vulnerable position again (Mason et al. 1980: 196-197). At the most fundamental level, Korea’s export-oriented industrialization was a strategy to secure political as well as economic independence (Lim 2011).

Soon after the aborted currency reform of June 1962, Mr. Kim was appointed as the Vice Minister of Finance with a mission to restore stability in the financial markets, especially the stock market. To resolve a conflict of interest that had led to rampant speculation and a subsequent market shutdown, he pushed ahead with a plan to change the status of the stock exchange from a privately owned corporation to a public corporation (Chapter 6). Mr. Kim’s next post, as the Vice Minister of Commerce and Industry in 1964, gave him a great opportunity to implement his vision for the Korean economy. He persuaded the Deputy Prime Minister to push ahead with a combined program of market liberalization and export-oriented industrialization, and put in place the measures he had advocated to reduce trade barriers and promote Korean exports (Chapter 7). He received full support from the Minister of Commerce and Industry, a leading proponent of the “export first” doctrine (Park 1988).

Mr. Kim then became the Minister of Finance in 1966 and supported Korea’s efforts to join the General Agreement on Tariffs and Trade (GATT) and to establish the Korea Exchange Bank, both of which bore fruit the next year. He also played in 1966 a major role...
in creating the National Tax Service, which helped to mobilize domestic resources for development by reducing tax evasion and corruption (Chapter 8). Mr. Kim then became the Minister of Commerce and Industry in 1967 and placed Korea’s industrial upgrading and export promotion efforts on a secure ground. After struggling to cope with electricity shortages early in his tenure, he firmly established principles to ensure an adequate and stable supply of electricity in 1968. He also made significant contributions to the government’s efforts to establish the Pohang Iron and Steel Company (POSCO) and the Ulsan Petrochemical Complex by securing funds from Japan and investments from the United States, respectively. Last but not least, he overcame bureaucratic resistance and set up the Export Promotion Special Account Fund in 1969 to help improve the quality and visibility of Korean exports, based on a quasi-tax collected by the Korea International Trade Association (KITA) through a fee on imports (Chapter 9).

Part IV and Part V highlight major policy challenges Mr. Kim faced when he served as President Park Chung Hee’s Chief of Staff from October 1969 to December 1978. “Policymaking on the Front Lines”—to borrow the title of the abridged 1994 version of this memoir—aptly describes Mr. Kim’s predicament as he had to cope with security threats and social and economic challenges at the same time. After a North Korean commando raid on the Blue House in 1968, the declaration of US President Richard Nixon’s Guam Doctrine in 1969, and the dramatic changes in international relations under détente, President Park wanted to focus on national security and foreign policy and entrusted Mr. Kim to manage the nation’s economy.
Part IV opens with his unexpected appointment as President Park’s Chief of Staff in 1969 (Chapter 10) and focuses on Korea’s social and economic transformation during his tenure. Mr. Kim had to branch out from his comfort zone in banking and finance to trade and industry, and then to rural and infrastructure development and social protection. To reduce rural poverty and promote broad-based growth, the Korean government built multi-purpose dams to improve irrigation and set up vinyl houses (called greenhouses, though silver in color) around the countryside to grow fruits and vegetables out of season (Chapter 11). This “silver revolution” was complemented by a “green revolution,” which led to the development and introduction of improved varieties, including the Unification (Tongil) rice variety in 1972 (Kim 1978). The government also abandoned its previous low grain price policy in 1968. A dual grain price policy, through which the government procured grains at higher prices than subsequently sold for, further supported rural income—even though it increasingly became a fiscal burden (Chapter 12). The Saemaul Undong (New Village Movement), launched in 1970, represented the culmination of Korea’s rural development efforts. The core elements of the movement included community empowerment under the principles of “diligence, self-help, and cooperation”; peer learning and inspiration; and performance-based support from the government (Chapter 13; Park 1998; Goh 2005; Chung 2009). Thanks to these efforts, Korea was able to eliminate its urban-rural income gap by the mid-1970s and maintain social cohesion.

As President Park’s Chief of Staff, Mr. Kim supported these rural development initiatives and played a facilitating role in Korea’s reforestation efforts (Lee 2006). His idea in 1972 of moving the Korea Forest Service from the Ministry of Agriculture and Forestry
to the powerful Ministry of Home Affairs proved crucial in securing the organizational network for planting and caring of trees (Chapter 14). He also assisted President Park’s drive to construct expressways as “arteries for a modern Korea,” a vision inspired by the *autobahn* during the President’s visit to West Germany in 1964. Although international financial institutions such as the World Bank refused to provide funding for the construction of the Seoul-Busan expressway, Korea mobilized domestic resources and Japanese reparation funds to complete the expressway in 1970 at a fraction of the construction time and cost spent in advanced countries (Chapter 15).

Mr. Kim played a more direct role in dealing with Korea’s corporate debt crisis in the early 1970s. Since the mid-1960s, foreign financial institutions had greatly expanded loans to Korean firms, reassured by Korea’s rapid growth and explicit government guarantees on repayment. As a result, Korea’s external debt skyrocketed from $206 million (6.9 percent of GNP) in 1965 to $2,277 million (23.7 percent of GNP) in 1970 (Cho and Kim 1997). Domestic loans increased as well. Overall, the debt-equity ratio of Korean manufacturing firms soared from 92.7 percent in 1965 to 328.4 percent in 1970, while their profitability declined. When the highly leveraged corporate sector was on the verge of mass bankruptcy, Mr. Kim came up with the idea of placing a moratorium on informal curb loans, which had charged rates well above the legally mandated interest limit. Under the Presidential Emergency Decree for Economic Stability and Growth on August 3, 1972, informal curb loans were drastically restructured so as to reduce the corporate sector’s debt burden. According to borrowing firms’ reports, the final tally showed that informal curb loans amounted to 345.6 billion won, or 80 percent of the money supply (M1), but it
also turned out that more than a few company owners had made “camouflaged” curb loans to their companies to evade taxes, for a total of 113.7 billion won. The government subsequently made efforts to push large companies to go public and improve their governance and financial structure, but the problem of the chaebol, Korea’s family-based business groups, would continue (Chapter 16). Despite its success in averting a massive debt crisis, the 1972 moratorium on curb loans remains controversial because it seemed to have exacerbated moral hazard, fueling expectations that the government would come to bail out debt-plagued companies if they were on the verge of mass bankruptcy. Asymmetric liberalization starting in the 1980s, combining weakened government control with remaining expectations for implicit government guarantees against bankruptcy, set the stage for Korea’s economic crisis of 1997-1998 (Lim and Hahm 2006).

Mr. Kim also played an instrumental role in introducing a value added tax (VAT) in 1977, overcoming political and bureaucratic resistance along the way for more than six years. A general consumption tax levied on the value added at each transaction stage, the VAT became the most stable and important national tax (Chapter 17). Last but not least, Mr. Kim supported the introduction of the medical security (national healthcare) system in 1977. Initially, Korea’s medical insurance system was made compulsory for companies that had 500 or more employees, but was later extended to smaller companies and complemented by a residence-based system to provide universal coverage. In addition, medical protection (Korea’s Medicaid) provided free healthcare to those who could not afford medical insurance. As a result, every citizen was ensured some form of healthcare by 1989 (Chapter 18).
After Part IV chronicles Korea’s rural and infrastructure development, financial and tax reform and social protection, Part V focuses on national security and industrial policy challenges during Mr. Kim’s tenure as President Park’s Chief of Staff (1969-1978). While North Korean provocations such as the commando raid on the Blue House in 1968 had raised tension on the Korean peninsula, the United States began to reduce its ground forces in Asia due to its setbacks in the Vietnam War and prospects for improved relations with the People’s Republic of China. The withdrawal in 1971 of one of the two US infantry divisions stationed in Korea heightened a sense of national security crisis and added a new urgency for industrial upgrading, as policymakers came to realize that Korea had to develop heavy and chemical industries if it was to have the ability to manufacture its own weapons. The synergy between civilian and defense industries would prove critical for the success of the heavy and chemical industry (HCI) drive, which was officially launched in 1973 (Chapter 19; O 2009; Kim 1988).

To supply high-quality technicians, the government established a number of technical high schools and provided incentives such as full scholarships and employment guarantees. Their curriculum emphasized practical training, and students were supposed to acquire technical certificates before graduation. The National Technical Certification Law of December 1973 introduced a system based on the German Meister model. National universities were called upon to focus on one specialized engineering field related to a nearby industrial complex (Chapter 20; O 2009; Kim 1988). In fact, President Park had long appreciated the importance of science and technology and persuaded US President Lyndon Johnson in 1965 to help set up a science and technology institute in Korea as part of the
US assistance package for sending Korean troops to Vietnam. The establishment of the Korea Institute of Science and Technology (KIST) in 1966 and the subsequent creation of specialized government research institutes (GRIs) and science parks during the HCI drive set the stage for Korea’s transition to a knowledge-based economy (Chapter 21; Choi 1995).

While the massive program to promote heavy and chemical and defense industries was under way, the communist takeover of Cambodia and Vietnam in 1975 and increasing provocations by North Korea raised the specter of another war on the Korean peninsula. The South Korean government increased its defense spending from 4 percent of GDP in the 1960s to 6 percent in the late 1970s. A national defense surtax, introduced in 1975, helped to finance the military modernization program. Although US President Jimmy Carter’s plan to withdraw all US ground forces from South Korea created a new source of uncertainty, he abandoned the plan when even his own generals voiced of the geopolitical risks such a move would entail. While doing his best to make his case against the plan to withdraw US troops, President Park pushed ahead with the promotion of the heavy and chemical and defense industries. By the end of the 1970s, Korea was able to arm itself with its own weapons supported by a solid industrial base in steel, non-ferrous metals, chemicals, electronics, shipbuilding, and machinery. Although capacity underutilization was a problem at the end of the 1970s, the HCI drive helped to build the foundation of many of Korea’s leading industries and enabled Korea to develop its own defense industry (Chapter 22).
Part VI shifts the focus from economic policy issues to the operation of the Presidential Secretariat and political lessons Mr. Kim learned. Influenced by West German Chancellor Willy Brandt’s *ostpolitik* in Europe, President Park started inter-Korean reunification talks in 1971. South and North Korea managed to produce a joint communiqué which laid the principles for reunification on July 4, 1972. However, while South Korea wanted to focus on humanitarian issues such as the reunion of families separated by national division, North Korea sought to expand the agenda to political issues. After additional inter-Korean talks went nowhere, President Park concluded that reunification would be impossible as long as North Korean leader Kim Il Sung was alive. Hard-nosed realism characterized President Park’s foreign policy as well (Chapter 23).

Mr. Kim also sheds light on the issue of human rights that drove a wedge between Korea and the United States after President Park adopted the Revitalizing Reform (*Yushin*) in October 1972. President Park declared a state of national emergency and adopted a new *Yushin* constitution that gave dictatorial powers to the President, eliminated term limits, and abolished direct presidential elections. Under the new constitution, the President had the power to appoint one-third of the members of the National Assembly. Through a series of emergency decrees, the President also banned discussions on the constitution. University students, intellectuals, and religious leaders who demonstrated against the *Yushin* system were arrested and imprisoned. When US President Jimmy Carter openly took issue with the human rights record of “friends and allies” under his human rights diplomacy, President Park expressed displeasure on the ground that it was not right for the US to meddle in Korea’s domestic affairs without exactly understanding the situation and the risks to national
security (Chapter 23). However, Korea’s growing middle class increasingly sided with pro-democracy activists against the *Yushin* system, and domestic discontent, not foreign pressure, would become the driving force for political change.

As for the management of the Office of the Presidential Secretariat, Mr. Kim downsized it so that it could focus on its core mission of supporting the President and government ministries on policy priorities, delegating personnel and human resource management to Ministers. He also instituted a personnel rotation system through which civil servants from other branches of government were given a two- or three-year assignment in the Blue House, before returning to their original post (Chapter 23). For policy priorities, such as the HCI drive and the promotion of the leisure and tourism industry, a new presidential secretary’s position was created at the Blue House to give strategic guidance and ensure effective implementation. Once its mission was accomplished, the newly created presidential secretary’s position was dismantled, and a line ministry or an administration team took over (Chapter 24).

Part VII concludes with Mr. Kim’s personal sketch of President Park. According to him, the President had a deep appreciation, and personalized view, of Korea’s history: He felt that despite Korea’s proud cultural heritage, the nation had squandered many opportunities due to political strife and suffered humiliation in the hands of foreign powers. The President also believed that economic development and modernization would provide the basis for national independence. Mr. Kim recalls that President Park was a disciplined and decisive leader, delegating authority to government officials but making sure they delivered what they promised. Mr. Kim ends his
memoir with what might have been, with a reference to President Park’s plan to amend the Yushin constitution and step down from the presidency in 1983, a year before his term was to end (Chapter 25).

Growing political discontent, however, did not allow President Park to have the opportunity to change the Yushin system at his own pace. Popular disenchantment with political oppression and inflation produced an electoral upset in December 1978, in which the opposition received a greater percentage of popular votes than the ruling party in parliamentary elections. Although the appointment of one-third of the National Assembly by the President secured a parliamentary majority for him, emboldened intellectuals, students, politicians, and workers increasingly demanded the abolition of the Yushin system. Government hard-liners, represented by the Chief Officer of the Presidential Security, wanted to crush pro-democracy demonstrations in cities like Busan and Masan; whereas, others in the government, including the Director of the Korea Central Intelligence Agency (KCIA), urged caution. On October 26, 1979, the KCIA Director killed the President as well as the Chief Officer of the Presidential Security. Ironically, that spared President Park from tarnishing his economic legacy with a bloody suppression of demonstrations—unlike Chinese leader Deng Xiaoping in 1989. Indeed, what President Park is most remembered for is his remarkable economic accomplishments, as vividly captured in Mr. Kim’s memoir.
2. Lessons from Korea's Development Experience

In general, development may be conceptualized as the result of synergies between enhanced human capital and new knowledge, involving complementary investments in physical and social capital, with the respective roles of the state, non-state actors, and markets shifting over time. Three externalities are central to the development challenge: innovation externalities in the production and utilization of knowledge; coordination externalities in the organization of economic activities through markets and hierarchies; and government externalities influenced by the quality of governance and institutions.

The key is for a country to retain ownership of its development and progressively expand its capacity to add value and manage risks even as it actively learns from, and engages with, the outside world. A country must address innovation and coordination externalities while minimizing negative government externalities such as corruption. It should also establish fiscal discipline and prudential regulation and flexibly adjust prices to mitigate the impact of shocks. Last but not least, it should commit to human development and social cohesion if it is to reduce the risks of growth-killing conflicts (Lim 2011).

To raise the underlying growth rate, a country should improve the synergies between enhanced human capital and new knowledge through progressive local capacity development and external interaction, with complementary investments in physical and social capital. More specifically, critical challenges include: financing and investing for development, international trade, industrial upgrading, infrastructure, and human resource development. To mitigate
downturns and recover quickly from shocks, a country should manage social as well as economic risks. Key challenges include: macroeconomic stability, prudential regulation, and social cohesion. The overarching factors of institutions and access to knowledge should be strengthened to address these challenges (Winters, Lim, Hanmer, and Augustin 2010).

Table 1 | Policy Challenges for Development

<table>
<thead>
<tr>
<th>Policy Challenges</th>
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<tbody>
<tr>
<td><strong>Raising Underlying Growth</strong></td>
</tr>
<tr>
<td>Financing and Investing for Development</td>
</tr>
<tr>
<td>International Trade</td>
</tr>
<tr>
<td>Industrial Upgrading</td>
</tr>
<tr>
<td>Infrastructure</td>
</tr>
<tr>
<td>Human Resource Development</td>
</tr>
<tr>
<td><strong>Mitigating Downturns</strong></td>
</tr>
<tr>
<td>Macroeconomic Stability</td>
</tr>
<tr>
<td>Prudential Regulation</td>
</tr>
<tr>
<td>Social Cohesion</td>
</tr>
<tr>
<td><strong>Strengthening Overarching Factors</strong></td>
</tr>
<tr>
<td>Institutions and Governance</td>
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<td>Access to Knowledge</td>
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</tbody>
</table>

Korea’s experience provides a useful example for this conceptual framework of development. At the end of the 1950s, Korea was an aid-dependent near-autarky whose per capita income was one of the lowest in the world. The division of the Korean peninsula in 1945 and the destruction wrought by the Korean War, as well as rampant corruption and crony capitalism, cast a dark shadow over Korea’s development prospects. However, a closer examination of Korea’s situation in the 1950s revealed strengths that would become critical
to its subsequent development. First, crony capitalism or not, Korea had a vibrant private sector where entrepreneurs were seeking profit opportunities to expand their businesses. Second, Korea had a cohesive and egalitarian society characterized by cultural and ethnic homogeneity, basic administrative capacity, and high social mobility. Third, Korea had primary and secondary school enrollment rates similar to those in countries with two or three times its per capita income thanks to its investment in education.

Starting in the early 1960s, Korea was able to exploit its latent comparative advantage in labor-intensive manufacturing by correcting for government and market failures of the past. In subsequent decades, Korea upgraded its comparative advantage with a view toward increasing the domestic value added or the local content of its exports. Korea retained ownership of its export-oriented industrialization and progressively developed its own capacity even as it actively engaged in external interaction to learn from, and trade with, the outside world. Through joint efforts of the government and the private sector, Korea was able to discover and upgrade its comparative advantage, and reinforce successful experiments through rewards based on performance in competitive global markets. Korea’s coordinated and broad-based program of trade, industrial, and human resource development generated rapid, resilient, and shared growth. Not only did Korea successfully raise the underlying growth rate, it also mitigated downturns and quickly recovered from shocks. The overarching factors of institutions and access to knowledge provided the basis for Korea’s remarkable transformation over the past half century (Lim 2011).
A. Raising the Underlying Growth Rate

A critical development challenge for Korea in the early 1960s was to find financing sources other than foreign aid and productively invest capital to improve its growth prospects. Korea had to rely heavily on foreign capital due to its low domestic capital accumulation at the time, but it sought to invest for development in such a way that its dependence on foreign capital would be reduced over time. International trade helped Korea to discover its comparative advantage and alleviate coordination failures; overcome the limits of its small domestic market and exploit scale economies; learn from good practices around the world and upgrade its economy; run a market test of government policies and corporate strategies; and devise performance-based reward schemes. While relying on global markets, Korea made conscious and concerted efforts for industrial upgrading, to climb up the value chain into higher value-added areas by making complementary investments in infrastructure and human capital.

Financing and Investing for Development

A key issue for Korea in the early 1960s was financing. As Table 2 shows, the domestic savings rate was less than 10 percent of gross national product (GNP) at the time, and Korea had to attract foreign capital to finance more than half of its investment needs. Korea’s efforts to earn hard currency included the dispatch of miners and nurses to West Germany in the early 1960s to secure remittances, participation in the Vietnam War to obtain assistance from the United States, and normalization of relations with Japan in 1965 to receive reparations. More fundamentally, Korea adopted proactive measures
to facilitate foreign financing and earn hard currency through exports. As Table 2 indicates, Korea subsequently invested in such a way that its dependence on foreign capital would decline over time. In fact, thanks to high and sustained growth from 1962-66 to 1977-81, the domestic savings rate soared from 8.0 percent to 25.5 percent even as the investment rate increased from 16.3 percent to 31.0 percent of GNP, and the share of foreign savings in investment declined from 52.8 percent to 18.1 percent over the same period.

Table 2 | Savings and Investment in Korea, 1962-81 (unit: percent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual GNP Growth</td>
<td>7.9</td>
<td>9.7</td>
<td>10.2</td>
<td>5.7</td>
<td>8.4</td>
</tr>
<tr>
<td>Investment / GNP</td>
<td>16.3</td>
<td>25.4</td>
<td>29.0</td>
<td>31.0</td>
<td>25.4</td>
</tr>
<tr>
<td>Domestic Savings / GNP</td>
<td>8.0</td>
<td>15.1</td>
<td>20.4</td>
<td>25.5</td>
<td>17.3</td>
</tr>
<tr>
<td>Foreign Savings / GNP</td>
<td>8.6</td>
<td>10.0</td>
<td>6.7</td>
<td>5.6</td>
<td>7.7</td>
</tr>
<tr>
<td>Foreign Savings / Investment</td>
<td>52.8</td>
<td>39.4</td>
<td>23.1</td>
<td>18.1</td>
<td>30.4</td>
</tr>
</tbody>
</table>

Source: Economic Planning Board

In the 1950s, foreign aid amounted to as much as 8 percent of GNP, and it was common to talk about Korea’s “mendicant mentality.” In fact, “American development agencies found Korea a nightmare, an albatross, a ‘rat-hole,’ a bottomless pit…” (Woo 1991: 46) However, dramatic changes in Korea’s political economy in the early 1960s, brought about by 4.19 and 5.16, ignited a passionate national debate on development. Deploring that Korea had to depend on U.S. aid for 52 percent of the supplemental budget in 1961, President Park (1963: 28) noted: “Though nominally independent, the real worth of the Republic of Korea, from the statistical point of

Lim Wonhyuk
view, was only 48%. In other words, the U.S. had a 52% majority vote with regard to Korea...” Park (1963: 172-173) added: “From 1956 to 1962, we have received, on the average, some 280 million dollars of economic aid each year and some 220 million in military aid. In addition, we have run a current account deficit of 50 million dollars. In other words, excluding our military sector, 330 million dollars should be earned annually to keep the Korean economy on a self-sufficient footing.” In 1962, Korea’s total exports were only 54.8 million dollars.

In the early 1960s, Korea lacked the domestic resources to carry out its economic development program, but it was not willing to depend heavily on foreign direct investment (FDI). Instead, Korea mainly relied on foreign loans, which would allow Korea to take advantage of the domestic-international interest rate differential and be the residual claimant on its investments—if it successfully paid back the loans. Table 3 shows how the dominant portion of foreign capital flows into Korea shifted decisively away from foreign aid to foreign loans in the 1960s.

Because domestic firms at the time lacked the international standing to raise capital on their own, the government decided to guarantee private-sector foreign borrowing in 1962 (Chapter 25). This state guarantee became progressively effective as Korea established a track record of earning hard currency through exports and paying back foreign loans; a state guarantee by a country with a poor credit rating obviously would not have much weight. In taking this measure, the government signaled that it was willing to form a risk partnership with the private sector. Through direct monitoring and performance-based support, the government tried to contain the
potential costs of state-backed debt financing. All foreign loans had to be authorized by the government, and were allocated according to the policy priority of investment projects.

Table 3 | Composition of Foreign Capital Flows into Korea, 1945-92

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Loans</td>
<td>5 (0.1)</td>
<td>62 (7.1)</td>
<td>1,130 (26.4)</td>
<td>3,431 (30.6)</td>
<td>10,105 (28.9)</td>
<td>4,688 (15.4)</td>
</tr>
<tr>
<td>Commercial Loans</td>
<td>71 (8.0)</td>
<td>1,950 (45.6)</td>
<td>5,858 (52.2)</td>
<td>7,937 (22.7)</td>
<td>5,206 (17.1)</td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>13 (1.5)</td>
<td>227 (5.3)</td>
<td>704 (6.3)</td>
<td>1,157 (3.3)</td>
<td>5,684 (18.7)</td>
<td></td>
</tr>
<tr>
<td>Bank Loans</td>
<td></td>
<td>205 (4.8)</td>
<td>1,007 (9.0)</td>
<td>11,892 (34.1)</td>
<td>4,318 (14.2)</td>
<td></td>
</tr>
<tr>
<td>Bonds (Fin. Inst.)</td>
<td></td>
<td>219 (1.9)</td>
<td>2,899 (8.6)</td>
<td></td>
<td>5,978 (19.7)</td>
<td></td>
</tr>
<tr>
<td>Bonds (Firms)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>834 (2.4)</td>
<td>4,515 (14.9)</td>
</tr>
<tr>
<td>US &amp; UN Grants</td>
<td>3,117 (99.9)</td>
<td>729 (83.4)</td>
<td>552 (13.0)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reparation Grants</td>
<td>211 (4.8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3,121</td>
<td>886</td>
<td>4,275</td>
<td>11,219</td>
<td>34,914</td>
<td>30,289</td>
</tr>
</tbody>
</table>


Note: Public loans include concessional loans, but this source does not provide a detailed breakdown. Nor does it separate the grant element in concessional loans that meet the definition of ODA (i.e., loans with a grant element of 25 percent or more).
In addition to securing foreign capital, Korea made considerable efforts to mobilize domestic resources. It established the National Tax Service in 1966 to reduce tax evasion and corruption (Chapter 8), and introduced a value added tax in 1977 to secure a stable source of fiscal revenue (Chapter 17).

Table 4 | Allocation of Japanese Reparation Funds

<table>
<thead>
<tr>
<th>Project</th>
<th>million dollars</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>39</td>
<td>7.8</td>
</tr>
<tr>
<td>Fishery</td>
<td>27</td>
<td>5.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>278</td>
<td>55.6</td>
</tr>
<tr>
<td>Construction of POSCO</td>
<td>119</td>
<td>23.9</td>
</tr>
<tr>
<td>Purchase of raw materials</td>
<td>133</td>
<td>26.5</td>
</tr>
<tr>
<td>Promotion of SMEs</td>
<td>22</td>
<td>4.5</td>
</tr>
<tr>
<td>Science and Technology</td>
<td>20</td>
<td>4.0</td>
</tr>
<tr>
<td>Equipment for practical training for schools</td>
<td>6</td>
<td>1.2</td>
</tr>
<tr>
<td>Equipment/facilities at KIST</td>
<td>3</td>
<td>0.6</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>90</td>
<td>18.0</td>
</tr>
<tr>
<td>Soyang River Multi-Purpose Dam</td>
<td>22</td>
<td>4.4</td>
</tr>
<tr>
<td>Seoul-Busan Expressway</td>
<td>7</td>
<td>1.4</td>
</tr>
<tr>
<td>Improvement of Railway System</td>
<td>20</td>
<td>4.2</td>
</tr>
<tr>
<td>Yeongdong Thermal Power Plant</td>
<td>2</td>
<td>0.4</td>
</tr>
<tr>
<td>Expansion of Waterworks</td>
<td>4</td>
<td>0.8</td>
</tr>
<tr>
<td>Namhae Bridge</td>
<td>2</td>
<td>0.4</td>
</tr>
<tr>
<td>Rehabilitation of Han River Bridge</td>
<td>1</td>
<td>0.2</td>
</tr>
<tr>
<td>Electric Power Transmission Lines</td>
<td>4</td>
<td>0.7</td>
</tr>
<tr>
<td>Expansion of out-of-town Telephone Lines</td>
<td>4</td>
<td>0.8</td>
</tr>
<tr>
<td>Total (Reparation funds for grants and public loans)</td>
<td>500</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Korea invested foreign and domestic resources to generate rapid, resilient, and shared growth. Instead of simply subsidizing consumption, Korea allocated capital to facilitate self-sustaining growth. The use of Japanese reparation funds provides a case in point. As Table 4 shows, Korea allocated Japanese reparation funds to support productive sectors, promote science and technology, and build physical infrastructure. In particular, it invested as much as 23.9 percent of the funds to construct POSCO, a project that had been rejected by international financial institutions such as the World Bank (Chapter 9). In sum, Korea made concerted and systematic efforts to find a wide variety of financing sources and invested foreign and domestic capital to generate self-sustaining growth and exit from aid.

**International Trade**

Korea used international trade as an essential component of its development policy. Trade helped Korea to discover its comparative advantage and identify productive uses for capital. Imports allowed firms and individuals to coordinate economic activities from upstream to downstream and across different sectors, without having to produce everything domestically. Exports helped Korea to overcome the limits of its small domestic market and exploit scale economies. Trade also offered great learning opportunities and market tests for government policies and corporate strategies. Last but not least, trade allowed Korea to devise a powerful feedback mechanism by reinforcing successful experiments through rewards based on performance in competitive global markets.
With a view toward securing economic and political independence, Korea introduced a number of export promotion measures in the 1960s (Chapter 7). To provide institutional support in the area of foreign marketing and technology imports, the government established the Korea Trade Promotion Corporation (KOTRA) in 1962 while an elaborate network of exporters’ associations provided more industry-specific services. The short-term export credit system had been streamlined as early as 1961. The essence of the new system was the automatic approval of loans by commercial banks to those with an export letter of credit (L/C), which allowed businesses to have access to trade financing without having to put up collateral.

The government also gave exporters various tax deductions, wastage allowances, tariff exemptions, and concessional credits. For example, exporters were entitled to automatic import rights and to easy customs clearance. They were also allowed to import more inputs than was essentially needed as “wastage allowance” to a certain level. Given that the value of imports was still very high, this helped to increase the profitability of exports. The interest rate on export loans was also subsidized from the mid-1960s to the beginning of the 1980s (Cho and Kim 1997: 36-37). The role of Korea’s export subsidies should not be exaggerated, however. According to Frank, Kim, and Westphal (1975), the average effective rate of subsidy on total exports in the second half of the 1960s was basically offset by the degree of currency overvaluation.
Strong export performers even received medals and national recognition on Export Day, which was established in 1964 to commemorate the day when Korea’s annual exports exceeded $100 million for the first time. Traditionally at the bottom of the social hierarchy, merchants were now presented through this annual event as patriotic entrepreneurs contributing to the nation’s modernization.

After Korea achieved annual exports of $100 million in 1964, the Minister of Commerce and Industry asked President Park to chair the monthly export promotion meetings, and after a few trial runs in 1965, the President chaired these meetings on a regular basis from January 1966. Attended by high-ranking government officials and business representatives, monthly export promotion meetings provided a forum to monitor progress and devise institutional innovations and solutions to emerging problems. Together with monthly meetings to report economic trends, these focused and shorter-interval meetings nicely complemented the Five-Year Economic Development Plans. At each monthly export promotion meeting, the Minister of Commerce and Industry gave a progress report on export performance by region and product relative to the targets set out in the annual comprehensive plan for export promotion. The Minister of Foreign Affairs gave a briefing on overseas market conditions. Government officials and business representatives then tried to identify emerging bottlenecks and constraints that impeded export performance and to devise solutions to these problems. Subsequent meetings monitored progress. Export insurance was one of many institutional innovations that were introduced as a result of recommendations drawn from the monthly export promotion meetings (Shin 1994). In short, these meetings between the government and the private sector provided
opportunities to secure sustained attention from top leadership, monitor progress on a long-term vision, and detect and mitigate constraints as they emerged. Government officials had to come prepared to respond to queries from the President and business representatives. These meetings provided a real-time forum to demonstrate their competence—or lack thereof.

In addition, the Export Promotion Special Account Fund was established within the Korea International Trade Association (KITA) in 1969 as a public-private initiative to secure non-government funding for export promotion activities. It provided support for collective activities such as the dispatch of delegations to international trade fairs, improvement of design and packaging, and establishment of quality certification facilities. A small levy was imposed on imports to provide the funding (Chapter 9).

The government also opened an Export Information Center, ran an Export Idea Bank to solicit new ideas, and undertook studies to explore promising export products and markets. In this way, the government, industries, and related support institutions came together to promote exports (Shin 1994).

Three points are worth emphasizing in regard to Korea’s export promotion efforts. First, while the government drafted an annual comprehensive plan for export promotion by product and by region, it did not set export targets at the firm level. The annual comprehensive plan provided the reference against which progress could be measured at monthly export promotion meetings, but it was not a command-and-control instrument imposed on individual firms. Second, export incentives took the form of readily scalable rewards based on
performance in a competitive setting rather than rewards contingent on the accomplishment of preannounced targets. For instance, if an exporter obtained a letter of credit (L/C) from a foreign buyer, he or she could have access to export financing at a reduced interest rate without having to put up any collateral. In other words, the exporter did not have to deliver or even commit to a certain firm-level target for export incentives to kick in; rather, the exporter received export incentives proportional to the exported amount, in the form of tax, duty, and interest rate reductions. This structure had the effect of greatly reducing the potential for abuse and simplifying the administrative process. Exports are affected by exporters’ efforts and external conditions, two of the factors that the government does not want to get into the business of evaluating under information asymmetry. Third, most importantly, Korea adopted an integrated approach to export promotion with comprehensive and interrelated measures, policies, and institutions. In fact, for Korea, export promotion—for which the nation had to change its mindset and measure itself against global benchmarks—served as the engine of growth and the organizing principle under which industrial upgrading, infrastructure development, and human resource development could be pursued. Because Korea took such an integrated approach to export promotion, it would not be appropriate to analyze Korea’s export promotion policy in isolation as a collection of tax and financial incentives to increase exports. This holds important lessons. In many developing countries, the lack of infrastructure development, for instance, leads to market fragmentation and cost increases, making it extremely difficult for entrepreneurs to export their products even if market liberalization measures have removed distortions (Meles 2006); they need an integrated approach to export promotion, not just tax and financial incentives.
As for import liberalization, Korea took a strategic approach based on competitive and infant-industry considerations. As Figure 4 shows, Korea lifted a large number of quantitative restrictions in the mid-1960s (Chapter 7), but maintained tariff rates at significant levels, for a weighted average of more than 50 percent until the end of the 1960s. Although imported intermediate inputs were made available at international prices for exporters, tariff rates on final goods were set at high levels to protect infant industries and discourage conspicuous consumption, especially during the HCI drive. In fact, it was not until the 1980s that the weighted average of tariff rates came down below 30 percent. In sum, Korea reduced quantitative restrictions and made critical intermediate inputs available at international prices for exporters, but adopted a rather cautious approach in using import liberalization as a way of increasing competitive pressure on domestic
industries. At least until the beginning of the 1980s, the government preferred to push domestic firms to excel in competitive global markets rather than bring foreign competition into the domestic market in the form of imports and direct investment. Korea’s strategic approach to import liberalization was fraught with risks of prolonged domestic protection and is unlikely to be replicable under today’s international trade regime; nonetheless, it is important to remember that Korea used strategic trade liberalization as a means of supporting local capacity development rather than seeing unconditional trade liberalization itself as an objective.

**Industrial Upgrading**

While relying on global markets, Korea made conscious and concerted efforts to climb up the value chain into more value-added areas. In fact, unlike some countries caught in “a middle-income trap,” Korea managed to achieve export-led growth, not just export growth, by systematically increasing the local content of its exports.

In pursuing industrial upgrading, Korea systematically studied what had to be done to fill the missing links in the domestic value chain and move up the quality ladder, and made conscious and concerted efforts to achieve international competitiveness from the outset. In this regard, Korea was different from many developing countries that ambitiously rushed to promote upstream industries without requisite skill accumulation and economies of scale. After exploiting its comparative advantage to develop labor-intensive downstream industries, Korea sought to indigenize intermediate inputs imported from foreign upstream industries, through technology acquisition, human resource development, and construction of
optimal-scale plants aimed for the global market. For instance, in the chemical-textile value chain, Korea systematically built the linkages backward from export of textiles to production of synthetic fibers, to development of basic petrochemicals (Lim 2011).

Moreover, instead of settling for a dual economy structure consisting of export enclaves and protected domestic markets, Korea consistently tried to increase the linkages between high-productivity sectors and the rest of the economy to maximize positive spillovers. Tariff exemption on imported intermediate inputs was operational for all of Korea through the duty drawback system. Even when Korea established export processing zones to attract foreign direct investment, resident companies were encouraged to outsource processing and establish linkages with local companies. Thanks to these efforts, the local content of products processed in the Masan Export Processing Zone, for example, increased from 28 percent in 1971 to 52 percent in 1979 (Esquivel, Jenkins, and Larrain 1998).

In promoting upstream industries during the HCI drive in the 1970s (Chapter 19), Korea had to make a strategic choice. It could play safe and develop heavy and chemical and defense industries for the small domestic market and risk inefficiency resulting from suboptimal scales and entrenched protectionism. Alternatively, it could promote these industries for the global market and risk capacity underutilization and financial distress. Korea chose the latter option because, despite considerable risks, it promised a dynamically efficient growth trajectory if Korea managed to develop the requisite skills before the financial burden associated with scale economies and complementary investments became overwhelming. To minimize time and exploit scale economies in establishing capital-intensive
industries, the government decided to rely on a select group of state-owned enterprises and family-based business groups with successful track records. It felt that scale economies called for regulated monopoly or oligopoly in these industries until demand became large enough to support effective competition. After benchmarking advanced industrial nations with natural endowments similar to Korea’s, such as Japan, Korea recognized that it had a potential comparative advantage in machinery and equipment industries and began to remove obstacles that stood in the way, such as lack of technicians and engineers with the requisite skills in sophisticated industries (Lim 2011).

In the 1960s and 1970s, the public sector played a dominant role in R&D, mainly through newly established government labs (Chapter 21). However, as Korean firms came to realize that they needed to go beyond imitation and assimilation and start innovating to succeed in global markets, they drastically increased their R&D spending, in part encouraged by government support. As Figure 5 shows, Korea’s gross R&D expenditure increased from less than 0.5 percent of GDP in the early 1970s to approximately 3 percent of GDP in the mid-2000s. Over the same period, the private-sector share of R&D spending increased from 20 percent to 75 percent. In international comparison, Korea appears to be spending much more on R&D than would be predicted by its per capita income, but the Korean government and companies believe that such high R&D spending flows are necessary to make up for the low initial stock and to secure sustained economic growth.
In short, Korea adopted an outward-oriented, bottom-up, and integrated engineering approach in its industrial policy. Korea retained ownership of its industrialization, acquired and assimilated foreign technology and know-how, and progressively developed its own capabilities.

**Infrastructure**

Korea invested in power, transport, communications, and water infrastructure to facilitate economic growth and human development. One of Korea’s most critical challenges in the early stage of its development was to secure an adequate and stable supply of electricity to support rapid industrialization and to modernize rural areas (Chapter 9). Making infrastructure investment in electric power a priority, Korea increased its installed capacity from 367 MW in 1961 to 9,835 MW in 1981. Figure 6 shows installed capacity of electric power by fuel source. The electrification rate increased from 12 percent to 98 percent over the same period.

![Figure 5 | Gross R&D Expenditure](source: World Bank, Ministry of Science and Technology, Bank of Korea)
Korea also made massive investments in expressways and ports to support its export-oriented industrialization (Chapter 15). In addition to making concerted efforts for reforestation (Chapter 14), Korea built multi-purpose dams and other water infrastructure to promote agricultural and social development (Chapter 11). Figures 7 and 8 show dramatic improvements in road extension and water supply.
In the 1970s, as a part of its HCI drive, Korea enacted the Industrial Complex Development Promotion Law and provided essential infrastructure such as water, electricity, and transportation. In more recent decades, with the advent of a knowledge-based economy, investments in information and communications infrastructure became increasingly important (Hong, Ko, and Volynets 2007).

In Korea, as in many developing countries, state-owned enterprises (SOEs) played a dominant role in the infrastructure sector, and improving infrastructure management required SOE reform. Through trial and error, Korea learned that neither benign neglect nor multi-layered central control provided appropriate incentives to SOE management. In 1983, Korea sharply reduced political appointments at SOEs, streamlined various controls, and established an inter-ministerial council to evaluate SOE performance on an annual basis. Civilian experts worked with government officials and SOE managers to develop both general and enterprise-specific performance indicators that clarified managerial objectives. The payment of special annual bonuses was linked to performance. The reform was widely
regarded as a success (Shirley 1989). In subsequent years, Korea made efforts to improve regulation and liberalize market entry when possible (e.g., in the telecom and power generation sectors).

**Human Resource Development**

Korea provides a prime example of a virtuous cycle between economic growth and human development (Ranis, Stewart, and Ramirez 2000; Pritchett and Summers 1996). Although Korea was one of the poorest countries in the world in the 1950s, it invested its limited resources to promote human development. In particular, with the introduction of universal primary education in 1950, Korea’s primary school enrollment rate increased from 59.6 percent in 1953 to 86.2 percent in 1960, as shown in Figure 9. The illiteracy rate dropped from 78 percent in 1945 to 28 percent in 1960 (McGinn et al. 1980). Although investing in people by itself was not enough to promote growth in the absence of complementary industrial and trade developments, it provided the basis for Korea’s initial takeoff in the 1960s.

*Figure 9 | Enrollment Rate by School Level (Percent)*

![Figure 9](http://cesi.kedi.re.kr)
In subsequent years, Korea greatly expanded technical and vocational training and strengthened science and engineering education. The government drafted a plan to increase the supply of technicians from 340,000 in 1969 to 1,700,000 in 1981, and established mechanical technical high schools as “centers of excellence” in each province, offering full scholarships to poor but talented young students (Chapter 20). Universities were called upon to select one specialized engineering field, related to a nearby industrial complex if possible, and invest intensively in that field to produce engineers with both theoretical and practical knowledge (Kim 1988). Technicians and engineers spearheaded Korea’s efforts to move up the quality ladder and to sustain growth.

Korea’s rapid, resilient, and shared growth, in turn, facilitated human development and poverty reduction. According to the UNDP, Korea’s Human Development Index (HDI) rose from 0.722 in 1980 to 0.937 in 2007, for an average annual growth rate of 0.97 percent over the period. This rate of improvement is the fastest among 83 “very high” and “high” human development countries as classified by the UNDP.

B. Mitigating Downturns

Korea has not only recorded a high annual growth rate but also avoided prolonged downturns. Flexible adjustment played a critical role in mitigating the impact of external shocks such as the oil price shocks of the 1970s. Macro policy discipline, in turn, provided a counter-cyclical buffer to mitigate downturns. In the wake of the 1997-98 crisis, Korea strengthened prudential regulation to safeguard
Lim Wonhyuk

financial stability and increased the accumulation of international reserves to buffer itself against sudden capital flow reversals. Korea made serious efforts to raise agricultural productivity to achieve food security, narrow the urban-rural income gap, and introduce national healthcare to provide social protection. Commitment to social cohesion helped to generate rapid, resilient, and shared growth.

**Macroeconomic Stability**

Over the past fifty years, Korea experienced only two years of negative growth (1980 and 1998). As Figure 10 shows, Korea has kept unemployment low and inflation at manageable levels, especially since the early 1980s. Fiscal discipline and flexible adjustment, combined with a solid industrial base, played a critical role in maintaining macroeconomic stability. Established in 1961 and shielded from particularistic interests, the Economic Planning Board (EPB) was put in charge of formulating Five-Year Economic Development Plans and bestowed with powers to draft the budget and coordinate policy. In the mid-1960s, Korea launched a tax policy reform and strengthened its tax collection efforts to secure fiscal independence (Chapter 8). As a result, tax revenue as a percentage of GDP increased from 7.3% in 1964 to 14.7% in 1969, even as GDP rose rapidly.
**Figure 10 | Inflation, Unemployment, and Growth (Percent)**

Source: Bank of Korea, ECOS [http://ecos.bok.or.kr](http://ecos.bok.or.kr); Statistics Korea, KOSIS [http://www.kosis.kr](http://www.kosis.kr)

**Figure 11 | Current Account and Fiscal Balance (Percent)**

Source: Bank of Korea, ECOS; Statistics Korea, KOSIS

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Introduction
In response to the oil price shock in 1973, Korea, instead of subsidizing consumption, raised energy prices, instituted various energy conservation measures, and made a decisive shift away from oil to coal and nuclear power. When another oil shock, combined with macroeconomic imbalances and political upheavals, buffeted the economy at the end of the 1970s, Korea reduced monetary growth, adjusted the exchange rate to reflect previous inflation, and evaluated budget expenditure items from zero base. As Figure 11 indicates, Korea’s disciplined macro policy management provided a counter-cyclical buffer to mitigate downturns in the wake of the 1997-98 Asian economic crisis and the 2008 global financial crisis.

Prudential Regulation

Korea’s experience with financial sector development illustrates the importance of having a set of institutions to monitor and discipline corporate management and the risks of implementing asymmetrical market liberalization without prudential regulation. Eager to promote economic growth, the Korean government in the 1960s and 1970s channeled policy loans through state-owned banks and provided explicit repayment guarantees to loans from foreign financial institutions extended to Korean firms. This system could operate if government support was strictly contingent on performance in competitive global markets, but abiding by this principle became increasingly problematic, and technocrats who initiated policy reform in the early 1980s believed that extensive government control in the financial sector had to be relaxed if the government was to escape from the vicious cycle of intervention. However, this policy shift was fraught with serious moral hazard risks, because expectations for government protection against large bankruptcies remained intact.
while various entry restrictions and investment controls were lifted.

The dearth of independent financial institutions that could say no to the government and big business became a serious problem. What Korea basically had was a government-business partnership whose balance of power increasingly shifted to business groups with the emergence of financial entities directly linked to them—without the introduction of institutional reforms and credible market signals (e.g., large-scale corporate failures) designed to replace weakening government control with market-based discipline. It was only after the 1997-98 crisis that Korea began to make serious efforts to strengthen prudential regulation and improve the transparency and credibility of market signals (Lim and Hahn 2006).

**Figure 12 | International Reserves and Short-Term External Debt (Percent)**

![Graph showing International Reserves and Short-Term External Debt](source: Bank of Korea, ECOS; Statistics Korea, KOSIS)
Korea’s experience with capital market liberalization also provides a cautionary tale for developing countries. Against the backdrop of a fundamental asymmetry between reserve-currency and non-reserve-currency countries and uncertainty about the extent of implicit government guarantees for financial institutions, the liberalization of capital flows created spillover effects that were not evident in the era of capital account control. Emerging market economies without recourse to reserve currency have had to live with the effects of financial globalization, as the increased availability of cheap and mobile capital has not only helped to finance productive investment projects but also raised the risks of unsustainable credit growth and asset price escalation as well as sudden capital flow reversals. Furthermore, international financial crises have shown that debt restructuring is likely to be limited as creditors, backed by their governments and international financial institutions, typically minimize their losses and impose adjustment costs on debtor countries. This, in turn, reinforces expectations that governments provide implicit guarantees, creating moral hazard. If ex post debt restructuring is not credible, ex ante restrictions should be imposed to prevent crisis. However, international politics make it difficult to impose restrictions on global financial institutions, and countries are left to fend for themselves.

In this regard, Korea’s current account trend also provides an interesting story: Korea basically ran a current account deficit before 1997, except for the 1986-89 period, but has been running a surplus since the 1997-98 crisis, when it became obvious that a three-month import cover would not be enough to protect the country from sudden capital flow reversals in the age of financial globalization. The precautionary motive explains much of the international reserve
accumulation in most non-reserve currency countries (Aizenman and Lee 2005), and Korea provides a prime example, as shown in Figure 12.

**Social Cohesion**

The collapse of Korea’s traditional hierarchy during Japanese colonial rule (1910-1945), combined with the leveling effect of the 1949 land reform and the Korean War, basically placed all Koreans at the same starting line in the 1950s. Korea also did not suffer from ethnic fragmentation or tribal rivalry that would beset many newly independent countries. These initial conditions had tremendous implications for social cohesion.

Moreover, it is important to note that for a country that has a comparative advantage in the labor-intensive sector, as Korea did in the 1960s, export orientation can improve the welfare of workers. The reason is that international trade allows a country to provide greater opportunities for its relatively more abundant factor of production. As a result, Korea’s switch to export-oriented industrialization in the early 1960s, exploiting its comparative advantage in labor-intensive manufacturing, supported broad-based growth. However, Korea’s broad-based growth strategy did not automatically translate to social cohesion. It required proactive policy interventions to ensure equitable income distribution and effective social safety nets.

Even as Korea embarked on its export-oriented industrialization, it made serious efforts to raise agricultural productivity to achieve food security and narrow the urban-rural income gap to maintain social cohesion. Previous rural development programs had focused only on changing the mindset of farmers or providing material incentives, and
after the failure of these one-sided programs, the government decided, in 1970, to take a comprehensive and integrated approach (Goh 2005). The core elements of the *Saemaul Undong* included community empowerment under the principles of “diligence, self-help, and cooperation”; peer learning and inspiration; and performance-based support from the government (Chapter 13).

In 1970, the government provided each of the 33,000 villages with 335 bags of cement, each weighing 40 kilograms, and let each village decide how to use the cement for the good of the community. Mobilizing voluntary local labor, some villages built bridges and others reinforced river embankments; however, a number of villages did not do much with the free cement. In 1971, the government provided 500 bags of cement and one ton of reinforced steel to only those villages that made substantive accomplishments in the first year. Subsequently, the government provided more incentives such as electrification to those villages that had demonstrated their willingness to make in-kind contributions to improve their communities. In addition, the government arranged study tours and training sessions so that villages could benchmark other villages with similar endowments. This peer-learning mechanism, combined with the community empowerment and performance-based reward system, was critical to the success of the *Saemaul Undong*. It also served as an effective scaling-up mechanism.

In addition, to improve rural income, the government linked the *Saemaul Undong* with other programs. The “silver revolution” provided vinyl houses (greenhouses) for growing fruits and vegetables out of season (Chapter 11); the “green revolution” introduced new improved varieties of rice and other crops (Chapter 12). A dual grain
price system, through which the government procured rice at higher prices than it subsequently sold the rice for, further supported rural income, even though it increasingly became a fiscal burden. Thanks to these efforts, Korea was able to achieve self-sufficiency in rice, its main staple, and eliminate its urban-rural income gap by the mid-1970s (Park 1998; Chung 2009).

In addition to promoting rural development, Korea introduced safety nets with a view toward strengthening social cohesion. Korea established a national healthcare system in 1977 (Chapter 18). As for unemployment insurance, strong job security in exchange for weak labor rights was an integral part of the imposed social bargain under the authoritarian regime in Korea. This arrangement came under attack from both labor and management after Korea was democratized in 1987. Workers demanded wage increases as well as full-fledged rights to organize and take collective action. Business executives complained that lifetime employment practices impeded flexible adjustment to changes in the increasingly competitive global market. It took the economic crisis of 1997-98 for Korea to introduce credible market-based discipline and reach a grand social bargain exchanging enhanced labor rights and social security for labor market flexibility. These social protection measures helped Korea to maintain social cohesion as it made its transition from an authoritarian developmental state to a democratic market economy.
C. Overarching Factors

The political economy changes triggered by the student revolution of 1960 and the military coup of 1961 proved critical to Korea’s subsequent containment of corruption and establishment of merit-based institutions. Korea also made extensive efforts to narrow the knowledge gap with the outside world and develop its own capacity. The overarching factors of institutions and governance, and access to knowledge, provided the basis for Korea’s rapid, resilient, and shared growth.

Institutions and Governance

In Korea, the student revolution of April 1960 and the military coup of May 1961 highlighted the government failures of the past and ignited a passionate national debate on development. In the changed political atmosphere, whoever came to power could not advocate a return to the crony capitalism of the 1950s and instead had to present a strategic vision for the nation. The short-lived democratically elected government drafted a five-year economic development plan as well as a blueprint to establish a super-ministry in charge of budget preparation and policy coordination. It also introduced merit-based examinations to recruit government officials. The military government built on these institutions and channeled all national energy into economic modernization.

These dramatic political economy changes in the early 1960s, combined with meritocratic institution-building, extensive monitoring, and improved welfare for government officials, helped to contain the negative side effects of state intervention. Most
importantly, making government support contingent on performance in competitive global markets helped to reduce the potential for corruption.

To identify emerging problems and devise solutions to these problems in the implementation stage of development plans, the government held regular consultations with the private sector such as the monthly export promotion meetings. These consultations helped to ensure that indicative plans would be taken seriously and modified decisively as the objective circumstances changed.

While a regime that facilitates resource mobilization can be effective in the catch-up phase of development, an institutional platform that fosters autonomy, diversity, and experiment is critical to sustained productivity-led growth. Democracy has provided such a platform for Korea since 1987.

**Access to Knowledge**

Combining foreign and local knowledge elements, Korea progressively developed its own capabilities and made a transition from an imitator to an innovator. Successful Korean companies systematically built their capabilities by absorbing, assimilating, and improving upon the acquired technologies, primarily through means other than foreign direct investment (Lim 2011). Korea also benefited from interaction with policy experts from international organizations, who provided useful comparative perspectives on Korea’s development plans and policy proposals (Hasan 2011). In the end, however, Korea retained the right to make its own decisions and developed its own capacity to reduce its dependence on foreign
expertise. For instance, when Nedeco, a Dutch consulting firm, argued for an increase in the transportation share of roads as opposed to railways in the late 1960s, Korea was quick to adopt its recommendations. However, despite foreign advice to the contrary, Korea regarded expressways as the arteries of a modern nation and pushed ahead with their construction (Chapter 15). Also, Korea received a great deal of assistance from the United States when it was setting up the Korea Institute of Science and Technology in 1966, but quickly built up its own scientific and technological base. Indeed, maintaining a balance between external interaction and local capacity expansion has been essential to Korea’s development.


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Korea’s Journey from Poverty to Prosperity

1. President Park Chung Hee’s Economic Development Policy: Assessments from the World Bank and Deng Xiaoping
On the eve of World War II, many newly formed independent nations in Asia, Africa, and the Middle East regions, regardless of their ideological inclination, set out on a path toward economic development. The United Nations (UN) declared that the 1960s were ushering in a new “era of development,” and, together with other international organizations, supported the social and economic development of developing countries. But, many of these efforts fell short. Moreover, the hardships suffered by non-oil producing countries were made worse by the first oil shock in 1973, and then, the second oil shock in 1979.

Despite the difficult economic environment, the economies of the Republic of Korea (South Korea), Taiwan, Hong Kong, and Singapore, the “Four Dragons of East Asia,” as well as, Malaysia, Indonesia, and Thailand, grew at a rate of 6% per year from 1960 through 1990. Their annual economic growth rate of 6% was twice the growth rate of OECD member countries, three times that of Latin America countries, and 30 times that of sub-Saharan African countries. This exceptional economic performance came to be known as the “East Asian Miracle.”
As the factors behind such remarkable economic progress in East Asia were debated, three different schools of thought emerged among experts (Refer to “Did President Park’s Economic Development Policies Fail?” by Kim Chung-yum, in Park Chung Hee Era, by Kim Sung Jin, published by the Chosun Ilbo in 1994 (in Korean)). Amongst the many considerations, the role of government intervention in the market came to the fore.

At an annual conference co-hosted by the IMF and the World Bank in Bangkok, Thailand, in 1991, a Japanese delegate argued that government intervention in the form of industrial or financial policies could be supportive of economic development by promoting efficiency in the market, while speaking against unfettered deregulation and liberalization policies supported by the IMF and the World Bank. The Japanese delegate’s comments were seconded by the delegates from China, India and several other developing countries.

**World Bank Forum on “Lessons from East Asia”**

Much has been said of Japan’s rise as a major economic power in the world, for which the seeds were sown in 1867, during the Meiji Restoration, under the government’s leadership. By 1993, the world began to take notice of Korea’s economic rise; it had achieved economic success unmatched by any other East Asian country against difficult odds. Korea was bound by its narrow geography, bare of natural resources, and its population density was the third highest in the world. It suffered from woefully inadequate
infrastructure. The Korean War (1950-1953) had left Korea in complete destruction after three years of war. Moreover, South Korea had to deal with the threat posed by North Korea’s increasing belligerence since 1968 by bearing the heavy cost of having to defend itself; a burden that only became greater when faced with the possibility of a complete withdrawal of US troops in Korea.

On March 25 and 26 in 1993, a special closed-door meeting was held to discuss “Lessons from the East Asia,” which was attended by all the directors and high ranking officials of the World Bank. I was invited as a keynote speaker to give an address and talk about Korea’s economic experiences. My keynote address was entitled: “President Park Chung Hee’s Economic Development Policies during 1961-1979.” For nearly two decades under Park Chung Hee, I was always in some capacity, either directly or indirectly, involved in key policymaking efforts while working at the Ministry of Finance and the Ministry of Commerce and Industry, and serving as President Park’s Chief of Staff, all of which afforded me a broad view of Korea’s economy. In this respect, I set forth to write about the achievements of President Park from an economic perspective in A 30-Year History of Korean Economic Policies: The Memoirs of Kim Chung-yun (Joong-Ang Ilbo, 1990 (in Korean)), and Korean Economic Progress: The Miracle on the Han River and President Park (Saimal Publishing Association, 1991) in Japanese. Among his many achievements, I wrote about the new and different approaches in economic policymaking, unique only to Korea.
Strong Government Leadership

From an economic perspective, the 5-16 Revolution (military coup on May 16, 1961), launched by President Park under the banner of “the modernization of the nation,” sought to achieve industrialization but also the development of the agricultural sector by establishing infrastructure for agricultural production and by developing agrarian communities to eradicate famine and poverty. For nearly two decades, President Park relentlessly pushed ahead with such policies. Despite the economic development measures, nearly all businesses and entrepreneurs were unable to secure foreign loans in 1962 in the wake of the land reform initiated in the spring of 1950 and the destruction of industrial facilities wrought by the Korean War.

Despite facing strong opposition against foreign capital based upon the comprador capital theory or the dependency theory, President Park endorsed the measure allowing the government to guarantee the payment of loans lent to the private and public sector, realizing that foreign capital was critical to Korea’s economic development. Such an assertion of government will was quite unusual to say the least. The heavy burden of the guarantee would be brought to bear on the government, and the entire country, if the private and public sector were to default on their loans. Faced with this, President Park directly presided over monthly and quarterly economic briefings, where discussions were held, decisions made, and issues resolved in regards to major, national policy initiatives.
**Proactive Export Promotion**

Lacking nature resources, the importing of inputs and the exporting of goods to obtain foreign currency in order to import more inputs was essential to Korea’s economic development. Export-oriented industries were given tax and financial incentives by the government. Furthermore, certain industries deemed to have a considerable impact on Korea’s international balance of payments, national employment, and other industries were designated as specialized export industries. These export industries were given intensive support in terms of local and foreign capital and technology, and were directly overseen by the government, which identified and resolved any problems. Later, the pool of targeted industries was steadily expanded by the government.

Using funds that were raised from import duties collected by the Korea International Trade Association (KITA), the government provided financial support to various initiatives including: improving packaging and design; enhancing facilities for the quality assurance of exports; participating in overseas expositions and exhibitions; marketing to foreign buyers; hosting global expositions and exhibitions, and promoting small and medium-sized enterprises. Driven by the belief that “exports symbolized a nation’s power,” President Park personally presided over monthly meetings aimed at promoting and expanding exports, the effectiveness of which can be demonstrated by the rapid growth of exports, which increased by 30% to 40% during the 1960s and 1970s.
Export-Oriented Industrialization and Heavy and Chemical Industry Drive

With a dearth of natural resources to export, Korea had to pursue an export-led industrialization policy to develop its economy. Making matters worse, it was very difficult for newly established export companies to be competitive on a global scale. Since 1964, the principle of “Export-Oriented Industrialization” formed the basis of Korea’s national policy, and was pursued until the death of President Park in 1979. (Refer to Export as a Symbol of National Power by Kim Chung-yum, Korea International Trade Association, and Sell Korea by the Korea Economic Newspaper in 2004.)

The threat of war with North Korea loomed large during the late 1960s through the 1970s; the repeated provocations by North Korea served as a constant reminder of this, not least of which included the Blue House raid by North Korean commandos, the seizure of a US Naval ship and numerous other naval skirmishes, the brutal killings of the Panmunjom incident, and the discovery of four underground tunnels dug by the North Koreans for an invasion. Moreover, US President Richard Nixon’s redeployment of an entire division of the US Army based in Korea, culminating with Vietnam falling into the hands of the communists and US President Jimmy Carter’s plan to withdraw all of the US ground troops in Korea, further undermined Korea’s national security.

In 1973, President Park decided to pursue the policy of promoting the Heavy and Chemical Industries, which would contribute to greatly strengthening Korea’s military defense capabilities. (Refer to Korean-type Economic Development, Volume 7, by O Won-chol,
Kia Economic Research Center, 1996). The dual use of key components in military and civilian machinery and equipment was duly noted under the maxim, “Every weapon becomes components when disassembled” and “When processed and assembled correctly according to its blueprint, the weapon will provide prescribed performance and compatibility.” To this end, a total of 82 manufacturing factories were chosen to produce each component, or bundle of components, of a weapon. To maximize the capacity utilization rate, only 20% of capacity would be used for military defense purposes during periods of relative calm, while all production capacity would be used for military defense purposes during emergencies. Pursuing the development of the heavy and chemical industries and the defense industry at the same time proved difficult. But, by the end of 1979, Korea was able to mass produce light arms, except for technology-intensive weapons, arming its nearly 2,500,000 large reserve army with automatic rifles, and 20 reserve divisions to full combat readiness.

Rural Development—Saemaul Movement

The development of the agricultural sector was strongly pursued in parallel with industrialization; and the achievements were as great as Korea’s industrialization but proved far more difficult to attain. Many initiatives were aggressively carried out to develop Korea’s agricultural sector including: improving arable land and irrigation systems, constructing multi-purpose dams, mechanizing farming methods, developing higher yielding agricultural varieties, and disseminating hotbed cultivation methods. At the same time,
agricultural policies were implemented to stabilize prices; a two-tier pricing system for grains (dual grain price system) was established while other measures to increase the income of farmers and fishermen were introduced. At the core of the agricultural development, tying everything together was the Saemaul Movement, which was created by President Park, to awaken the spirits of farmers - its capacity for diligence, self-help, and cooperation. In 1970, small, rural villages were allotted 300 to 350 bags of cement for communal, self-improvement projects. The projects included the construction of new roads and bridges, home and community improvement projects, construction of public baths and laundry areas, and renovation of riverbanks.

Great progress was achieved by many villages through collective efforts and sacrifices. During the second year of the Saemaul Movement, the government’s support was performance-based, as it only provided support to villages based on the maxim: “Let no good deed go unrewarded and let no bad deed go unpunished.” President Park made sure that the Saemaul Movement was not politicized; instead, he focused his energies to achieving the goal of the movement: improving the welfare of farmers. After the farmers realized the true aim of the Saemaul Movement, which was the betterment of their welfare and not the pursuit of a political agenda, it swept the country.

After the Saemaul Movement, collective and cooperative efforts among farmers became widespread in the country. This cooperative spirit contributed greatly to increasing the productivity of the agricultural sector, preventing damage to crops from disease and insects, and introducing new farming technologies. As a result,
farmers began to make more income than urban workers in the middle of 1970s, and in the process, Korea became self-sufficient in its production of rice. Under the Saemaul Movement, each village elected by vote, two Saemaul leaders (one male and one female). Also, the Saemaul Movement led to the founding of women’s associations, from which the rice conservation drive was born. During the rice drive, every household was asked to set aside one spoonful of rice for every meal. The rice that was set aside was then sold, and the money was deposited with the National Agricultural Cooperative Federation or the community credit cooperative. Realizing the benefits of saving and earning interest, more households sought to save more. As a result, the National Agricultural Cooperative Federation, which once had relied on loans from the government or other financial institutions, was able to fund itself by the late 1970s based on the savings of farmers. The Saemaul Movement spread across the country from farm villages to factories, schools, and cities, before embodying Korea’s national spirit.

Reforestation

Korea’s forests were laid barren from years of war and over-logging, leaving many of the country’s mountains bare of trees and leaves which were gathered and used for heating. Because Korea’s mountainous geographical landscape is lined with small rivers, it was prone to floods during the rainy season in July and August, and to extreme droughts, which were caused by the widespread deforestation. Even efforts to re-plant trees during the Japanese Occupation did little to help Korea’s predicament. To address the
devastating effects of deforestation, President Park moved the jurisdiction of the Korea Forest Service from the Ministry of Agriculture to the Ministry of Home Affairs, believing that local government officials, school teachers, and Saemaul leaders were best placed to educate and spread important knowledge and technologies throughout the country on forest reclamation and conservation. As such, almost all of the officials from the Korea Forest Service and the local governments, who were responsible for reforestation efforts, were educated on cultivating seedlings and planting trees. Rural villages also participated in projects for cultivating seedlings and planting trees as part of the Saemaul Movement, as a way to increase their household income. In some cases, farmers cultivated and planted trees for commercial use on behalf of the land owners in return for a percentage of the revenues earned from selling the trees under a profit sharing agreement. The first Saturday of November was designated by President Park as Silviculture Day to care for the trees planted in the spring. By 1984, trees of less than 20 years of age represented 84% of Korea’s forests, a direct result of the remarkable efforts undertaken during Park’s presidency.

**POSCO**

The single largest necessity for the construction of a steel mill is capital—foreign capital in Korea’s case. Korea wanted to build an integrated iron and steel mill with a production capacity of one million tons, which had been considered the optimal scale. At the time, the construction of a steel mill with a capacity of one million tons was considered to be ambitious by foreign financial institutions;
so a steel mill with a capacity of 3 million tons was beyond reason. After several failed attempts at securing foreign loans to build the steel mill, a series of policy decisions were made. First, a considerable portion of the reparation funds from Japan for its occupation of Korea, which included a 20 year government loan at a yearly interest rate of 3.5% with a 7-year grace period on repayment, was appropriated into the construction of an integrated iron and steel mill. Korea and Japan had initially agreed that the reparation funds would go to the farming and fishing industries. Despite the outcry from farmers, fishermen, and the families of victims of Japanese atrocities, the reparation funds were used to fund the construction of the steel mill that would eventually become the giant steel company, POSCO. Moreover, the entire infrastructure needed to support POSCO’s production of steel was funded by the government’s budget. The World Bank and others criticized that this went against normal accounting protocol. However, the government believed through its actions that POSCO as well as the entire city of Pohang stood to benefit. Furthermore, POSCO’s loans from the Korea Development Bank and other commercial banks were converted into equity in POSCO. At the same time, the company retained all of its profits to strengthen its financial condition and to finance its expansion, instead of paying out dividends to its shareholders. Benefiting from strong government support, POSCO would eventually grow to become a global steel company.
Moratorium on Curb Loans

In the late 1960s, the US economy went into a recession after years of unprecedented economic expansion following World War II. The US recession also affected the economies of other countries including Korea which was dependent on exports to the US. Korea’s export growth rate dropped off dramatically, widening the current account deficit and depleting foreign exchange reserves. Furthermore, non-performing loans dramatically increased, as many companies were dependent on usurious money lenders with high interest rates from the informal curb market to fund short-term working capital needs. Delinquencies on loan payments began to rise increasingly, heightening the expectations of massive insolvencies. Concerned this could lead to a meltdown of the entire financial credit system, the government heeded the warning from the Federation of Korean Industries that a possible collapse of Korea’s corporate sector loomed unless the government intervened. On August 3, 1972, President Park issued an emergency presidential order for the government to intervene in the informal curb market.

Following the measure, all curb loans with high interest rates were modified by extending the loan maturity to seven years and granting a three year grace period on loan repayments. The interest rates of loans that exceeded 40% were capped at 16.2%. The total amount of curb loans with high interest rates disclosed to financial institutions totaled nearly 80% of the money supply (M1). The emergency measure significantly lessened the debt servicing burden of the corporate sector and the burden of non-performing loans of financial institutions. This led to a sharp rebound in total investment, which increased by 40%, and in exports, which increased by nearly
100%, in 1973. The real economic growth rate in the first quarter of 1973 was 19.3%, three times higher than growth rate of 6.4% recorded in the previous year.

Public Listing of Large Companies to Check the Concentration of Economic Power

The Federation of Korean Industries had agreed to promote the public listing of corporations as a condition of the emergency curb market measures initiated by the government in August 1972. However, almost two years had passed with little action. In May 1974, the decision was made by President Park to issue a special presidential order to induce the public listing of corporations, which also included measures that would require businesses to dispose of non-business related real estate holdings and subsidiaries.

Since the Stock Exchange was opened on 1956, a total of only 66 companies had listed publicly by 1973. However, the number companies that listed publicly from 1974 to 1979 totaled 309. Meanwhile, the Korea Federation of Banks forced large family-based business groups (chaebol) along with their main creditors to devise a business strategy that would outline a plan for the public listing of their companies, for the disposal of non-business related real estate holdings and subsidiaries, and for the floating of shares held by major shareholders. They were supposed to implement the three objectives of the strategy in three to five years. But after the death of President Park, many of the policies that sought to check the concentration of excessive economic power among large companies
were not pursued to their end, thus, the issue of concentration of economic power among large family-based business groups became much more serious in the 1980s and the 1990s.

**Korea’s Economic Ascent: The Legacy of President Park**

President Park brought the people of Korea together and made them believe in a vision of “a modern Korea and the revival of a nation,” driven by a “can-do” spirit and a will to “overcome poverty.” Karl Gunnar Myrdal, Nobel Prize Laureate in economics, saw Korea under the leadership of President Park as a “hard state,” defined as a state able to implement what it has set out to do.

I finished delivering my keynote address to a loud applause. On the second day of the meeting, Alice H. Amsden, an economics professor at MIT, who wrote *Asia’s Next Giant* (1989), gave an address on “Industrial Policies of East Asia,” and acknowledged President Park’s economic development policies in her remarks.

**Memoirs of a Korean Practitioner Published by the World Bank**

After the two days of attending the World Bank forum, I was given a letter from the World Bank, informing me of the Economic Development Institute’s desire to publish an English version of my memoir, *A 30-Year History of Korean Economic Policies*. I was asked to focus on the years of President Park in the abridged English
version. After a preliminary review by the World Bank’s team specializing in development economics, and an in-depth review by the publishing committee and a panel of external experts, the English version of the memoir, *Policymaking on the Front Lines: Memoirs of a Korean Practitioner, 1945-79* was published in 1994, as first in the series of EDI Retrospectives in Policymaking. The Director of the Economic Development Institute wrote a foreword for the English version. “This book is published mainly for officials from developing countries and transition economies. It will also be of interest to students of development economics, political science, and international relations.”

**Deng Xiaoping’s Praise for the Economic Development Policies of President Park**

*Knowledge Exchange between Korea and China*

In the early summer of 1990, the Development Research Center of China’s State Council, the East-West Center in the US, and the East Asian Economic Research Institute in Korea established a forum of economists and scholars, called the “Exchange of Economic Knowledge between Korea and China.” Its first meeting was held in Dalian, China.

The main topic of discussion in the first meeting focused on “Korea’s economic development during the years of President Park.” I participated in the meeting that brought together experts in the areas of economic development, such as finance, banking, agriculture, and
labor. I also made a keynote address on President Park’s economic development policies. At the end of the address, I received a loud applause from the participants, which included a Chinese delegation of government officials, leaders of the Communist Party, and executives of state-owned companies, all of whom sounded impressed.

The next day, after the morning meeting, I went on a guided tour of the Dalian Industrial Complex with Dr. Ma Hong, Director of the Development Research Center. Known as the “godfather” of Chinese economic policymakers, whom Zhu Rongji, later Prime Minister of China, had once worked for, Dr. Ma told me that the complex was modeled on the Masan Export Industrial Complex. He also asked me a lot of questions about the success of Korea’s state-owned companies.

**Deng Xiaoping’s Address during his Southern Tour**

After visiting parts of China’s southern region including Shanghai, Zhuhai, and Guangdong, on January 18, 1992, Chinese leader Deng Xiaoping made a speech at the Shenzhen Special Economic Zone, a new industrial zone, lying just above Hong Kong. In the address, he remarked: “In twenty years, Guangdong should catch up with the four Asian dragons — Korea, Taiwan, Hong Kong, and Singapore — not only economically but also in terms of social order and social conditions”
In early 1993, the Hong Kong Consulate General informed me that a representative of the Xinhua News Agency, a Chinese state-enterprise, in the Hong Kong office wanted the Japanese version of my book, *The Miracle of the Korean Economy: The Miracle on the Han River and President Park*. At the time, Hong Kong was still an English colony, and the agency was indirectly part of the Chinese government. He spoke Japanese very well. After reading the book, he approached me about publishing the book in Chinese. For the sake of our two countries and the hope of bringing light to President Park’s economic policies, I accepted his offer to publish my book in Chinese.

In June 1993, Xinhua Publishing, a subsidiary of Xinhua News Agency, published 5,000 hardback copies of the first edition. A few years later, I met Dr. Ma again who was visiting Seoul to participate in a meeting held by the Exchange of Economic Knowledge between Korea and China. He told me that he was impressed after reading the book. I hope that President Park’s economic development polices will become known to everybody in the world.

Led by President Park and made possible by the efforts of its people, Korea’s economy grew at a rate of 8.9% per year from 1962 to 1979. (The economic growth rate from 1960 to 1962 was just 3.3%.) Korea industrialized itself, on back of the heavy and chemical and defense industries as well as the light industries. In 1979, the manufacturing and construction industry represented nearly 38% of Korea’s GNP, far more than the previous share of 20% in 1960.
The agricultural sector including the fishing industry accounted for 63% of the total employment in 1961, a figure that fell to 36% in 1979. In contrast, employment in the manufacturing industry increased from 8% in 1961 to 23% in 1979, reflecting a great improvement in terms of employment. The production of rice, Korea’s staple food, increased from 24 million seom in 1961 (1 seom is about 180 liters) to 36 million seom in 1976, making Korea self-sufficient in food. In 1977, rice production reached 41 million seom. In addition, households in rural areas began making more income than urban workers from 1974. Indeed, the goal of bringing financial security to farming villages was attained in 1977, four years earlier than had been planned.

Exports increased from USD 40 million in 1961 to USD 15,100 million in 1977. In 1961, the top five exports came from primary industries such as iron ore, tungsten, silk yarn, anthracite, and cuttlefish. By 1980, the top five exports were industrial products including textile, electronics, steel, shoes, and ships.

According to the World Bank’s statistics (World Tables in 1976, and World Bank ATLAS in 1981), Korea’s GNP per capita was a mere USD 89 in 1961, which ranked Korea at 101 out of 125 member countries in the world. Korea was amongst the poorest countries in the world which included Pakistan, Togo, Uganda, Bangladesh, and Ethiopia. In stark contrast, North Korea was ranked 50 with a GNP per capita of USD 320, in line with Mexico, Libya, Portugal, and Brazil; its economic power was much greater than South Korea at the time. In 1979, Korea’s GNP per capita was USD 1,510, ranking it 49 out of 125 countries, after 18 years when President Park’s rule ended. South Korea had become a developed
country; while, North Korea continued its fall, descending to the ranks of the poorest countries at 120. President Park lifted Korea from the depth of poverty, one of the poorest countries in the world, and onto becoming a leading middle-income country. Nowhere else has this been seen, an achievement lauded by the World Bank and Deng Xiaoping.
Formative Experience: The Self-Portrait of a Young Central Banker

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Chapter 02

Living under Japan’s Occupation and Surviving the Atomic Bomb

I was born in Seoul in 1924 when Korea was under Japan’s colonial rule. I moved to Ganggyeong as a young boy, after my father was transferred there as a branch manager of Dong Il Bank. After attending, and graduating from, the Ganggyeong Commercial School in 1941, I was admitted to the Oita College of Commerce in Kyushu, Japan, which was one of the public commercial colleges in Japan that did not discriminate against Korean students.

In 1941, ten years after Japan took over Manchuria from China, Japan was strictly managing its economy while suffering from a food shortage. At the time, I was in the first year of school, but could not attend school as I suffered from pleurisy (lung infection). On December 8, 1941, Japan attacked Pearl Harbor and went to war with the US, the UK and Netherlands. By 1943, university and college students were being drafted to fight in the war, as Japan was facing defeat, and by 1944, even Koreans were being drafted for war.

In 1944, I was still in my third year of school but was graduated six months early, as Japan edged closer to defeat. I graduated second in my class, out of 250 students, and received an award from the
Chairman of the Japanese Industrial Education Organization. At the time, the Special Class-A Military Officer Training system was newly introduced as a fast track cadet program. Under normal circumstances, a soldier was drafted as a private second-class and was required to pass a military officer examination and to undergo a certain amount of training and education, including an apprenticeship, to be commissioned as an officer with a rank of second lieutenant. Under the Special Class-A Officer Training system, students at universities or colleges were able to enter a preparatory military academy as a noncommissioned officer. After completion of the preparatory military academy as well as an apprenticeship, students were commissioned as second lieutenant officers. Many students signed up to take the entrance exam for preparatory military academy because they were exempted from being drafted for at least one year until graduation, if accepted. I applied and passed the examination, and subsequently, entered the military academy in Kumamoto, Kyushu in early October, 1944.

At the time, I was employed by the Bank of Chosun (or Chosen, in Japanese spelling), but was given a leave of absence to fulfill my military service requirement. After a short visit to Gaeseong, where my parents lived, I returned to the academy in Kumamoto. There were 1,500 cadets in my class, out of which there were only 2 Koreans including myself and a classmate from Oita College of Commerce, named C. P. Song (Song Chung Pum). Officer training at the academy was grueling, to say the least. Every morning and evening, we had to run eight kilometers in full gear from the academy to the training area. My training regimen involved crawling distances of four to eight kilometers, digging holes and then taking cover, drilling on charging the enemy, while carrying a rifle and
imagining a barrage of bombs being dropped. We also had to train under extreme conditions that simulated real combat situations as fighting in the jungles of Southeast Asia or suffering from food shortages. The training took a physical toll on my body, affecting my weight and eyesight.

By then, I had formed my own philosophy on life and death. Japan sought the cooperation of the Philippines, Malaysia, Indonesia, Burma (Myanmar), and India, in exchange for their independence. I believed that Korea should have also tried to bargain with Japan, if it meant an opportunity to take back Korea’s independence like the other countries. I came to realize that man is a mere mortal. I was forced into military service by the Japanese, and if I was going to die, I was going to die a brave man, more brave than any Japanese man. I hoped I would not die in vain but in fighting for Korea’s independence. So I made the best of the circumstances, put my best effort forward in everything from military training and working, to living in the barracks. I carried the rifle of a fellow soldier, who had fallen behind while running in full gear; I volunteered to work during study halls; I performed duties on behalf of others. I found some comfort and relief, after earning a good reputation amongst the men in my company, who said: “He is a good guy though he is a Korean.”

The officer training at the academy was supposed to last for one year, but it was shortened to 9 months, as Japan’s situation in the war worsened. At the end of June 1945, I graduated from the military academy. A week before the graduation, much to my surprise, the chief instructor congratulated me: “After conducting a final evaluation, you ranked 21 out of the 1,500 graduates. The top 20 will be appointed as assistants of this academy, and the next 20 will be appointed as assistants of the Kumamoto Boys’ Army School.”
instructor also gave me some words of encouragement, praising me of my willingness to sacrifice, my strong fighting spirit, and my excellent leadership.

At the end of June, the graduation ceremony was held and each graduate was assigned a deployment. Despite being told of my appointment to the Kumamoto Boys’ Army School, I was assigned instead to a regiment located in Okayama prefecture, under the Hiroshima Military District. On August 3, I was sent to the training unit in Hiroshima with 50 other cadets of the Okayama regiment for military training.

On the morning of August 6, 1945, the cadets, all totaling 250 including myself, gathered around on the training grounds to receive training in hand-to-hand combat against a tank. Suddenly, someone yelled: “B29 jet!” High above in clear blue sky, a B29 jet flew across, leaving a white vapor trail. Its sheen shone against the sun. There was no sound of bomb sirens as the alarm from yesterday’s air-raid attack was still in effect. As I didn’t hear any explosions, I thought it was just a reconnaissance plane. Then, a yellow-white light flashed; the light was much stronger than a flash from a camera. After the flash dissipated, complete darkness had descended, turning day into night (It was just 8:15 in the morning). I soon felt a sharp burn on my back, and my body being lifted off the ground by the force of the bomb. Then, I fell back, dropping on the ground. Thinking that we were under an intense fire bombing attack, I shouted: “We are under fire bomb attacks! Take cover! Take cover!” After I had put out the fire on my uniform, I took cover in an air-raid shelter, only to realize that there were no signs of a bomb exploding on the ground.
After a while, the dark cloud lifted, parting to reveal the sky, as if dawn had come again. As darkness gave way to light, I could see from our training school that Hiroshima’s downtown was completely leveled; it was smashed into a pile of stones and wood. The remains of a building’s frame were the only signs of the city left. The city of Hiroshima was completely leveled in the blink of an eye.

Only pieces of rubble lay where the training school building once stood. Not one cadet was able to escape untouched by the bomb, leaving everyone burned by the heat of the blast. Their caps and swords, and even some of the cadets were thrown like flying leaves in a storm by the force of the bomb, causing some to suffer body injuries. I suffered burns on my back, face, and right arm where the bone of a finger showed exposed. I was fortunate not to have suffered serious injuries, but many of the other cadets were not as fortunate as I was.

My roommate in the barracks, Makoto Hidehira, had suffered serious burns to his face, eyes and nose. When he screamed my name for help, I could hardly recognize him with the burns and blood over his face. I tried to put his mind at ease by consoling him that his injuries were not so serious. I told him we just needed to stop the bleeding. All I could do was to cover his wounds with some bandage and tell him to rest. I along with some of the other cadets carried the injured cadets to a secure area, and began to rescue some of the people buried under the debris.

After rescuing a few people, fires began to break out all over Hiroshima, spreading throughout the city and filling the air with smoke. The fires and smoke alone could have killed all of us, if we
stayed there any longer. My mind got filled by the story of the Great Kanto Earthquake of 1923. Even a rear area, like where we were, was considered a battlefield during an air-raid attack. Under the Japanese military code, anyone could be shot to death if caught abandoning a post without orders from a superior. In that situation, we were not likely to receive any orders from our superiors, but we could have all died by remaining there. All the senior officers gathered. We decided to go separate ways and then regroup at the east or west training base. As a senior officer, I told the other men about the plan, and told them to regroup at the east training base, close to the train station. Holding Hidehira by his arms, we walked heading east.

After we got to the training base, I could see tens of thousands of injured civilians and soldiers being treated first-aid at the Red Cross facilities. We sought medical aid, but they ran out of burn ointment and bandages, so we applied sesame oil on our burns, while I covered Hidehira’s wounds with gauze and bandage. We were given rice balls to eat. By then it was 3 or 4 PM, about seven or eight hours after Hiroshima was bombed.

Early in the morning of August 7, I started to look for the rest of the officers, searching through all the tents. It was hard making out anyone’s face with so many badly burned I shouted out some names, getting a few responses. After we gathered in what used to be a house, there were less than half of us, out of 50 from the Okayama regiment. Finally, military trucks began to roll in. I sent some of the badly injured cadets to the naval hospital in Kure naval port or the army hospital in Ujina port, sending the guys that had serious injuries first. Hidehira should have gone with them, but he wanted to stay
with me. Unable to see because of his injuries, he wanted me to be with him and help him to Okayama Army Hospital to get his wounds treated. I tried to tell him that he needed to go to a hospital now, and that I could not be with him because I had to help get the other injured officers to a hospital and to report the situation to our regiment. Still, he wanted to stay with me even if it took two or three more days. The army trucks stopped coming because the two hospitals were overwhelmed with injured people. The private hospitals nearby were also full of patients. So I stayed with Hidehira and two other officers that had minor injuries.

The next morning on August 8, I started to look for the other officers again but could not find them. I was able to get 50 officers here from Okayama. But I managed to send only half of them to hospitals. I thought it was my duty as the senior officer to help the other officers and to report back to my unit. Despite my exhaustion and hunger, I managed to walk back to the base under the hot sun. But, there was no one there. Later, I discovered that many people had suffered radiation poisoning after going near Hiroshima, even 4 or 5 days after the bombing. It was suicidal of me to return back to the base. Meanwhile, Hidehira’s condition was getting worse, while I, and the two other officers, still felt a burning sensation from the burns and a high fever. We decided to make for Okayama as soon as possible. On August 10, the trains between Okayama and Hiroshima started up again, and we made our way back to base, and arrived in Okayama at about 12PM the same day. The army hospital at Okayama was almost full. There were 10 or more patients with injuries from the radiation, who were being given medical attention first. We received treatment on our burns two times a day, and were given vitamins.

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Formative Experience: The Self-Portrait of a Young Central Banker
On August 15, 1945, Japan surrendered to the Allied Forces. On that day, I had been commissioned as a second lieutenant officer. Though my burn wounds got better after receiving treatment two times a day, I still had a high fever of 38 degrees Celsius. After being hospitalized a few days, I started to lose my hair, eventually becoming completely bald. About a week later, my gums began to bleed. The other patients that were exposed to radiation suffered similar symptoms: high fever, bleeding from their skin and mouth. In some of the more serious cases, patients were dying one after another but nobody knew that they were dying from radiation poisoning.

I lost my appetite with the high fever, but I tried to eat anything to help me get better. The thought of returning home to Korea was never far from my mind. At the end of August, the head of the hospital’s general affairs department brought in a Korean soldier, a private. He worked hard every day as the cook, seemingly not bothered by his injured foot which gave him a limp. He called the nurse “Kan Go Ku” which means jail in Japanese, instead of “Kan Go Hu,” which brought some laughter and smiles. He was drafted for the war, and injured in his foot in battle near Okayama. Even after he made a complete recovery, the Korean soldier could not return to Korea and had to stay at the hospital until the ferry between Korea and Japan resumed. The hospital wanted me to take him back to Korea whenever I could. His last name was Park, and he was born in Damyang, Jeollanam-do. I was so surprised and happy to see a fellow countryman in Japan. He was proud of the fact that I became a second lieutenant of the Japanese Army as a Korean. He helped me a lot.
Towards the end of September, morale and medical service at the hospital got worse, as many of the military doctors and nurses did not return to the hospital from their leave, while food and medical supplies began to dwindle, causing many patients to leave. In early September, I got word from Private Park that many Koreans, who were brought to Japan to fight or to work, were making their way back to Korea by going to Shinomoseki through Okayama. As he was desperate to go back to Korea, I assured him he could take leave as soon as the ferry began to make trips between Korea and Japan.

One day, I was told by Park that the ferries were going to resume soon. Before he left, I pinned on his left breast pocket a piece of white cloth that had his family registry, home address, unit, rank, and name. I also wrote a letter for the transportation controller, the station master, and the captain of the ferry, writing the reasons of his discharge, his orders to return home, his status as a draftee, and his injury suffered in combat. I also asked that he be given preference. I also gave a third of my severance pay to Park, and asked him to send a letter to my home in Seoul and to my parents in Gaeseong, when he made land in Busan. I wanted to write to my family, letting them know of my whereabouts and my condition, and that I would make my return home as soon as I got well.

One day, Hidehira, who was admitted next door, came to visit me with his father. His injuries were much more serious than mine, but he thought that it would be better to go home and make a recovery there. Hidehira wanted me to go home with him so that I could get better, and make my way back home. I knew he wanted to help me because I had been there for him when he needed help. His father also felt the same way and kindly invited me to his home. I did not
want be a burden to Hidehira and his family, but the idea of staying at the hospital gave me more concern than comfort. I felt that I could not decline the kind gesture.

After spending a month at the Okayama Army Hospital, I left for Hidehira’s home by way of Kurashiki on train. His house sat in a mountainous area of Okayama Prefecture, tens of kilometers away by bus. Okayama Prefecture was well known for its poultry and fruits. His father owned a poultry farm with more than 3,000 chickens. Hidehira had a big brother, serving in the Japanese navy as an airman based in Taiwan, and two sisters, both of whom were students. When I got there, I was given a warm welcome by Hidehira’s family, for helping to bring him back home. They treated me as if I were Hidehira. His home was in a remote part of the region, so far removed from the city that we had to go tens of kilometers by bicycle to get to a small hospital or pharmacy. But staying at Hidehira’s home did wonders in speeding my recovery, as his father brought back rice, fruits, medicine, and all kinds of food, from the market every day in exchange for his chickens and eggs. So I had plenty to eat: rice, fruits, and vitamins, which was a godsend, as Japan was suffering from a food shortage in the wake of World War II.

A doctor called on Hidehira’s home every day, traveling tens of kilometers from his hospital to attend to us. The doctor was 60 years old and studied at the Okayama Medical School. He treated our wounds, which got better. He also treated my blood by making a serum, which he injected into my blood, as a way to aid the bone marrow’s ability to produce blood cells, which had been damaged from exposure to radiation. A treatment method, the doctor had learned while at medical school. (At the time, I did not know the
importance of the blood treatment to my eventual recovery, so I was a bit uneasy about undergoing the blood treatment.)

Able to eat a nutritious diet and to receive medical care, my condition improved, my skin stopped bleeding and my fever fell to 37 degrees Celsius. Hidehira’s condition, much worse than mine, also began to improve. In late October, he suddenly suffered a serious infection from his wounds. His fever worsened, rising to over 40 degrees Celsius, and red-brown spots began to appear on his face. He became delusional because of the high fever. Against the advice of the doctor who had warned that his infection was contagious, I stayed close beside him, as he asked. After some intensive treatment, Hidehira beat the infection, regaining his senses. But it had left him in a terribly weak condition.

One morning, Hidehira’s father rushed into the room with a few newspapers in his hands, saying “Finally, you are cured!” The Asahi and the Mainichi Newspapers had written a full front page story, explaining the special treatment given to patients exposed to radiation. Dr. Tsuik and a team of specialists at Tokyo University, who had visited Hiroshima after the atomic bombings, had developed a treatment method based on their experiences in treating patients hospitalized at the Kure Naval Hospital and the Ujina Army Hospital. Considering the shortage of food and medicine throughout Japan, they provided details on alternative treatment methods for various conditions.

I read in the paper that high doses of radiation damaged the marrow’s ability to produce white blood cells, thus, many patients exposed to radiation died of leukemia. The common symptoms of
patients exposed to high doses of radiation, appearing in this order included loss of hair, high fever, bleeding in the mouth and skin, vomiting of blood, hemoptysis, and plasmapheresis. Once the symptoms ended, patients suffered from a high fever, before dying. Plenty of rest and a good diet were recommended as treatment. After that Hidehira’s family hid the newspapers from us, afraid the constant news of people dying from radiation poisoning would only make it worse.

Reading this article, and learning about the work of Dr. Tsuiki, I felt blessed and deeply grateful to Hidehira’s family for their help and the help of the doctor and his daily blood treatment. How could I have managed to recover if not for Hidehira’s family? How could I have been so fortunate to receive the blood treatment used for treating radiation poisoning being in such a remote rural area, far removed from any semblance of civilization? I suddenly found myself overwhelmed by a sense of hope for life and a longing to return home. Recovering from his sickness, Hidehira regained his health as well.

I got word that the ferries would begin operating again between Korea and Japan in the near future. Though I only had a mild fever and most of my wounds had healed, I barely had enough strength to do anything but take walks in the garden. I desperately wanted to return to Korea and see my parents. But I had to wait until my health had recovered enough, which the doctor thought would take another month or two. One day in the morning at the end of October, I heard a voice that sounded very familiar, almost like my oldest brother, Kim Chung Ho, at the front door, say “Hello” in Japanese. Hearing no reply, I heard the man say “Hello” a few more times. I went to

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answer the front door to find that it was my older brother. Seeing him standing at the door, I couldn’t tell if I was in a dream. My body spoke what I could not find the words to say, as we embraced in a moment of tears.

The story of my brother coming to Japan begins with my old friend Park who had arrived in Busan in early October. With the address on the letters I had asked him to forward, he found my home in Seoul. He told my family about my condition and my whereabouts. He reassured my family that I would recover and come back home in no time. My family was relieved by the news delivered by Park, and waited for my return.

One day, my father traveled to Seoul from Gaeseong on a business trip, and met a Japanese friend who he had worked with before and was in Korea to take his family back to Japan. When my father spoke of my health condition and that I was return to Korea soon, my father’s friend hesitated but frankly told him that my condition was very serious. He told my father that he knew about the bomb victims that were exposed to radiation, and that not many people survived it. With regret, he said that I would not likely survive as well, so my family should be prepared for the worst. My whole family was shocked and heartbroken by the news.

After my family had talked it over, my mother insisted that even if I should die in Japan, my remains should be brought back for a burial in Korea. My brother decided to go to Japan to bring me back in any case. When Korea was liberated from Japan, my brother, who previously worked at Korea Commercial Bank, joined the Chosun Airplane Corporation instead of going to the army, and worked for
the Relief Organization for the Return of Overseas Koreans with his friends from the Chosun Mountaineering Club. The organization helped overseas Koreans return to Korea through its offices at major ports including Busan. It also set up an office in Shimonoseki, Japan, and operated a few small fishing vessels, bringing back Koreans from Japan that made their way to Shimonoseki and Moji, because the ferries between Korea and Japan had stopped running.

Taking one of their vessels, my brother went to Shimonoseki with a foreign travel certificate issued by the US military government. He first visited the Okayama Army Hospital which gave him the address of Hidehira’s home. After looking for sometime, he finally found this way to Hidehira’s home. It took him more than 10 days to find me since he left Korea. He brought with him news of my family, and a bag of food that included powdered mixed grains, beef jerky, and dried fish, my mother had prepared for me. I suddenly felt homesick and shed tears.

Hidehira’s family welcomed my brother, who was happy to see that I had almost fully recovered. He wanted to depart as soon as possible to inform my parents of my good health. Hidehira and his family found it difficult to see me go, especially since Hidehira was still sick and recovering from the infection, but Hidehira’s mother insisted that I should return home as soon as possible and be with my mother and family.

We decided to depart the very next day, but my brother came down with a severe fever of 39 degrees Celsius, caused by the fatigue of traveling for 10 days. After four or five days rest, his fever subsided but he was still in bad shape. Hidehira’s parents
recommended a few days more of rest, but we couldn’t wait any longer and had to leave as soon as possible.

Hidehira’s mother had prepared some rice cakes and fried rice for our trip. It was hard to say goodbye to Hidehira, after what we had been through. After first meeting in Okayama, we had lived together in the same BOQ for one month. We had survived the atomic bomb, helping and being there for each other. As hard as it was for me to leave, my desire to stay was only surpassed by my desire to be with my parents.

From Okayama, we crossed the central region by train, and then we took the Sanin railroad to Shimonoseki. By then, the ferry from Shenjaki, north of Shimonoseki, to Busan resumed operations. Tens of thousands of student soldiers, soldiers that were drafted and workers from Korea gathered at the port of Shenjaki, waiting to board. Many Korean residents in Japan went to the office of the relief organization. After waiting for a ship operated by the relief organization from Busan, we finally boarded with more than 100 people. The ship was small, old, and worn out. It was smaller than a 50 ton cargo ship and the journey was supposed to take 24 hours. The ship was crowded, leaving no extra space. I was worried that the ship would not be able to cross the Straits of Korea, which were known for its strong and high waters.

A few hours after departing Shimonoseki, we reached the Straits of Korea. The waves were high, at its peak, we could see the horizon, at its trough, nothing but the sea appeared. The strong winds made it much worse. As we were swept up by the waves, fear of the ship sinking had taken hold of me. The waves crashed into the ship. All of
us got seasick. Life as I knew it flashed before my eyes. After surviving the atomic bombing by some miracle, I could not help but think that I had come this far only to die so close to returning to Korea. The ship changed its course, and headed to Tsushima to anchor at the port of Izuhara to wait out the strong winds and waves. After a while, the winds subsided and the waves calmed, and the ship returned on its course for Busan. After getting seasick and vomiting, the ship finally made landfall and docked in Busan around noon the next day. We were welcomed by the executives of the relief organization with Korean flags in their hands. The thought of Korea being liberated from Japan brought me to tears. After having some rice served in a soup at an outdoor stall at the pier, we journeyed on to Seoul by train with help from the relief organization. I was so glad to be with my family again, especially my parents, whom I had missed even in my dreams.

As soon as I returned, I sent several letters to Hidehira, but received no replies. In the spring of 1946, while at the Issue Department of the Bank of Chosun, I was on an assignment working together with an inspector from the Bank of Japan, who came with an officer from the MacArthur headquarters to verify the destruction of Japanese bank notes held by the Bank of Chosun. On his return to Japan, I asked him to deliver a letter to Hidehira with a gold ring from my mother for his mother. After a while, he sent me a letter by APO (US military mail service) that Hidehira had died just before 1945. After reading this, all I could do was to pray for this soul and that he rest in peace.

After returning to Korea, my white and red blood cell count recovered to normal, but I suffered from intestinal problems, which
were a source of discomfort and loss of weight. For the first two or three years, I had constant diarrhea, 5 or 6 times a day, which gradually subsided to 2 or 3 times a day over the next two or three years. It was not until five to six years had passed that my intestines began to work properly. It also took four to five years for my hair to grow back to normal. The medicine I had taken at the Okayama Army Hospital called Hong Pa II, which was developed by a Japanese medical team, helped to heal my burn wounds, the scars of which went away eventually, except for my right hand finger. In the summer of 1954, after completing my one year internship in the US and setting up the New York office of the Bank of Korea, I stopped by Japan to visit the ABCC (Atom Bomb Casualty Clinic), an US government research institute studying the treatment of patients exposed to radiation poisoning. On my visit to the institute, I signed up for some medical treatment, only to be informed that I had to wait for at least a week. I tried to explain my situation, and told them that I was just visiting Japan and could not wait a week. Still I was told that I had to wait. So I gave a nurse my personal information including my name, address, and age, as well as where I was located at the time of the bombing, my medical history and current conditions. As I wrote that I was at a training base just outside of Hiroshima castle at the time of the bombing, a Japanese nurse immediately informed an American nurse, who then, called someone, and asked me to wait a moment. After a while, two American doctors came to see me. They asked me why I had been at the training base, and the name of the base. After exchanging a few words, they started to examine me immediately. After taking a bath and putting on a white robe, I was given a thorough and in-depth medical examination. They examined my internal and external body, and conducted tests on my eyes, teeth, blood, urine and feces, and even
saliva. After the examination was finished, they asked me to come back in the morning the following day.

The next day, I went back to the institute to find several doctors including the head of the institute waiting for me. The director told me that the training base where I had been at the time of the bombing was within 2 kilometers from the center of the atomic explosion. He said that there had been only one survivor, who was closer to the center than I was, and was currently undergoing treatment in critical condition at the institute. I was also the only one who had visited the institute without showing any serious conditions. A few medical specialists asked me about my physical condition in more detail.

It surprised me how fortunate I was. The doctors also added that they had not found any problems from the tests conducted so far, but there were some tests including a cultivation test that needed to be processed. About a month after I returned to Korea, a letter with the test results was sent to me through the US Embassy in Korea. The letter also indicated that the US government would bear any expenses including airfare if I were to be hospitalized and treated at the institute in the future due to an illness caused by my exposure to radiation from the atomic bombing. Fortunately, I have not had to take them up on their offer.

In January 1979, I was appointed as the Ambassador of Korea to Japan. As soon as I arrived in Japan, I wanted to find Hidehira’s two sisters to express my gratitude to them for their kindness while I stayed at their home (I thought that his parents must have passed away by then), and to visit Hidehira’s grave to pay my respects in memory of our friendship. First, I obtained a membership list of the
alumni association of the Japanese Special Athletic School, from which Hidehira graduated, to find out his home address. However, I could not find his name in the list of graduates from the class of 1944, 1945, and 1946.

In remembrance of the 50th anniversary of the atomic bombing, Hiroshima hosted the 1995 Asian Games, in celebration of peace and goodwill. In the spring of 1995, I was interviewed by a correspondent of the Chugoku Newspaper, the biggest local news agency in Hiroshima. They wanted to do a story about Korean survivors of the atomic bomb. At the end of the interview, I talked about Hidehira and my wish to find his family. About a month later, I received an international call from the news correspondent. The reporter told me that Hidehira was still alive, and that he was calling from Hidehira’s home, who stood just beside him. I was so surprised and so glad to hear the news.

Hidehira told me that he had to be hospitalized at a large hospital in the local city, and barely managed to survive. He voluntarily entered the Toyohashi Preparatory Military Academy before graduation, and after the war in 1946, he went back to the Japan Special Athletic School, and graduated in 1947. After graduation, he taught physical education at a high school, got married, and lived with his wife’s family, the Ohashi family. He had two sons and a daughter. He had retired just a few years before, and currently lived with his wife in a farm village near Kurashiki city. His parents had passed away, but his sisters were doing well.

Soon after, I invited him and his wife to Korea, sending them two round-trip tickets from Hiroshima; it was an insignificant gesture
compared to the immeasurable kindnesses his family had given me while staying at his home. But, he politely declined my offer, telling me that it was he who was burdened with a debt of gratitude for which he had to repay. I tried a few more times to invite him by mail and telephone, but he kept declining.

In light of our advancing age and health, I finally decided to visit him with my wife and eldest daughter to express my gratitude in the summer of 1995. On the first day of my visit, I went to the Atomic Bomb Memorial Hall, which commemorated the tragedy of the atomic bombing. I also visited the site of the training base where I had been on that day. The following day, I visited Hidehira’s home near Kurashiki city, meeting him for the first time, nearly 50 years after I had left his home. I also went with him to his old hometown where I had stayed, meeting his older brother, the brother’s wife, and his two sisters. I also visited his parent’s burial to give my respects and gratitude. Then, we had lunch and talked, sharing stories and memories. I have since been in touch with him, exchanging New Year’s greetings every year.
Establishment of the Bank of Korea

After returning to Korea from Japan, I went back to work at the Bank of Chosun, after a two-week rest, in November 1945, though still weak physically, believing the daily routines of work would aid my recovery. The Bank of Chosun employed less than 200 people at the time. They had worked at the bank since the days of the Japanese occupation. There were another 50 people working at the China branch. I spent nearly five years in the Issue Department at the Bank of Chosun before it became the Bank of Korea in June 1950. After a temporary assignment at the Chosun Exchange Bank, a bank specialized in foreign exchange, I also spent time in the Treasury Department and the Operation Department.

After Korea’s liberation from Japan, a power struggle ensued between the Bank of Chosun and the Chosun Industrial Bank regarding which bank should lead the establishment of a new central bank. The Chosun Industrial Bank had more Korean employees than the Bank of Chosun, who were also thought to have received better education. As the national reserve bank in charge of issuing Korea’s
currency and conducting rediscount and treasury operations, the Bank of Chosun made its case for taking the lead in establishing a central bank. While the two banks battled for the prize, the Cho Hung Bank, a Korean-owned commercial bank, entered the fray. At the time, the Cho Hung Bank boasted the largest capital and the most number of employees, and indemnified itself for not having collaborated with the Japanese during their occupation unlike the other two banks. Despite all this, I thought that the bank armed with the policymaking knowledge and technical know-how required of a central bank was best equipped to lead the charge.

Soon after Korea’s liberation from Japan, almost all organizations experienced infighting, a scramble to regain ownership control of the organization from the Japanese, which often sought to purge Koreans who had collaborated with the Japanese. The Bank of Chosun was no exception. The bank’s management was pressured to leave, while employees with a leftist bent gained more sway through socialist organizations. It was short of chaos. At times like this, I thought learning rather than following others blindly or needlessly, was a better use of my time. So, I spent my time while at the Issue Department, studying and researching on how Korea’s currency issuing system should progress in the future by examining theories on central banks, currency, finance, and the gold standard. This led me to study the global recession that came after the World War I, and the Bretton Woods System, which was established in 1944, and led to the creation of the IMF and the World Bank.

In 1946, I entered an essay contest sponsored by the Bank of Chosun by submitting a paper entitled, “A Study of the Currency Issue System in Korea.” In my essay, I argued for adopting a free
standard system, or a paper money (fiat money) standard system, where one unit of the standard money was not linked to a certain amount of a metal. I also argued for adopting a managed currency system as an issue system, where the central bank manages the money supply as a monetary policy instrument with the objective of price stability, steady employment, and sound balance of payment. Eventually, these measures were adopted under the Bank of Korea Law in 1952. I managed to take second prize together with C. P. Song, who submitted an essay entitled, “Research on Functions of a Central Bank.” No one was awarded a first place prize. My essay helped elevate my profile within the bank.

In June 1946, the Chosun Exchange Bank was established as a 50-50 joint venture between the Bank of Chosun and the Chosun Industrial Bank. Initially established to specialize in foreign exchange, it was eventually acquired by the Bank of Korea in June 1950. With Kim Jin Hyung at the helm, the former Governor of the Bank of Korea, operations commenced with 12 employees: five from the Bank of Chosun, five from the Korea Development Bank, one from the Cho Hung Bank, and one from the US military government. I was one of the employees assigned temporarily to the new bank at the Foreign Exchange Department. When the bank was established, Korea’s foreign trade was insignificant. So, the amount of trade facilitated by letters of credit was insignificant. Indeed, most of Korea’s foreign trades were done without letters of credit with companies largely in Hong Kong, Macao, and mainland China.

After my brief assignment, I returned to the Bank of Chosun in 1947, and was assigned to the Treasury Department. During Japan’s occupation, the Bank of Chosun handled the treasury operations of
the Japanese Government General of Korea. It also conducted treasury agency operations for the Bank of Japan. Korea was taken control by the US military government, soon after landing in Incheon on September 6, 1945. During the transfer of power, the Bank of Chosun handled US treasury funds as a treasury agency of the US military government. The budget of the US military government was not big. But since the existing tax laws established under Japanese occupation were left in place, tax revenues fell sharply due to the chaos that ensued after Korea’s liberation. Government debt had to be used to plug the budget deficit.

In the time before the founding of the new, independent Korean government on August 15, 1948, the bank had about a year to figure out how the treasury funds of the new government would be managed. So we did not have the luxury of time. Even worse, there was a dearth of qualified Korean employees at the bank. Only a handful had adequate experience in managing the accounts of the Japanese Central Government and handling the treasury agency operations for the Bank of Japan during Japanese rule. So Na Jung Ho, a graduate of Sunrin Commercial High School (Sunrin Internet High School), was brought back from retirement, after serving 30 years in the bank’s treasury business. At 60, Na looked every bit his age, but was tenacious as ever. He knew the treasury operations inside and out, both the accounting system, and the accounting methods, employed by the Japanese Central Government. However, Na was less familiar with the treasury fund operations conducted between the Japanese government and the Bank of Japan, which could have provided a model for managing the new government’s treasury funds. And there were no records and data of these transactions that I could find. On my way back from work, I used to
frequent the old bookshops located in Chungmuro, which often sold books leftover by the Japanese. One day, by chance, I came upon some books, three volumes on Regulations on the Management of Treasury Funds of the Bank of Japan. I also managed to uncover over 10 books written on national bonds, and accounting laws and systems of European countries. I quickly bought the books with the money I had on me and reserved the rest. I began to read the books, reading the volumes on Regulations on the Management of Treasury Funds of the Bank of Japan, over and over. Soon enough, I came to fully understand the Japanese treasury system, which as I learned was modeled on the treasury system of the French central bank when it was established during the Meiji Restoration. It had an accounting system that was much more different and complex than the accounting system used by commercial businesses or banks. Referencing the French model of the central bank and the regulations of the Bank of Japan, I produced and distributed a sort of blueprint for building a regulatory basis for establishing a treasury system at the central bank. It was eventually used for establishing the Bank of Korea’s treasury system, which in effect, can be traced to the French model of a treasury system.

In 1949, when I was at the Operation Department of the central bank, Kim Yoo Taik, the Vice-Minister of Finance, tasked me with the job of drafting the legal and regulatory framework for issuing government bonds. After studying the legal and regulatory framework and precedence for government bonds under the Supreme Court during Japanese occupation, I submitted a draft, which was approved by the Ministry of Finance and the Office of Legislation, before being finally approved by the National Assembly. Without any amendments to the original draft, the National Bond Law was
enacted on December 19, 1949. Soon after it became law, the
government issued bonds totaling KRW 10 billion for the first time
in the history of Korea in 1949.

Immediately after the new Korean government was established in
1948, the Bank of Chosun organized a special internal research
committee to study and research the central banking systems of other
countries, as part of its plans to establish a new central bank. I
conducted research on the systems of money issue and treasury
management. By the end of 1948, the committee drafted a legal and
regulatory framework for a central bank, and made its
recommendations to the government, the National Assembly,
Economic Cooperation Administration (ECA), and other related
authorities.

The draft was reviewed by the banking subcommittee of the
Finance and Banking Committee, which was established by the
Ministry of Finance. A final draft was adopted by the Ministry in
early 1949. Considering its importance and international
implications, the draft was reviewed by a delegation of international
experts, on the request of the government, led by the US Federal
Reserve Board, which was well versed in the theoretical and practical
issues of a central banking system. In early September, 1949, Dr.
Arthur I. Bloomfield, an expert on financial theories and the Director
of the International Balance of Payment Department, and Mr. J. P.
Jenson, a banking specialist and Deputy Director of the Internal
Audit Department, from the Federal Reserve Bank of New York,
came to Korea.

Making a Mark as a Young Central Banker
For five months, Bloomfield and Jenson studied and researched the history and present state of Korea’s financial system with cooperation from the Ministry of Finance, the Bank of Chosun, and ECA. The two experts helped in drafting the Bank of Korea Law and the Bank Law, based on the draft prepared by the government and the Bank of Chosun. Chang Ki Young, the Deputy Director of the Research Department, with the help of Shin Byong Hyun (later to serve as Governor of the Bank of Korea, and Deputy Prime Minister) and Jin Kyung Deuk, led the effort on translating the English draft into Korean. I also helped in translating the manuscript. The final draft of the bank’s charter, created with the help of the two American central bankers, was submitted to the government. It was signed by the head of ECA, on February 4, 1950.

The bank’s charter was amended and passed by the Finance and Banking Committee, and subsequently, sent for approval to the Ministry of Finance, the Office of Legislation, and the Bank of Chosun. The review committee was comprised of Song In Sang (later to serve as Minister of Finance and Ambassador), the Director-General of the Finance Bureau of the Ministry of Finance, Kang Myung Ok, the Director-General of the Economic Bureau of the Office of Legislation, Kim Man Ki, a legislating officer from the Office of Legislation, and Chang Ki Young, the Director of the Research Department at the Bank of Chosun. Shin Byong Hyun and I were appointed to the committee as assistants.

According to the bank’s charter, the Minister of Finance chaired the Monetary Board (Monetary Policy Committee), while the Vice-Minister of Finance was a member of the board. The authorization of this board to set policies related to currency, finance, and foreign
exchange seemed to put it in conflict with the Government Organization Law (Law of the Administrative Organization), which put these responsibilities in the hands of the Minister of Finance. The monetary board was a common fixture in the Anglo-American system of government, but it was not common in the Continental system of government adopted by Korea. This raised serious doubts on the constitutionality of the bank’s charter.

After further researching the Anglo-American law system and gathering the opinions of Japanese legal scholars thereon at the National Library of Korea, I put together a report with evidence arguing that the bank’s charter was indeed constitutional and did not undermine any of Korea’s governing laws. Kang Myung Ok and Kim Man Ki had a well-balanced knowledge of the theories and Lee Cheon Sang, Deputy Head of the Office of the Legislation, participated in the review process. Debate over this issue raged for a year, often reaching a fever pitch. Finally, it was agreed that the Bank of Korea’s charter was not in any way in conflict with Korea’s governing laws. The representatives from the Bank of Chosun managed to shed light on the issue of the monetary board with the knowledge they gained while reviewing the draft. After undergoing slight amendments and a review by the president’s cabinet, the Bank of Korea Law was finally approved by the National Assembly on April 21 and enacted on May 5, 1950.

On June 12, 1950, the Bank of Korea was established as Korea’s new central bank. As an assistant manager, I was assigned to what later became the Planning and Research Division. But the momentous occasion was short lived. War broke out on the Korean peninsula a few days later on June 25. Seoul was sacked by the North
Korea, not to be retaken until months later on September 28 by South Korea. My situation was made worse, as I fell terribly ill; I suffered cold sweats in the morning, endless coughing, and a loss of appetite. I was later diagnosed with tuberculosis. A month later, I made a full recovery, and began work again at a makeshift office of the bank set up on October 25.

Research on Japan’s Postwar Reconstruction Policies

In December 1950, I was unexpectedly appointed as an assistant manager of the Tokyo Branch of the bank. I suppose the appointment was in some ways a reward for my contributions in the establishment of Korea’s central bank. It was also a chance for me to take some badly needed leave in light of my weak health. After a long visa process that took me to Busan, I finally landed in Tokyo in April 1951.

The Tokyo assignment gave me an opportunity to work with several noteworthy professionals who played vital roles in the Korean economy. As head of the research department, I prepared weekly and monthly economic reports on Japan, commenting on key trends and conditions in the banking and finance sectors, and foreign exchange. I was also in charge of accumulating research literature for our library in Korea. In addition to the pay being better in Japan, I found life to be a little slower. I had plenty of time for collecting and reading as many books as I pleased.
Currency Reform

After World War II, currency reform was pursued by many countries including West Germany, Belgium, the Netherlands, Denmark, Austria, and Japan, as a way to rein in rampant inflation brought on by the war. Under the administrative control of the Allied Forces, West Germany and Austria implemented reforms based on the plans of US experts. Indeed, currency reform in Japan, also under administrative control of the US, produced good results. As in those countries, I thought Korea too would one day have to pursue currency reform to rein in inflation in the aftermath of the Korean War. So, I earnestly began to look into this matter.

While in Japan, I was able to forge close working and personal relationships with many of the people I came across. I was able to strike such a relationship with a representative of the East Asian Affairs at the Research Bureau of the Bank of Japan. Aside our normal, everyday work-related dealings of exchanging monthly reports and other economic data for our respective countries, we were able to help each other. I helped him put together reports or newspaper clippings which needed some portions of Korean translated into Japanese, while he helped me obtain some useful and valuable research and data on the currency reforms of other countries which were not easy to come by. We became good friends through our professional relationship, sometimes getting together on social occasions.

I also discovered a wealth of valuable research and data kept at the Research Division of the Japanese Ministry of Finance. After going over a large box full of research and data a few times, I got a...
deeper understanding and appreciation of the theories and practices behind the currency reforms; some of its advantages and disadvantages, and, hence, the reasons behind the success or failure of the currency reforms. The vast knowledge I was able to gain gave me the tools but also the confidence in my ability to design a currency reform plan that would work under any circumstances.

**Optimum Exchange Rate**

I was also very interested in research dealing with finding an optimum exchange rate. At the onset of the Korean War, the Korean and US government entered into an agreement for financing the costs of maintaining the UN Forces in Korea, also referred to as the “Agreement on Providing Expenses in Korean Currency Paid by the UN Forces” in Daegu on July 28, 1950. According to the agreement, an actual effective exchange rate was to be applied to convert into US dollars the advanced payments made in Korean currency for military costs incurred by the UN Forces. The exchange rate itself was supposed to be agreed on between Korea and the US, and any changes to the exchange rate thereafter had to be agreed upon ahead of time and made public. In the same respect, the exchange rate applied on any form of aid to Korea also had to be agreed upon between the two countries according to the “Agreement on Aid” entered into on December 10, 1948.

In effect, the two exchange rates applied should have been the same. However, the Korean exchange rate applied on advances to the UN Forces frequently overvalued the Korean currency because the
Korean government wanted to receive a greater amount of US dollars in exchange. Agreeing on an appropriate exchange rate became a difficult issue between Korea and the US; it was one of the biggest obstacles to the repayment of advances to the UN Forces.

On June 24, 1950, the day before the Korean War, the money supply was 55.9 billion KRW. In the six months following the war, the money supply grew by 226.2 billion KRW, bringing the total money supply to 282 billion KRW at the end of 1950. Indeed, financing the war proved to be the single largest reason for the significant increase in the money supply. By the end of 1952, the money supply exceeded 1 trillion KRW. The total amount of outstanding advances to the UN Forces to finance the war was approximately 0.6 trillion KRW, or 60% of the total money supply. Undoubtedly, this had a great inflationary impact on Korea’s economy.

To be sure, one of the biggest economic policy issues of the Korean War was setting the foreign exchange rate in light of the large overhang of advances to UN. As US agreement was needed, finding an optimal rate was crucial to paving the path for a smooth repayment of the advances. There are many considerations when determining the appropriate foreign exchange rate. Under a free floating exchange rate system, absent of any restrictions on foreign exchange transactions, it is true that speculation, driven by psychological factors, could impact foreign exchange rates. But, such psychological factors cannot be easily calculated. For practical reasons, it is simpler to suggest that foreign exchange rates are determined by supply and demand in the short-term. However, relative price differences found in different countries also has a big
impact on foreign exchange rates in the medium to long-term. In other words, the international balance of payments has a bigger impact on foreign exchange rates in the short-term, while the purchasing power parity has a bigger impact in the medium to long-term.

Conventional theories would have you think this way, but what I wanted to know most was the practical method of calculating exchange rates. Japan applied a fixed exchange rate when it commenced foreign transactions for the first time since the end of the war. The single fixed exchange rate of 360 Japanese yen to the US dollar was set on the recommendations of Joseph Dodge, a former chairman of the Detroit Bank who served as an advisor for postwar economic stabilization programs in Japan as well as West Germany. I was fascinated at how Dodge arrived at the fixed exchange rate and wanted to find out more about it.

During my time in Japan, I came to know an adviser to the Tokyo branch of the Bank of Korea, Mr. Kano, who was well regarded in Japan’s banking and finance community and most knowledgeable in the area of finance. One day, during a conversation with Mr. Kano, I told him of the difficulty I had in obtaining any information on Dodge’s single fixed exchange rate policy. He thought that Mr. Kiuchi, the chairman of the Foreign Exchange Management Committee of Japan, might be able to help me. Mr. Kiuchi had a long and distinguished career, working both in the private and public sector. When I visited Mr. Kiuchi, I was introduced to an executive member of his committee which had directly worked with Joseph Dodge on the fixed exchange rate policy. Both he and his colleague were kind enough to answer all the questions I had regarding this. I
was also given all the records and documents of the foreign exchange policy.

Let me summarize how Dodge arrived at the fixed exchange rate. First, Dodge selected thousands of Japanese goods and paired them with their respective goods found in the US. A price ratio was calculated for each matching pair of goods. Then, Dodge determined what price the goods would not be profitable, which goods would be more important to the Japanese economy, and how much the government would support sectors negatively impacted by the fixed exchange rate. Based on this assessment, Dodge calculated the weighted average price ratio for each of the matching pairs of goods with Japan’s economy in mind. The average became the single fixed exchange rate. For sectors that would be negatively impacted by the fixed rate, government support was provided in the form of financial or industrial policies. The exchange rate based on the weight average of the prices became the rate under the price ratio system. At the time, the actual optimum exchange rate was JPY 300 to USD 1. In fact, the exchange rate of JPY 360 to USD 1 was more favorable to promoting exports, as Japan’s economy at the time was export-driven. I took away a great many policy lessons from studying the records and documents on Dodge’s fixed exchange program, and it led me to get a more full understanding of the policy affects of establishing foreign exchange rates.

Even though the new exchange rate was favorable to Japanese exports, not all exports benefited by the higher exchange rate between the Japanese yen and the US dollar such as cotton (250 to 420), raw silk (420), a radio set (550), an automobile (510), celluloid (600), glass plates (600), and chinaware (600). I thought that one
explanation for this could have been that the industries hurt by the higher exchange rate needed to be rationalized. So, this curiosity led me to study what incentives were provided to facilitate rationalization in terms of financial, banking, and industrial policies, and how those industries rationalized themselves.

**Industrial Policy and the Dodge Line**

I also studied Japan’s economic policy following World War II. In the wake of the war in 1945, Japan’s industrial base was heavily geared towards military goods, while demand was great for already scarce consumer goods. The production capacity of basic industries, including steel and water-power generation exceeded the averaged maximum capacity from 1935 to 1937, immediately before the Sino-Japanese War. But, the production capacity of other industries, especially consumer-related industries, was much less than what existed during 1935 to 1937. It was 33% for the textile business, 42% for the ammonium sulphate fertilizer business, and 20% for the automobile business. Even worse, the manufacturing facilities of these industries became obsolete, while the difficulties in importing raw materials and the damaged distribution networks made it difficult to increase their production capacity. Indeed, production in mining and manufacturing fell dramatically in 1945, one sixth of the production in 1943.

As Japan lacked many goods, the cost of losing the war brought on heavy budget deficits, thus, bringing rapid inflation. The defeat in the war completely destroyed the circulation system of the Japanese
economy. Since the scarcity of goods was the main reason behind the inflation, it was necessary to enhance the country’s production capacity to rein in inflation. Policy efforts were focused on rebuilding Japan’s production capabilities, and its economy. First, the “priority on production” plans were adopted and the “stability belt pricing system” was established.

However, it was almost impossible to increase Japan’s entire production capacity all at once. So, Japan’s policy efforts needed to be targeted on the production of basic, essential resources, such as coal. Coal would then be used in the production of other goods that could be used in other industries such as steel, which would ultimately contribute to raising the entire country’s production capacity. Accordingly, the priority production plans focused on increasing production of coal and steel. All imported oil and coal resources were poured into the steel industry. The steel and other materials produced were put back into the coal industry again. This increased production of coal, and the production gains in coal were used to increase production of steel. This recycling of production gains between the two industries was done for about one year. As a result, the increased production in coal and steel increased the supply of basic materials needed in other industries, thus, setting the stage for an economic recovery.

In Korea, a similar plan to increase production was almost adopted in the early 1950s. Under a plan designed by Dr. Edgar Johnson, the head of the Korea program at the Economic Cooperation Administration (ECA), resources were to be mainly invested in the production of coal, electricity, and fertilizer. That is, first, investment was concentrated on the production of coal, which
consumed a large amount of foreign currency but was essential for the industrial development. Then, the coal was used in power plants to generate electricity. Finally, plants were built to produce fertilizers by electrolyzing nitrogen in the air and changing it into ammonia with hydrogen. At the time, fertilizer was the second most imported product in Korea next to coal. Increased production of fertilizer would not only reduce the import of fertilizer, but also increase the production of rice for domestic consumption as well as exporting. This economic aid plan was submitted to the US Congress in June 1949. But it failed to be approved on January 19, 1950, by a vote of 192 to 191.

Japan needed a considerable amount of financing to increase production of basic materials under the priority production plan. However, Japanese commercial banks could not provide loans due to a lack of deposits in light of the high inflation, and because the military facilities, which borrowed loans from the banks, were heavily damaged in the war. So, the government established a fund called the Reconstruction Fund which was financed by issuing reconstruction bonds guaranteed by the government. But most of the bonds, nearly 70%, were subscribed by the central bank, which was effectively printing more money.

Despite the inflationary effects, the Reconstruction Fund was established to support the priority production plans and increased production of basic materials, causing Japan’s economic structure to focus on the heavy and chemical industries. Beset by underemployment and underutilized facilities, Japan sought to focus policies on increasing production to full capacity and capital accumulation, even if it meant that the government would run a
budget deficit and the central bank would expand credit. So policy priority was placed on reviving the economy rather than controlling inflation.

Surely enough, Japan’s national production started to increase in 1948, while inflation slowed down. So, the Japanese government turned its attention to reducing inflation to stabilize the economy. Japanese policymakers and academics supported the idea of a gradual easing of inflation over a period of 2 years, but, the US military government wanted to take a much more radical approach of reducing inflation in one fell swoop.

In February 1949, Joseph Dodge was appointed as the US special ambassador to Japan and finance and banking advisor for the US military government. He orchestrated the implementation of the policy known as the “Dodge Line.” The Dodge line called for not only balancing the budget but also running a surplus. As such, no further public bonds or borrowings were allowed beyond what was already budgeted for the government and governmental agencies. Moreover, a portion of revenues had to be set aside to pay down the national debt. And, the single foreign exchange rate system (JPY 360 to USD 1) was instituted to induce rationalization. After the Dodge Line was implemented, inflation was quickly reduced to a more normal level, while production also got back to more normal levels. However, the contractionary measures led to a drop in effective demand.

With the money supply tightening, numerous small and medium sized companies became delinquent or insolvent, and unemployment became more widespread. In 1950, large companies also suffered
from tight credit. A crisis was imminent. However, Japan’s fortunes would turn with the onset of the Korean War. Korea was devastated by the Korean War. According to the statistics of the Korean government, about two million people died or suffered injuries and 600,000 houses were destroyed. The total physical damage resulting from the war was estimated to have exceeded USD 3 billion. The war also displaced more than 10 million. In contrast to the damages that Korea suffered, the Japanese economy revived thanks to the large orders resulting from the war. The special war-related demand for the one year from July 1950 to June 1951 was USD 340 million, which was bigger than the amount of accumulated goods immediately before the war, estimated to be around JPY 100 billion.

In the years I worked in Tokyo, I learned a great many things in observing first-hand the reconstruction of the Japanese economy. To undertake something as momentous as reconstructing an entire economy, the first thing I realized was that the keys to success were a robust and decisive plan designed by economists and academics, and a resolute government that would steadfastly execute the plan. I also realized the important role of industrial policy, which at times could be more important than policies on banking, foreign exchange, and finance that I specialized in.

In Japan, the Public Finance Association was under the Ministry of Finance. Whenever a law or a system was created, developed or amended, the association provided a report with information and research that explained the new law or system and documented the basis of establishing that particular law or system. The report also contained case studies of other countries related to the law or system. Then, the Ministry published the report as a book, and the royalties
from book sales were used to fund the administrative expenses of the association. Every ministry in the Japanese government had a similar system. Such books published by the ministry were an invaluable source of information and reference tool since the books contained information on Japan as well as other countries. I also requisitioned books on industry related topics, which did not have any direct application on the Bank of Korea, but thought should be part of the bank’s library collection for reference by other government agencies.

Return Home

In December 1951, the Tokyo branch of the Bank of Korea was investigated by the Ministry of Finance for delays in the collection of some loans. At the time, the Tokyo branch had financed imports made by businesses of overseas Koreans residing in Japan. The transactions involved facilitating the urgent import of goods and were concluded under repurchase agreements. However, there were delays in the collection of a few loans, involving large amounts. A delay in the collection of loans could by itself be serious, but it turned out that an anonymous letter was sent to President Syngman Rhee in Seoul, indicating that some of the loans had been provided unlawfully.

There was constant conflict behind the scenes between the Ministry of Finance and the Bank of Korea that went back to the time when the Bank of Chosun was established after Korea’s liberation from Japan. The situation was more contentious since the Bank of Korea Law ensured the complete independence of the Bank of Korea
from the Ministry of Finance. So, it seemed that the Ministry kept the Bank of Korea under a microscope.

In conducting their investigation, the Director of the General Affairs Division and the Director of the Financial Division at the Ministry demanded all the books and records related to import financing transactions. Immediately, I refused to cooperate on the basis that the Ministry did not have any legal authority or grounds for conducting an audit or investigation of the Bank of Korea. At the risk of losing my job at the bank, I firmly stood my ground which I believed was solid from a legal standpoint: at least in theory anyway. I suppose my actions that led me to disregard the actions of the Ministry were driven by my youthful exuberance-- a young, passionate professional still early in a career. I managed to hold them off, but it would only be for one day, as I was instructed the next day by my superiors to cooperate with the Ministry in their investigation.

After the investigation, Koo Yong Seo, the Governor of the Bank of Korea, resigned in December 1951 while, Chang Ki Young, the Deputy Governor, left the bank in March 1952. After a year in Tokyo, I was transferred to the Planning and Research Department at the Research Bureau back in Korea. I could reasonably assume that my new assignment was somehow related to my actions over the Ministry’s investigation considering that my overseas assignment, which should have lasted two to three years, was cut short to only one year and I was given the position of an acting director, though the position of director was open. I told my wife of my new assignment, who had just moved to Tokyo nine months earlier; but she didn’t say much. I lamented that my family and I were not able to explore more of Japan during my stay there. Just before we left, a
colleague of mine at the bank took us on a one-day trip to a nearby city. That was the only trip we were able to enjoy during our brief stay. In spite of it all, I was glad to have spent the time that I did in Japan, considering the invaluable knowledge and experiences I had gained. I was reminded of that while packing the boxes of books and documents I had accumulated for my journey back to Korea.
The First Currency Reform of 1953

As the main department of the Research Bureau of the Bank of Korea, the Planning and Research Department was responsible for conducting research and providing policy recommendations to the government in the areas of currency, credit, and foreign exchange. It also prepared periodic reports on Korea’s economic conditions and published yearly and quarterly reports of the bank’s operations.

In the first two years of the Korean War, the cost of funding the war had brought on rapid inflation. And, the war had reached a stalemate. Meanwhile, it occurred to me that it was important for Korea to try to reconstruct the economy while the war was still being waged. Reining in rampant inflation was at the top of the policy agenda. So, I prepared a private memo that assessed the various initiatives on currency management and currency reform implemented by several countries after the World War II, including West Germany, Netherlands, Belgium and Japan.
The Deputy Governor of the Bank of Korea, Song In Sang, took immediate interest in the report I had prepared. I later had a meeting with Kim Yoo Taik, the Bank’s Governor, and Deputy Governor Song in July 1952. Despite not knowing if currency reforms would be pursued in the near future, the Governor found the topic worthwhile enough that he asked me to prepare a more comprehensive report. In earnest and in confidence, I worked for two weeks straight on the report, which outlined a plan for currency reform to stabilize the economy based on a set of financial and banking, industrial, and foreign exchange policies; the plan would position the country to address the reconstruction of the economy and financing the cost of war at the same time. An important part of the plan was resolving the issue of repayment of the outstanding advances Korea had made to the UN. The draft of the report which included some amendments was finalized and submitted, following nearly two days of discussions among the three of us that began at the Governor’s house.

In September, 1952, I had a meeting with Finance Minister Paik Too Chin, which was also attended by the Bank’s Governor and Deputy Governor. The Minister was keen to come up with a plan on currency reforms but was even keener to maintain a tight lid over it, to the point that I had to take a pledge of secrecy. In fact, my life depended on me keeping it a secret. I didn’t let a moment go to waste in taking the Minister’s offer of giving me the opportunity to lead the effort on constructing a plan. To help me, I recommended Bae Soo Gon, an Assistant Director at the Planning and Research Department, who was capable and good-natured, as my assistant. At the end of the day, the minister drove the two of us to a house, owned by an old couple, in Haeundae, he frequented for its hot springs, which helped

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The First Currency Reform and Accession to the IMF and IBRD
his poor skin. It was a good place to work in secret. We lived and worked in a bungalow, and ate at the restaurants in Haeundae. For six months until February 15, 1953, we drafted the reform working out of different places besides the house including the Mijin Hotel in Songdo and in Gwangbok-dong. The Mijin Hotel seemed like a good place to work out of since it was so luxurious that it was not likely that any of their rich patrons would be acquainted with a couple of lowly public servants. Sometimes, we worked through the night, if we did not have to go into office.

One day while we were working at the Mijin Hotel, we were stopped and questioned by a policeman. Even after I showed him my Bank ID card, he tried to haul me into the police station, not believing that a mere director at the Bank of Korea could afford to stay at such an expensive hotel for so long. I managed to get out of the jam by promising to go to the station the next morning. I told the Governor of the Bank about it. He told me that he would take care of, and that I should keep working and not go to the police station. The Governor had to get the help of the Minister of Home Affairs to resolve it. I managed to get out of another tight spot when a reporter thought I was having an affair with a woman after he saw me at the hotel a couple of times. In any case, it all got resolved at the end.

After securing approval of the amendments made on the draft proposal from the Governor and the Deputy Governor, we began work on drafting the comprehensive laws and regulations. We could not reference the laws of other countries for this; instead, we had to have a full understanding of Korea’s monetary system and all of its institutions, right down to every single transaction. This was a daunting challenge to say the least.
I prepared the draft, while Bae Soo Gon reviewed it to see if there were any omissions or inconsistencies. In the middle of the process, Lee Sang Deok (later to serve as President of the Housing and Commercial Bank), the Director-General of the Research Bureau, and Kim Byung Ok (later to serve as Executive Director of the Cho Hung Bank), the Director-General of the Issue Bureau, joined our team. Lee worked on the organizational structure that would carry out the currency reform. In designing the structure, he put the main office of the Bank of Korea at the top as the central organization, supported by the branch offices as managing units, while designating the branches of financial institutions as the basic units to execute the currency reform. Each organization was assigned a personnel team. Kim worked on the logistics including the transferring, distribution, and storing of the new currencies as well as the collection of the old currencies.

Interestingly enough, making duplicate copies of the draft with the laws and regulations of all things turned out to be one of the most difficult challenges of the entire process since photocopiers did not exist at the time. As time consuming as it was, it was manageable for me and Bae Soo Gon at first considering we only had to make a few duplicate copies. But after several drafts of the proposal, I quickly saw that we desperately needed help. So, I brought in Oh Si Han of the Planning and Research Department, and Kim Se Hee and Kim Hak Shin from the same department, to help us. In retrospect, it’s silly to think that a considerable amount of time and resources was spent on something as simple as making copies in undertaking something as significant as Korea’s first currency reforms. But, the contributions of those that worked in making the duplicates should not be forgotten, considering the tremendous weight and pressure of...
this landmark undertaking. These individuals more than met the
challenge and were the unsung heroes of the first currency reforms in
Korea.

We finally completed the final legislative draft of the currency
reform in January 1953. In early February 1953, Reed, the director of
the Finance and Banking Department at the US Military Government
in Japan, was dispatched to Korea on the recommendations of Rear
Admiral Byron Hall Hanlon, US Representative of the ROK-US
Combined Economic Board. Reed was an expert in these matters,
and also took part in Japan’s currency reform. Of course, the
currency reform needed to be translated into English for Reed to be
able to read it. This proved to be a challenge which I and Bae Soo
Gon with the help of Kang Young Nam, managed to overcome with
a bit of resourcefulness. I even managed to answer all of Reed’s
questions, mostly due to my complete knowledge of the reforms
rather than my English fluency. At the end, Reed was able to
understand our plan, being an expert in this field and having had
prior experience in Japan.

The final legislative draft of the currency reform was adopted
with no further amendments in a meeting that was chaired by the
Finance Minister Paik Too Chin and attended by Bank Governor
Kim Yoo Taik, Depunty Governor Song In Sang, Kim Byung Ok,
Bae Goo Kon, Lee Sang Deok, and myself. Minster Paik went to
Seoul to obtain the approval from President Syngman Rhee, as the
measures would be announced as a presidential emergency order.
The emergency order was to be accompanied by an address to the
country, which we had also prepared for the President. But, the
President decided to personally draft a statement, which I thought
showed his appreciation of the importance of the reform measures. A few days later, President Rhee sent a letter to Minister Paik, written in Old Korean, which made it difficult to understand, but we were not allowed to change the contents of the statement. So the statement was announced without any changes.

The announcement of the emergency order was to be made on February 15, 1953, the second day of the Lunar New Year. We chose to make the announcement during the Lunar New Year holidays to minimize any disruptions from the reform since many would have done their shopping already. It was thought that it would be better to execute the reforms under a presidential emergency order as prescribed in the constitution to ensure total discretion, as the National Assembly would have been in recess for the holidays. Five days before the announcement, we began printing copies of the president’s statement and the entire emergency order outlining the currency reform that were to be distributed across the nation. The copies were printed at the Korea Mint Corporation located in Dongrae, Busan. Minister Paik and Lee Chi Young, a Director of the Ministry of Finance, personally went to the printing press and oversaw the entire project. Na Jung Ho, a representative of the printer, was given the order to print the copies. The place was completely surrounded by the military police, and made off-limits to anyone. The families of the employees at the printer’s were told that they were working on a problem and would return home once it was fixed.

I was also in charge of mimeographing all the documents including the President’s statement, the Presidential Emergency Order, the Enforcement Decree, the laws and regulations, the
designated regions for each financial institution, and the logistical plan for distributing, transporting, and storing the newly minted currencies. At the time, Kim Jin Hyung, the Bank Deputy Governor from the Tokyo branch, was assigned to the main office, but had not arrived yet. The Bank had arranged housing for him and his family including his oldest son, Kim Chae Yeon, to live there. I decided to do all the mimeographing at his house. I gathered up Bae Soo Gon, Kim Se Hee, Kim Hak Shin, and Oh Si Han, all of whom were working with me, Ahn Jong Ki, and a few of staff from the Research Bureau at the Bank of Korea that were experienced in mimeographing, and we went to the house. We started work, prohibiting anyone except for me and Bae Soo Gon from leaving the house.

It was a considerable amount of work mimeographing 500 copies of all the documents related to the currency reform. Everyone was assigned a job: writing on stencil papers with a steel pen, proof-reading, mimeographing, and binding. After a while, we began to work slower, as our hands and arms tired and numbed, but we pushed ahead, helping and encouraging one another, completing 500 copies around noon on February 14. We did not get a wink of sleep for five days. We were all literally exhausted. Making sure no one left the house, I took the copies to the Mijin Hotel with Bae Soo Gon, Kim Se Hee, Ahn Jong Ki and Kim Hak Shin, using a truck lent to us by the bank. The printed copies from the Korea Mint Corporation under the control of Lee Chi Young from the Ministry of Finance also arrived. Also, a truck load of packages, prepared by Lee Sang Deok, filled with a toothbrush, soap, a towel, razors, underwear, and socks, were given to the bank staff that were going to manage and execute the currency exchange all across the country.
Back at the Bank of Korea, a bulletin went out earlier in the morning on February 4, giving notice of a Lunar New Year’s Day celebration party hosted by the Bank Governor at the Mijin Hotel in Songdo, and requiring all Bank staff to attend. After dinner at 8 PM, the Governor explained the background and objectives of the currency reform to about 200 staff members. He ended by wishing everyone well and by encouraging them to successfully complete their objectives and to represent the bank with honor.

Finance Minister Paik convened an urgent cabinet meeting at 9 PM, obtaining a unanimous approval on the currency reform. Immediately after the cabinet meeting ended at 11 PM, he went to the Mijin Hotel to encourage the staff members. At a port in Busan, the new currencies began to be shipped off on two naval vessels, sent by Rear Admiral Hanlon at the request of the Finance Minister.

I gave a briefing to all the staff members and answered any questions. They all intently read the laws and regulations, with a look of purpose and seriousness as they would be at the branches of other banks managing the whole process. The staff asked good questions one after another. The meeting lasted until early dawn, when all the Bank staff departed for their assignments with a look of intentness but still feeling somewhat uneasy. At the time, public order and safety could not be maintained in Korea. Some regions were known for having armed militant communists.

I left the Mijin Hotel, stopping by my home to assure my wife, and then, I went to the main office from which the entire process was being managed. Its main responsibility was to prevent diversified deposits and fraudulent reports, address any questions regarding the
laws and regulations, and help the Bank’s staff working at the branch offices of financial institutions. It was also responsible for planning on partly suppressing the excessive purchasing power by collecting and computing the exchange coefficient between the old and new currencies.

After the Presidential Emergency Order was issued, the National Assembly was convened on February 19, and approved the President’s order on February 21 by an overwhelming majority. A summary of the first stage of currency reform is provided below.

1. The distribution of, or transactions in, old currencies are prohibited. Hereafter, the issuing of only new currencies will be permitted.
   1) Effective from February 17, 1953, distribution of old currencies, including the Bank of Korea bills denominated in won, the Bank of Chosun bills denominated in jeon, and the bills and coins issued by the Japanese government, is strictly prohibited.
   2) Effective from February 17, 1953, the withdrawal or payment of deposits, including cash, savings, installment savings, trusts, and temporary receipts, held by banks, financial cooperatives, and post offices, is strictly prohibited for nine days.
   3) Transactions in old currencies or deposits, as mentioned above, are strictly prohibited.
   4) Effective from February 17, 1953, new bills or coins denominated in hwan, jeon, and li will be issued by the Bank of Korea. The new currencies will be legally enforced and no restrictions will be imposed on transactions with such new currencies.
(5) The exchange rate between the new currency and the old currency shall be 1 hwan to 100 won.

2. Payment orders for old currencies and checks denominated in won shall be deposited in financial institutions during the emergency currency reform period from February 17, 1953 to February 25, 1953. Bank notes denominated in won owned by individuals and corporations, and promissory notes, checks, and postal money orders issued before February 27 shall be deposited in banks or financial cooperatives for nine days from February 17 through 25.

3. Receivables from financial institutions and payables to financial institutions shall be reported.
   (1) Individuals and corporations shall report to the designated financial institutions monetary receivables such as bank deposits and payables such as borrowings for nine days from February 17 through 25.
   (2) If monetary receivables such as bank deposits are not reported, the claims to such receivables shall be forfeited.

4. The individuals, who deposited their payment orders such as bank notes or checks denominated in won, shall be entitled to receive 1 hwan per every 100 won to cover living expenses with the maximum of 500 hwan.

5. Special considerations shall be given to travelers.
   (1) An individual, who is not in his or her residence for traveling or other reasons, shall be entitled to 1 hwan per every 100 won with the maximum of 500 hwan. Also,
deposits of old currencies in excess of 50,000 won, payment orders denominated in won, monetary receivables/payables from and to financial institutions in the designated financial institutions, shall be permitted on a one time basis until February 25, by proof of exchange certificate for travelers. The old currencies can also be reported.

(2) If the individual fails to deposit or report the old currencies, etc. due to travel overseas, employment on a ship sailing overseas, or other unavoidable reasons, old currencies are allowed to be deposited or reported after the due date with an approval from the Minister of Finance.

6. Special considerations shall be given to medical expenses or funeral expenses. In special cases of illness or death, medical or funeral expenses can be covered with funds from the monetary receivables deposited in financial institutions.

The execution of the first stage of the currency reform went as well as it could have, largely due to the well designed plan and dedicated staff of the financial institutions including the Bank of Korea who participated.

As for the second stage of the currency reforms, the law to block the surplus purchasing power was submitted for approval to the National Assembly on February 25. The law was first reviewed by several committees in the General Assembly including the Finance and Economic Committee, and the Legislation and Judiciary Committee, before being tabled for the General Assembly. After not being approved by the Assembly on the first day, the second stage of the currency reform was enacted on the next day following intense...
inquiries and debates. But, the original draft was watered down; the measures to suppress excessive purchasing power were limited and weakened in the new amended version compared to the original draft. The original bill draft sought to apply a basic deduction of 1,000 hwan, while any amount in excess of 1,000 hwan was supposed to be classified into various types of time deposits and subject to a progressive rate. However, the original bill was seen as too extreme in the eyes of the National Assembly, which thereby, raised the basic deduction to 3,000 hwan and reduced the number of the time deposits categories.

For the two days from February 25 to 26, when the legislation was being reviewed, the Finance Minister and the Governor of the Bank of Korea tried to win over the Assembly members and nearly succeeded in passing the original draft without any amendments. But, at the final stage, two prominent figures of the Assembly said: “If the original bill is passed without an amendment, the Minister of Finance will be a hero.” That took the wind out of our sails, and the original draft was watered down. The Finance Minister was not affiliated to any party, but he was associated with the National Youth Corps of the ruling party because he had been the chief finance officer of the group before he became the Finance Minister. The original draft sought to put a cap on the money supply of more than 3 billion hwan and to gradually inflate the money supply step by step, conditions that would allow Korea to conduct the war and reconstruct its economy at the same time. But the amendments by the National Assembly significantly reduced the cap on excessive purchasing power to approximately 1.3 billion hwan, and the effective blocked purchasing power, including the collected amount of taxes and loans in default, was reduced to 2.3 billion hwan.
The original version of the draft failed to win support of the National Assembly, despite the considerable efforts of the Minister of Finance and the Bank of Korea to explain the rationale and economic basis of the currency reforms. Personally, the whole ordeal left me feeling discouraged and disheartened about the political process in Korea.

Inflation surged due to a significant increase in the money supply, a result of low production and huge expenditures from the Korean War. The purpose of the currency reform was to mop up some of the excess liquidity, the root cause of the inflation, and also to induce payment of outstanding advances made to the UN Forces, which accounted for more than 60% of the money supply at that time. At the end of 1952, the money supply exceeded 1 trillion won, nearly 600 billion won of which were the advances.

Negotiations between Korea and the US on repayment of the advances to the UN Forces were on-going since the beginning. But only a portion of the advances were paid by 1952, leaving nearly 600 billion won still outstanding. In President Syngman Rhee’s statement to the nation regarding the emergency currency reform, he wrote: “Recently, our US friends began to understand that advances to the UN Forces have been a cause of inflation, and they have promised to pay off the advances with US gold.” There was an implicit agreement that the US would repay the outstanding advances if the Korean government implemented strong anti-inflationary policies.

On February 25, Rear Admiral Hanlon, the US representative of the ROK-US Combined Economic Board (CEB), flew to Seoul from Tokyo, and met the Finance Minister, when the National Assembly
was deliberating the second stage of the currency reform. The Admiral was based in Tokyo since he was also in charge of the Department of Supplies at the UN Headquarters in Tokyo. He conveyed to the Finance Minister the US view that the currency reform in Korea had been well executed, especially the discreet manner in which it was carried out. The US Pentagon also praised the currency reform. The admiral also told the Minister that the National Assembly should have supported the government’s reform efforts. He also said that he had strongly recommended the expedient repayment of the outstanding advances to the UN Forces, as the reform would result in positive effects under any conditions. The admiral proposed to make a repayment of USD 86,860,000 based on the exchange rate of 16,000 won to the dollar for the outstanding advances. The decisive policy response to fight inflation made the repayment of the advances to the UN Army possible, establishing a strong base for the new currency-hwan. The foreign exchange from the repayment of advances was used to fund loans to restore and build manufacturing facilities. It also led to an agreement between Korea and the US that, from then on, new advances should be repaid the next month, which would help prevent inflation resulting from lags in payments.

The outcome of the currency reforms can be evaluated in a variety of ways, but I want to refrain from giving my own evaluation, as it is something that should be conducted by a third party. But, I will say that there was no better alternative to currency reform at the time.
Korea's Accession to the IMF and IBRD

In June 1953, I was given an opportunity to work at the Federal Reserve Bank of New York and the Federal Reserve System, the US central bank, in Washington DC. I was joined on my assignment to the US by a colleague, C. P. Song, who was sent to Chase Manhattan Bank to work in the foreign exchange department.

I was assigned to the Research Division at the US Fed, where Dr. Arthur Bloomfield, who had been involved in drafting the Bank of Korea Law and whom I knew well, also worked. I spent my time studying and researching the US financial system and its financial markets from a practical rather than theoretical perspective. I thought this would be more helpful after returning to Korea. I compiled a great deal of information, and gained an in-depth understanding of the US financial system, market, and policies, which were really too advanced to be of any immediate application to Korea’s financial system.

At the time, Korea was seeking its membership in the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). The application effort was led by the Bank of Korea. The IMF and the IBRD were established under the Bretton Woods Agreement of 1944. The IMF was responsible for promoting international currency cooperation, expanding global trading, stabilizing foreign exchange rates, reducing limitations on foreign exchange, and redressing temporary international imbalances using its funds. The IBRD was responsible for reviving the global economy after the World War II, and promoting long-term and private investment to help developing
countries. The IMF provided its member countries with certain benefits such as short-term foreign currency loans to redress imbalances in the international payments, while the IBRD provided long-term loans for the development of its member countries. The mandates of the two organizations were in line with Korea’s policy imperatives: being part of the global economy and post-war economic reconstruction.

Since its inception in 1950, the Bank of Korea conducted research on the two organizations, and the membership application process and conditions for membership. By February 15, 1953, after the currency reform, the Bank of Korea believed that the conditions had ripened for Korea to seek membership into the organizations, as its economy had been stabilized, and its foreign exchange reserves replenished from the repayment of advances to the UN Forces. After Kim Yoo Taik, the Bank’s Governor, explained to the government the merits of Korea’s membership to the organizations, and Song In Sang had received a favorable response from the organizations of Korea’s intentions to seek membership, negotiations began through diplomatic channels between Korea and the US.

Soon after, the Bank established a representative office headed by Yoo Chang Soon (later to serve as Prime Minister), in New York on December 1, 1953 to work on the membership application. I, along with C. P. Song, was appointed as a councilor of the New York office on December 2, 1953, when the office first opened. Finally, on April 16, 1954, a formal application for membership was submitted to the two organizations.
After Korea submitted its applications for membership, I was sent to the IMF to coordinate the application process, and to act as a liaison. At the IMF, I was officially assigned to work with Dr. C. C. Liang, head of the East Asia Division. Since we worked together, I naturally came to know a lot about what the division did, and was made privy to a lot of information regarding Korea’s membership. One day I heard about Dr. Liang’s concern of not being able to calculate Korea’s membership quota due to a lack of data. The quota was a critical element of the application approval process, which was supposed to be reviewed by the committee by July and finally approved during a meeting of directors from the IMF and IBRD in August. Absent of the information, he said, Korea might not be able to receive its membership that year. The calculation of a country’s membership quota was based on the country’s basic statistics that dated a few years before 1944 when the Bretton Woods Agreement was established. The statistics used included a country’s national income, exports and imports, invisible trade balance (for services and earned income), foreign exchange transactions, foreign exchange reserves, and the official reserves, which were weighted when calculating the final quota. The statistics on a country’s national income was the most important data and was the most weighted in the calculation. In Korea’s case, the lack of data on its national income made it impossible to calculate it; meanwhile, some of other data on trade and foreign exchange transactions were unreliable, making the job of calculating Korea’s quota almost impossible.

After hearing Dr. Liang’s concern, I volunteered to help find and compile data on the statistics needed to calculate the membership quota, if allowed by the IMF. I remembered reading some of the books and records left behind by the Japanese after Korea’s
liberation, and seeing some data on Korea’s national income, calculated by Japanese economists. I also thought that some of the data kept by the Bank of Chosun could be used to approximately compute the amount of the trade balance, the invisible trade balance, and the foreign exchange transactions. The IBRD’s library was the first place I looked but it failed to yield information. The records on the Annual Economic Reports or Monthly Research Reports kept by the Bank of Chosun failed to produce any information on Korea’s national income. Disappointed but undeterred I took my search to the Library of Congress, known for its massive book depository. There, I uncovered a book written by a Japanese professor named Hijikata from Tokyo University and a collection of manuscripts written by Professor Shikata of Kyungsung University, which contained information on Korea’s national income. I also found more records of Annual Economic Report and Monthly Research Reports issued by the Research Bureau of the Bank of Chosun. With the newly uncovered data, I spent days at the Library of Congress compiling the data necessary to calculate the statistics, and then computed Korea’s national income, trade balance, invisible trade balance and foreign exchange transactions, based on reasonable assumptions. With copies of the evidence in hand, I submitted my findings to Dr. Liang, who could read Japanese. After reviewing the data and the sources, and asking me further questions, Dr. Liang used the findings in its entirety in computing Korea’s membership quota. In early June, a draft of Dr. Liang’s report with his recommendations on Korea’s application was submitted to the approving committee which was established in May. The committee agreed on the computation of the membership quota, which was followed by a few more discussions on Korea’s economic condition and outlook. At the end of June, Korea’s membership to the IMF and IBRD was approved.
Korea’s membership quota totaled USD 25,000,000: USD 12,500,000 for the IMF and USD 12,500,000 for the IBRD. Upon receiving this information, I went to the Western Union, and sent a wire to Kim Young Chan (later to serve as Minister of Commerce and Industry), the Senior Deputy Governor of the Bank of Korea, who led the taskforce on Korea’s membership to the two organizations. I also sent a detailed report by mail, and then, took a train back to New York from the Union Station in Washington DC.

On September 24, 1954, Korea officially became a member of the IMF and the IBRD after securing an approval of absolute majority at the organization’s ninth general meeting. After the approval had been secured, the membership fee of USD 25,000,000 should have been allocated by the government for prompt payment. Unfortunately, the government didn’t, and so the Bank of Korea made the payment instead, on behalf of the government. It took a few years for the government to repay it. It revealed the government’s lack of vision to see the significance of a country like Korea becoming a member of the two organizations, and the great assistance and financial support Korea would receive from the two organizations, which contributed to Korea’s rapid economic ascent in the 1960s and 1970s. As Kim Yoo Taik, the Governor of the Bank of Korea at the time, wrote in his memoir, Korea was able to join the IMF and IBRD much faster than expected, through the concerted efforts of the Bank of Korea, led by his decisiveness and relentless drive, not by the government’s efforts.

I was originally supposed to work at the Federal Reserve Bank of New York for a year; but after only four months there, I ended up joining the efforts to secure Korea’s membership into the IMF and
IBRD, which led to six months of work at our branch office and three months at the IMF. I returned to Korea after a 13-month work assignment in the US. While I was in the US, I managed to collect a variety of data regarding the US financial system and market. On occasion, I translated *The ABC of the Federal Reserve System*, published by the Federal Reserve Board, a reference book on the US central bank system and financial policies, into Korean. Though somewhat disappointed that the US system could not be of immediate application in Korea, I was glad to have been able to contribute in securing Korea’s membership into the IMF and the IBRD.
Against All Odds: The Trials and Triumphs of a Technocrat

5. Political Turmoil and the Second Currency Reform
6. Stock Exchange Reform
7. Export-Oriented Industrialization and Market Liberalization
8. Tax Reform and GATT Accession
9. Electricity, Steel, Petrochemicals, and Export Promotion
Director-General of the Bureau of Finance in Turbulent Times

After studying at Clark University in Massachusetts in 1958-59, I earned a Master’s Degree in economics, which was sponsored by the Bank of Korea, and subsequently returned to Korea. A month after my return, Song In Sang, Deputy Governor of the Bank of Korea, was appointed as the Minister of Finance on March 20, 1959. He then asked me to take the position of Director-General of the Bureau of Finance at the Ministry of Finance.

I very much enjoyed working at the Bank of Korea as a central banker. I thought that I would spend the rest of my professional life working at a bank, having been trained and schooled in the profession from a young age, and it being my father’s chosen profession. I believed I made truly meaningful contributions to the national economy during my time at the bank. I had earned a good reputation at the bank through hard work and dedication, and I thought I could one day rise to be one of the leaders of the bank.
However, the Governor and the Deputy Governor of the Bank of Korea wanted me to accept the position with a pledge to support everything. I spoke to my father, who was the president of the Cho Hung Bank at the time, about the opportunity. I sensed my father’s apprehension when he spoke of the difficult demands of such a position; the scrutiny and uncertainties that accompanied it, especially with the upcoming presidential election in the spring of 1960. Regardless, the Governor and the Senior Deputy Governor of the Bank of Korea thought me the man for the job and pledged their full support. And my colleagues and staff at the Bank were very supportive and encouraging of me to take the position both personally and professionally, going as far as offering to help me in my new position.

But there were other considerations that went beyond me for taking this position, which was probably why I decided to take the position in the first place. As I mentioned earlier, the laws under which the Bank of Korea had been founded, based on the recommendations of the experts from the US Fed, ensured the Bank’s independence and autonomy. Perhaps more important, the Bank’s mandate was founded on the principles of democratization of finance. But ever since it was established, the Bank’s independence and autonomy has always been a contentious issue when it came to the Ministry of Finance. In 1956, the Finance Minister, In Tae Sik, tried to amend the law in order to strengthen the Ministry’s authority and control over the Bank. Kim Yoo Taik, then the governor of the bank, who vehemently opposed this, eventually resigned over it. After the Governor’s resignation on December 12, 1956, the efforts of the Ministry to amend the law were halted for the moment, but the tenuous relationship between the Ministry and the Bank only worsened.
Together with Song In Sang’s appointment as Minister of Finance, it was believed that if an employee of the Bank was appointed as the Director-General of the Bureau of Finance, then the Bank’s independence and autonomy would be ensured. Despite my many misgivings, I accepted the appointment, becoming the 8th Director-General of the Bureau of Finance on April 10, 1959. The stature and scope of the Director-General’s responsibility was seen as being on the level of the Deputy Governor of the Bank of Korea. My lack of experience and stature was cause for dissension among some in government. So it was proposed that I take a special examination to be a public officer; an exam that was more difficult than the test typically administered to appointees selected by the Minister, unless the candidate was qualified due to education or experience. I was exempted from an English test since I obtained a master’s degree in the US. But, I had to take a very difficult exam covering economics and Korea’s constitution and administrative law.

In addition, the Finance Minister appointed two more people including Yun Seung Doo, from the Bank of Korea, as his secretary, and Park Seung Bok (later to serve as head of the Office of Cabinet Coordination) from the Korea Development Bank, as the Director of the General Affairs Division. The Bureau of Finance was made up of five departments including the National Treasury Division, the Financial Division, the Foreign Exchange Division, the Management Division responsible for securities and insurance businesses, and the Main Account Division responsible for government accounting and contracts, and accounting systems. The scope of responsibility of the Director-General of the Bureau of Finance is on par with the Assistant Deputy Minister of Finance nowadays. As written in his memoirs, Song In Sang entrusted the Director-General to handle all
matters relating to the Bureau of Finance, especially those related to financial institutions, in the first meeting at the bureau. He reiterated that the Monetary Board should act independently in fulfilling its mission according to the Bank of Korea Law. The Monetary Board and the Bank of Korea were also made aware of this mandate. The most difficult job of the Bureau of Finance was to establish and implement annual, quarterly, and monthly plans to stabilize the financial sector and the economy, and to oversee the foreign exchange market.

Financial and Economic Stabilization Plan

On May 24, 1952, the Combined Economic Board was established according to the agreement between Korea and the US on economic coordination. It set up a subcommittee on finance and economy, which was chaired by the Minister of Finance. Within the Finance and Economic Subcommittee, another subcommittee was created, which was chaired by the Director-General of the Bureau of Finance. As a condition of US aid, Korea had to draw up a road map for financial and economic stabilization in 1957. Driven by free competition and market-based principles, the US believed that quickly reining in Korea’s rapid inflation, in which prices increased by 30% per year, was imperative. The Korean government had no alternative to accepting this condition. The Finance and Economic Subcommittee was supposed to establish and implement the plan with support from its own subcommittee.
Korea’s financial and economic stabilization plan had to be a very comprehensive and prescriptive implementation plan since expenditures that went over the budget or were not included in the budget needed to be approved by the US and Korean government. The plan’s performance had to be monitored on a monthly and quarterly basis by the two countries. Even approved government expenditures could not be funded if it was not included in the monthly or quarterly plan. Budget constraints made the job of allocating budget to the government ministries quite difficult. The ministries were eager to secure government funding since the success of their programs depended on the amount and conditions of the funds. At times, members of the US advisory team in charge of aid to Korea, which participated in the Economic Subcommittee, lobbied in support of a ministry. At other times, the US government was so consumed with stabilizing Korea’s economy that it went as far as to intervene in the domestic policies of Korea. It was very difficult to allocate funds and to manage the funding priorities of the ministries under a constrained budget. I was fortunate to have had a deep understanding of Korea’s industries, which I gained working at the Bank, as it came very handy while working on the financial and economic stabilization plan. I was able to focus on determining the total budget amount for each of the sectors or policy funds, while letting the ministries, government agencies, and financial institutions prepare the detailed expenditures.

To stabilize the money supply, I tried to benchmark the expansion of the money supply by letting it rise below a certain level and to minimize fluctuations in the money supply due to seasonal effects. Once the money supply was stabilized, policy efforts could focus on raising production capacity, increasing the supply of electricity and
coal, promoting SMEs, and supporting the agricultural sector by offering loans with mortgages on rice.

Since 1954, Korea and the US had agreed on 51 initiatives in the manufacturing sector which were planned for completion in 1957. Many of the initiatives focused on import substitution, which required four or five years to complete. By the time I became Director-General in 1959, the projects had not been completed. As it was a priority for the Ministry of Commerce, and Industry to complete the projects, I put every effort into providing support to SMEs. However, my efforts failed to produce any considerable results in the face of many difficult challenges including a lack of capital, technologies, management capabilities, and electricity shortages. At the time, Korea did not possess the necessary understanding and leadership in economic development both in the private and public sectors.

The years from 1957 to 1959 can be considered a period of stabilization in Korea’s economic history. Inflation was subdued shown by the drop in the rate of annual price increases, which hovered at 2 or 3% from 1957 to 1960, compared to the annual price increase rate of more than 30% experienced from 1953 to 1956. This was a result of the strong and efficient implementation of the financial and economic stabilization plan.

During my time as Director-General, Korea’s economy stabilized but grew at a slower pace. After peaking in 1957, economic aid from the US started to decrease. This was particularly more pronounced in project aid, or so called investment aid, which was reduced dramatically, falling to an annual average of USD 38,000,000 from...
1958 to 1960 from USD 88,000,000 from 1954 to 1957. Instead, program aid, mainly grain and fertilizers, increased. The large drop in project aid contributed to the slowdown of GDP growth from 3.9% in 1959 to 1.9% in 1960.

**Exchange Rate Policy**

Every Minister of Finance since the Korean War had grappled with the issue of foreign exchange. President Syngman Rhee had a strong, firm position in regards to the issues of foreign exchange policy and relations with Japan. Not a single dollar could be paid without his approval. The President wanted a strong Korean currency policy, as advances to the UN Forces and US economic aid were both denominated in US dollars. Suffice to say, the President thought that the Ministry of Finance’s agreement between Korea and the US to devalue the Korean currency was wrongheaded.

On February 25, 1953, the Korea-US Combined Economic Board calculated the UN Forces’ outstanding advances based on the exchange rate of 160 hwan (or 16,000 won) to the US dollar, resulting in USD 86 million. Once the UN Forces repaid its outstanding advances at the exchange rate of 160 hwan to the dollar, it was agreed that a new exchange rate of 180 hwan to the dollar would be applied to new advances to the UN Forces, thereafter. The exchange rate was supposed to be adjusted based on the monthly price index. In August 1953, the UN Forces demanded a downward adjustment to the exchange rate based on the increase in the price index. However, the Korean government kept the exchange rate of 180 hwan to the dollar.
On October 1, 1953, Lee Joong Jae, the Minister of Finance, stopped providing advances to the UN Forces as a way to ratchet up the pressure on the US. In response, the UN ceased importing oil to the Korea Oil Storage Company (KOSCO), which in turn could not provide oil to the local market. This would end up causing a so-called “oil shock” in Korea.

After tensions between Korea and the US subsided, the hwan expenses of the UN Forces were repaid by publicly selling foreign exchange through the Bank of Korea. After that, a different exchange rate was applied depending on the circumstances. Besides the official exchange rate, a different exchange rate was applied for the public auction of dollars by the UN Forces and commercial purchases by the International Cooperation Administration (ICA); while another exchange rate was applied for foreign currency earnings from exports. Finally in 1955, negotiations between Korea and the US began on establishing a single common exchange rate. Again both sides were in disagreement on what that should be. The US argued for an exchange rate of 700 hwan to the dollar, while Korea believed the rate should be 360 based on the Bank of Korea’s weighted average rate that was applied to the commercial purchase of aid goods. After difficult negotiations, a single, common exchange rate was agreed at 500 hwan to the dollar on August 12, 1955. This rate was to be applied on all foreign exchange transactions including advances to the UN Forces and foreign aid. The agreement was formalized on September 1956. Under the agreement, the single common exchange rate of 500 hwan to the dollar was to take effect as of September 1956, and was only to be adjusted if the price index increased 25% or more compared with the average wholesale price index of 100 as of September 1956. The rate of increase was to be in line with the increase rate of the price index.
When I was appointed as the Director-General of the Bureau of Finance, the agreement on a single rate had been formalized nearly two and a half years earlier. The wholesale price index had increased almost by 25%. In light of the sharp increase in the index and the eventual consequences of such an increase, the Minister of Finance, Song In Sang, knowing the President was keen to maintain a stronger currency, urged me to look into measures aimed at ensuring the value of the currency.

In formulating the financial stabilization measures, I sought to suppress and manage aggregate demand, while being cognizant of the effects of the supply and demand of money on price stability. Besides reviewing the reports on wholesale prices prepared by the Research Bureau of the Bank of Korea every ten days, I was on the telephone everyday to get reports on prices of major goods. Necessary measures were taken accordingly, utilizing every means in banking and finance at my disposal. I also made every effort to draw cooperation from other ministries; for example, the utilization of transportation and aid funds, import controls, and regulations on hoarding and cornering the market. There were constant debates on price policies for rice and fertilizers within the government as well as the National Assembly. Anytime the government sought to publicly sell its own foreign currency to tighten the money supply or pay for essential imports, it had to be approved by the President. Obtaining President Rhee’s approval was by no means easy, as the President believed that a country’s power was reflected in its foreign exchange reserves, taking every dollar to heart.

Despite the government’s concerted efforts, the wholesale price index increased by more than 25% compared with the September
1956 base level in early 1960. As a result, the single fixed official exchange rate had to be reset at 650 hwan to the dollar on February 23, 1960, after long and hard discussions with the US. I personally wanted to devalue the hwan more to reflect expected price increases over the next two or three years. A more stable exchange rate over a longer period of time would have contributed to stabilizing the economy. Alas, it was not to be, as President Rhee did not want to devalue the currency any further.

The 4.19 Revolution and Democratic Transition

The rigged elections of March 1960 set off the student revolution of April 19, 1960. I could clearly see the student demonstrations against the government from the window of my second floor office at the Ministry of Finance, where the Kyobo building now sits. The demonstrations reached a high pitch in the afternoon of April 19, when shots rang out from Gyeongmudae (Blue House), scattering the demonstrators toward the National Assembly. The gunshots fired by the police, which I initially thought were nothing more than warning shots, were actually aimed directly at the crowd of demonstrators. I was not prepared for what happened next. One of the students marching at the front was shot and fell to the ground. The events of that tragic afternoon left me dejected and uneasy. I felt sad about what happened, and troubled about what lay in our nation’s future.

Left but no choice, President Rhee stepped down. On April 28, an interim caretaker government was established. With the nation stirred, the political reckoning went beyond the Office of the
President. Nearly all of the members of President Rhee’s government was either arrested or went into hiding. No one from the Ruling Party was safe, not even the mayors and governors.

With the President ousted, Song In Sang resigned as the Minister of Finance. Yoon Ho Byeong, an old hand of the financial industry, was appointed as the Minister of Finance. Song In Sang’s departure left me with no reason to stay in government. So, I tried to return to the Bank of Korea. But, the new Minister of Finance did not want to appoint someone new as the head of the Bureau of Finance, so as to respond quickly the crisis and to ensure a smooth transition to a new government. The Minister’s decision to keep me at the Bureau of Finance left me in a precarious situation to say the least. I knew there were those who doubted or even questioned as to why I had not been one of those arrested. I had mixed emotions and felt deeply uneasy about the situation. I tried to stay focused on my duties and responsibilities at hand.

Not before soon, the Finance Minister summoned me. It was during our discussion that the Minister had revealed to me that some members of the new government believed the arrest of some of the Director-Generals of the old government would bring political stability. He went as far as to tell me that as the Director-General of the Bureau of Finance, I would have had to be involved in the illegal absconding of political funds as some would have it, therefore, I should have been arrested. But, the Minister drew on his prior experiences in banking and finance as a former president of Seoul Bank, and concluded that the Director-General of the Bureau of Finance would not have necessarily been involved in illegally diverting political funds. So, the Minister encouraged me to continue
with my duties, though I would still be under investigation. I felt a
great sense of relief, like a dark cloud over my head had been lifted.
If it were not for Song In Sang’s efforts to maintain the Bank of
Korea’s independence and Minister Yoon’s practical experiences in
banking and finance, and the Ministry, I would have been caught up
in the political upheaval. I remain indebted to them to this day.

For days, the prosecutor’s office, led by a young, up and coming
prosecutor, conducted an investigation into my role as the Director-
General, which had considerable responsibilities in the affairs of
treasury, finance, foreign exchange, securities, insurance, and
government contracts. Each area of my responsibility was assigned
five or six prosecutors. I was subjected to endless interviews and
questions. I knew I would have been let off if I had said that I was
conducting my duties as I was instructed by my superiors; but I took
full responsibility for my work as the Director-General, and for the
outcomes of my decisions. But, I knew even this would come to a
pass. Later, I was told that I was one of the few under investigation
that did not lay ownership of their responsibilities or mistakes on
their superiors. In the end, my name was cleared; I was found
innocent of any wrongdoing and allowed to resume work.

Despite everything that had happened, the transition to a new
government was managed fairly well during the four months by the
interim government, which turned over the reins of the government
to the newly established Democratic Party-led government on August
19, 1960. Kim Young Sun, an influential figure in the new
government headed by Chang Myon, was appointed as the Minister
of Finance. After staying a month longer until my replacement was
appointed on the request of the Minister, I submitted my resignation.
to return to the Bank of Korea, officially ending my tenure on
September 16. I managed to have spent a year and a half in
government as the Director-General of the Bureau of Finance, a
turbulent period that saw three different governments led by the
Liberal Party, the interim administration, and the Democratic Party.

At the Crossroad of Life

The 5.16 Revolution and its Repercussions

After a brief stint as an expert member of the Korean delegation
in diplomatic normalization talks with Japan, I was appointed as the
head representative of the Bank of Korea’s New York office on
March 10, 1961. It was a good opportunity to learn more about the
financial markets and economic policies of the US, and the global
economy. I arrived in New York one month after my appointment. I
was familiar with New York, having spent over a year working in an
internship and the Bank’s New York office in 1953. So I was well
acquainted with the city, and many people both at the New York
Federal Reserve Bank and in Wall Street.

Soon after I arrived in New York, the 5.16 Revolution had broken
out. A group of army officers led by General Park Chung Hee had
seized power through a military coup on May 16, 1961. With no way
of contacting the head office, relying only on what was in the news
for information, I could only imagine what was happening in Korea.
Not even the Korean Consulate General in New York knew of
anything. So I didn’t have much to say in response to queries from
US financial institutions on the situation in Korea. Desperate for some information, I rushed off to Washington DC, where I knew a few Director-Generals of the Ministry of Finance were in town for some meetings with the US government. My journey proved fruitless, the ministry officials had not received any news from Korea, nor from the Korean Embassy in the US. All they were told was to return to Korea as soon as possible.

On May 30, I was informed that Yoo Chang Soon was appointed as the new Governor of the Bank of Korea, while an army colonel of the revolutionary government was dispatched to the Bank as an inspector, with his assistant, an army lieutenant colonel. A month later, the political situation in Korea had stabilized and things sort of went back to normal.

As I prepared to return to Korea, I worried about the uncertain future that lay before me. On the day I was to make my return in September, I received a reassuring call from Chang Ki Young, the owner of the Hankook Ilbo, who explained to me the details of my order to return to Korea. Reassuring me that I had nothing to worry, he explained that my order to return to Korea was because of a misunderstanding on the part of the new military government, and that the misunderstanding had been straightened out. I was so grateful for his words. He had looked after me since I began working at the Bank of Korea. On October 10, 1960, I returned to Korea with my family after a six-month stay in the US.

A few days after I resumed work at the Bank, I was approached by the Korea Central Intelligence Agency (KCIA), which sought my help on various economic issues. I declined the offer, recollecting the

Political Turmoil and the Second Currency Reform
hardships I experienced working in government as the Director-General of the Bureau of Finance at the Ministry of Finance. I was convinced after the difficulties I experienced that I did not want to work in government again, and turned down multiple attempts by the agency to recruit me. I could not understand why they wanted me to help them. The whole situation seemed so random that I was not open to discussing their offer. Eventually, the Governor of the Bank intervened on the behest of KCIA’s head to persuade me to take the job at the agency. The Governor, essentially, gave me an offer I couldn’t refuse. But considering that my career at the Bank was somewhat up in the air, it seemed like the only way I could decline the offer was to leave the Bank.

The Second Currency Reform

I began work at the KCIA as an advisor of the Policy Research Office, which was made up of a team of experts that specialized in various areas including foreign relations, constitutional law, politics, public administration, and sociology. After a year of trials and tribulations while working at the KCIA, I was introduced to General Yoo Won Sik by the Finance Minister, Chun Byoung Kyu, in 1962. The general was a member of the financial and economic committee in the Supreme Council. In meeting him, he asked whether I had drafted the currency reform implemented in February 1953. He then asked me to prepare a comprehensive report of the currency reform of 1953, detailing the plans and follow-up measures and evaluating its outcome. He also wanted me to analyze the currency reforms of other countries implemented after World War II. The general stressed
that a decision had not been made whether to pursue another round of currency reforms, and that this report was for exploratory purposes. He urged that I be very discreet in preparing the report, as not to cause any misunderstanding. In fact, the general had me work in an office on the second floor in the back of the Seoul City Hall. The office was well equipped, draped by big curtains, with a small room next door for the administrative assistant. The manager of the office told me that I could work in the office and nobody would be allowed to enter it. After working for a month, I submitted a report to General Yoo, who appreciated my hard work and offered me the position of Economic Minister at the Korean Embassy in the US. I took the job offer, which I thought was better than working at the KCIA. In late March, my appointment was made official and I started to prepare for my new career in the US.

In April, I was informed by General Yoo that the Supreme Council was debating on whether to implement a currency reform. Again I was asked by the general to prepare an in-depth plan for such reforms. I recommended a few associates to help me including, Bae Soo Gon, Lee Sang Deok, and Kim Byung Ok, all of whom worked with me on the first currency reform. We kicked off by meeting at the Mapo Motel which was owned by the KCIA. As instructed by General Yoo, the primary goal of the currency reform was to provide industrial funds to finance the First Five-Year Economic Development Plan (1962-66). We all agreed that traditional financial measures instead of special measures such as currency reforms were sufficient to facilitate the funding of industrial development. In any case, we proceeded to draft a currency reform plan as instructed, but we also sought to strongly recommend our initial position. After working on the plan in various undisclosed locations, we submitted
the plan but did not receive any further instructions. So, we returned to our normal jobs. I delayed my move to the US until late May, but I was busy packing and shipping off my belongings.

On May 17, I presented the plan to Park Chung Hee, the Chairman of the Supreme Council, Song Yo Chan, the head of the military government, General Yoo, the Finance Minister, and two other generals. I made sure to drive home the point that a currency reform was not necessary to fund industrial development, but if it was necessary, then a great deal of preparations had to be made. I explained the plan in great detail, covering the follow-up measures that would be needed. Still, the chairman and the rest of the officials were convinced that traditional financing measures would not suffice, largely since the banks were unwilling to lend without collateral. The council believed far more drastic measures were needed to carry out the economic development policies.

I raised the point that the first currency reform came short of achieving all of its objectives, since the original version was watered down by the National Assembly. But the reforms were successful thanks to the smooth inducement of aid goods through preparatory discussions with the US. I stressed to the council that the same approach would apply to the new currency reform because Korea was still reliant on US aid. They concurred with my assessment. I was glad to hear that the council looked favorably upon the plan.

But I was surprised that the decision was made to pursue a currency reform starting in June 10, 1962, especially considering all that was needed to be done in preparation of such reforms. The logistics of importing the currencies to Busan alone were daunting;
never mind the time needed to print the laws and regulations and other official documents. When we were instructed to prepare a currency reform plan, we were not informed of anything definite. Of course, I knew new currencies had to be printed either in Korea or in another country to conduct a reform. This meant that new currency designs had to also be prepared in advance.

But what I didn’t know was that the new currencies had already been printed overseas, and were now on their way to Busan. Soon as I was informed of this, I made my way down to Busan the very next day on May 18, 1962, to help in the logistics of moving the new currencies, departing Yongsan airport on a small plane called Areo Commander, and arriving in Sooyoung airport an hour later. I was accompanied by Kim Jong Pil, the KCIA Director, and Lee Young Keun (later to serve as a National Assembly member), the KCIA Deputy Director. When I got to the edge of the docks where a warehouse stood, I saw a cargo ship from the Netherlands anchored at one of the docks with military soldiers waiting for orders. One of the officers there that night was Captain Cha Ji Chul (later to serve as Chief Officer of the Presidential Security), who had participated in the Han River crossing during the 5.16 Revolution. The new currencies were unloaded by the soldiers led by the Deputy Director of the KCIA.

The new currencies had six denominations including 500 won, 100 won, 50 won, 10 won, 5 won, and 1 won. They were printed by a British company, De La Rue, and securely stored in wooden crates wrapped in steel frames. The crates were loaded off the ship using cranes, and then carried to the warehouse by the soldiers. One crate was so heavy that four soldiers were needed to move it. Each crate
was marked by a different color including red, blue, and white depending on the type of currency. The crates were placed on a spot marked as small arms, light machine guns, heavy machine guns, high-angle guns, communications equipment, and chemicals. The soldiers thought that the crates contained military weapons, and handled them very carefully. Suddenly, a few of the crates fell off the crane and crashed onto the ground. I was worried that the crates would break apart, revealing their true contents. Fortunately, the crates remained intact with little damage. It took two days to unload the cargo off the ship. Not one of us got a wink of sleep during those two days.

The biggest concern was that the Dutch crew of cargo ship would reveal the contents of the cargo. Hearing our concerns, the representative from De La Rue assured us that only three people, including himself, the captain, and the purser of the ship, knew the true contents of the ship’s cargo. He also ensured that none of them would reveal this information to anyone. His assurances did not completely put us at ease; however, we had no choice but to take his word for it. Lee and I came back to Seoul leaving behind the soldiers who were to stay at the port for 20 days until the currency reform was implemented. Immediately returning to Seoul, I informed my team that the new currencies had already arrived. Everyone had a look of surprise once I told them that the big day was planned for June 10. We conducted a final review and completed our preparations.

It was only much later in my life that I would come to know the whole story behind the new currencies. The decision to print new currencies had actually been made two to three months before
General Yoo had approached me about preparing a report on currency reform. After the First Five-Year Economic Development Plan was announced on July 22, 1961, the military government wanted to conduct a currency reform to mobilize local funds necessary to implement the plan. The deposits of the high-income class would be mobilized and invested in the Industry Development Public Corporation (IDPC), which would use the funds to invest in companies. Once the companies became financially strong enough to stand on their own, the IDPC would recoup its initial investment and reinvest it in other companies. The IDPC was also supposed to provide payment guarantees to induce foreign investment.

In November 1961, Chairman Park accompanied by Minister Chun Byoung Kyu made trips to Israel, Italy, France, and West Germany, on their way back from the US to inquire about printing new currencies. But they did not bring an original film. So as soon as they returned to Korea, Chairman Park sent Jung Rae Hyuk, the Minister of Commerce and Industry, who was on a business trip to Europe, to the UK with a film of the Independence Gate to negotiate with De La Rue on printing new currencies. Minister Jung contacted De La Rue with the help of the Ministry of Foreign Affairs. Minister Chun finalized the printing contract in the UK. A year after the contract was finalized; I was asked by General Yoo Won Sik in February 1962 to prepare the report on currency reform, thus, the order to print the new currencies was given two or three months before I was asked to prepare the report.

On June 9, 1962, the second Currency Reform Act was approved by the Supreme Council where all the cabinet members and the Governor of the Bank of Korea participated. Upon its approval
Chairman Park declared: “Our nation has progressed considerably through the Five-Year Economic Development Plan by reinvesting wealth obtained through unlawful means to eliminate high interest loans in the agricultural sector, and to reform various systems, so that the economy can break out of the vicious cycle. Nevertheless, there is still a great deal of wealth that has been accumulated unlawfully. This has led to large sums of deposits in financial institutions that are short-term and are not invested. There is a risk that the accumulated wealth will become speculative money at any time. Considering the economic trends, our economy may suffer from massive inflation.”

In sum, wealth obtained through unlawful means and excessive purchasing power had to be used to prevent inflation and to develop Korea’s economy. To this end, the currency reform was unavoidable.

With the act approved, the Supreme Council was in high spirits and appreciated my efforts, wishing me all the best in implementing the reform. Led by General Yoo, the newly printed currencies warehoused in Busan were supposed to be transferred to the Bank of Korea’s head office and branches that night, and then distributed to the Bank branches in the morning. We practically led the implementation efforts from the Bank’s headquarters.

On June 20, the first day of the currency reform, a meeting was held between government representatives from Korea and the US at the bank. The US was represented by Samuel Berger, US Ambassador in Korea, and Philip Habib, a political advisor, as well as economic officials from the US Embassy and US Operations Mission (USOM); while General Yoo, Minister Chun, Bank of Korea Governor, Min Byung Do, and myself represented Korea. It was clear that the US was troubled about the currency reform, mostly
because they were not informed of it ahead of time. General Yoo had not informed the US of the plans as he said he would.

US Ambassador Berger expressed his disappointment over the fact that Korea had not given any prior notice to the US on the currency reform, in light of the considerable financial aid provided to help Korea stabilize and develop its economy. However, the ambassador was glad to see that the Korean government had carried out the currency reform in a very systematic and efficient manner. And, he hoped that Korea and the US would engage in substantive dialogue ahead of Phase II of the reforms planned for June 16. Phase II of the reform sought to determine how much money should be blocked and how much money could be converted into new currencies. In response to this, General Yoo Won Sik assured that Korea had only the best intentions in not informing the US of the reforms. He also pledged that Korea would engage the US ahead of any subsequent reform measures to be implemented. The US delegation left the meeting seeming assured and willing to cooperate with Korea.

I was quite surprised on hearing that General Yoo had not discussed the currency reform with the US officials in advance. However, I felt relieved that the issue had now been settled. I retained some documents, translated into English, which were used in the discussions with the US experts from the US military government during the first currency reform. I also had copies of the documents related to the currency reform translated into English by the USOM. I shared these documents with the general, explaining that they could be used again, after being properly updated and amended, in the upcoming discussions with the US. I also
recommended that he have someone, fluent in English, from the Bank of Korea, the government, or the Supreme Council, coordinate the discussions with the US. The general told me to leave it with him. So I did not bother to attend to this matter anymore and focused on the task of implementing the reforms, working at the headquarters every day and night.

The execution of the currency reform was going smoothly until June 16 when the emergency financial order was publicly issued. The summary of the emergency financial order was as follows. First, a certain amount of payment orders including old currencies and checks that were reported and deposited by individuals, corporations or other organizations, calculated based on a prescribed rate, should be converted into restricted deposit accounts and the remaining amount should be converted into unrestricted accounts that could be freely accessible. Second, among the old deposits, the demand deposits should be subject to the first condition above, since they have the same characteristics as bank bills. Third, savings with maturity of more than one year, including time deposits, deferred savings, special contract savings, installment savings, money trusts, and special savings, including savings at the National Savings Union, national bond savings, children savings, and post office savings, should be converted into unrestricted accounts without any limits. Fourth, a certain amount of savings and deposits with a term of less than one year should be converted into restricted deposit accounts. When calculating the amount, a certain amount was deducted as a basic deduction, and after classifying the amount by its maturity (less than three months, more than three months but less than six months, and more than six months), digressive rates should be applied. And, the remaining balance should be converted into unrestricted
accounts. Fifth, for the restricted accounts, a yearly interest rate of 15%, the same rate offered by time deposits with a maturity of more than one year, should be applied from June 18. And the restricted accounts should be converted into shares issued by the Industry Development Public Corporation, which was supposed to be established within six months from June 18. For the shares, the yearly dividend rate of 15% should be guaranteed by the government. Also, to provide liquidity, the shares would be listed at the stock exchange.

When the emergency financial order was publicly announced, the US Embassy to Korea and the USOM were extremely upset. General Yoo Won Sik had not kept his pledge to engage the US ahead of the emergency financial order. In his memoir, General Yoo wrote: “The US Embassy tried to meet me numerous times, but I rebuffed them.” The US Embassy was furious for not having received any prior information about the currency reform which was made worse by the General’s refusal to meet them. The US did not agree with the idea of the Korean government’s position. The US didn’t have to conduct any currency reforms following World War II, as a victor. So there were only a handful of economists in the US that were knowledgeable in this area.

I drafted the plan on restricting demand deposits of the private sector based on West Germany’s currency reform. West Germany did have to carry out currency reform, which turned out to be very successful. The reform helped to pave the way for economic reconstruction and development, the so called “Miracle on the Rhein.” Currency reform can help to check inflation by retiring old currencies and restricting demand deposit in the private sector while
promoting economic development. The funds that are mobilized by restricting demand deposits can be channeled towards economic development without causing inflation. The currency reform of West Germany was initiated by the administrative government of the Allied Forces, led by US experts, one of whom was Joseph Dodge, a banker, who was also involved in formulating Japan’s economic stabilization plans after the World War II.

To convince the US of the merits of the currency reforms, I submitted a case study of the currency reform in West Germany. The US disapproved of the idea of mobilizing funds for economic development by restricting private demand deposits but seemed to go along with the idea anyway at first, demanding only that savings with a maturity of less than one year be left unrestricted. Since one-year deposits accounted for only 15% of all existing savings deposits, Chairman Park agreed with the US demand of unrestricting savings deposits of less than one year. On June 30, restrictions on these accounts were lifted.

However, the US then demanded that all blocked accounts be unfrozen. When the second phase of the currency reform was announced, a newspaper reported that it was orchestrated by General Yoo and Park Hee Bum (later to serve as President of Chungnam National University), a professor of Seoul National University, who was an advisor to the Supreme Council. I had met Professor Park a couple of times when I worked for the Research Bureau at the Bank of Korea, but I was not made aware of his involvement in the reform at anytime by General Yoo. After the news report, a false rumor spread that the idea of establishing the Industry Development Public Corporation was driven by national capitalism, not democratic capitalism.
When teaching economic development theories at the university, Professor Park lectured about India, which in 1956 adopted a model of socialism as its basis for construction of its society. India’s parliament passed the “Resolution on Industrial Policies,” in which major industries including public projects and heavy and chemical industries, were supposed to be nationalized, and all the corporations were supposed to be subject to the “Industrial License System.” It was implemented during India’s Second Five-Year Economic Development Plan beginning in 1956. I suppose this is where the misunderstanding could have originated.

The relationship between Korea and the US had hit a rough patch after the 5.16 Revolution, though the US did acknowledge its outcome. And the lack of prior consultation with the US on the currency reform seemed to be something the US would not let go unchecked. The US threatened to cease all aid to Korea if the currency reform was not rolled back. Korea could ill afford to ignore the US demands due to its heavy reliance on US aid, especially in face of expectations of a poor rice harvest season due to drought in 1962.

Faced with this stark reminder, Korea had no choice but to concede to the demands of the US. There were changes to the Supreme Council. General Yoo resigned as a member of the Supreme Council. I drafted legislation that rolled back many of the measures of the currency reform. Most of the restricted accounts, nearly two-thirds, were converted to time deposits of less than one year while the rest were converted into unrestricted accounts. The legislation passed on July 13. In the end, the Second Currency Reform measures were meaningless, doing nothing more than
reducing the monetary unit by one tenth. Since the time I started my career at the Bank of Korea in 1944 until December 1978 when I resigned as the President’s Chief of Staff, I had been involved in many economic policymaking efforts, but nothing as futile as the second currency reform.
While the second currency reform was being implemented, there was a cabinet reshuffle on June 18, 1962. It led to the appointment of Kim Hyun Chul and Kim Se Ryeon as the Minister of the Economic Planning Board and the Minister of Finance, respectively. At the Bank of Korea, I was furiously drafting plans to address the problems resulting from the currency reform and to stabilize the economy. It was not until June 26 that the financial markets had normalized.

Soon after, I was to depart for the US to take my new post as the Economic Minister at the Korean Embassy in the US. In the morning of June 28, the day I was to depart for the US, I called on Chairman Park to say my farewells. Instead of exchanging farewells, I was asked to be the Vice-Minister of Finance by Chairman Park.

Becoming a Vice-Minister changed my professional life. When I worked as the Director-General of the Bureau of Finance, I could still maintain my status as an employee of the Bank of Korea. However, the Vice-Minister of Finance, as a member of the Monetary Board, could not be an employee of the Bank of Korea due to the direct conflict of interest. Since I joined the Bank of Korea in 1944, I had
considered it my home of work. I aspired to achieve great things at the Bank of Korea. But, I had to submit my resignation, which was a life-altering event for me. I had not dreamed of working in government before.

Kim Se Ryeon, the Minister of Finance, came from the Bank of Korea, and was an expert in both banking and securities. The main objectives of the new Finance Minister Kim and I were to remedy the aftermath of the currency reform and to stabilize the stock market.

After the completion of the currency reform in July, the manufacturing production index began to rise. At the end of 1962, it increased to 133.6, an increase of 7.7% from the previous year. The negative effects of the currency reform on the money supply, prices, and production, were remedied in six months.

In contrast, stabilizing the stock market proved much more difficult. A lot of time and energy went into trying to stabilize the markets, which was driven by speculators, as we were bombarded daily with complaints from investors, who said were acting on “good faith.”

The Chosun Stock Exchange was established as a private corporation on January 1, 1932 under the Japanese Administrative Government of Korea. As a privately owned cooperation, the Chosun Stock Exchange experienced some difficulties early on, resulting in the conversion of the exchange into a special public-owned corporation in 1943. The purpose of its conversion was to promote a fair and orderly trading of stocks. Besides the change in its ownership structure, a market supervisor was appointed by the
government to strengthen its regulatory oversight of the exchange. However, Japan’s defeat in World War II also meant the demise of the Chosun Stock Exchange.

After liberation from Japan, the Korea Stock Exchange was established on March 3, 1956. In the absence of a legal basis for establishing the Korea Stock Exchange, the legal authority vested under the laws used to establish the Chosun Stock Exchange was used.

The Stock Exchange Law was finally legislated on January 15, 1962. Unfortunately, the law adopted the ownership structure of a private corporation. Furthermore, settlement of trades was based on a periodic system and physical delivery of stocks was allowed to be deferred indefinitely. All these provisions of the law worked to invite speculation in stocks. Four months later on April 1, 1962, the stock exchange became a private corporation. In short time, investors flocked to the stock market instead of national bond market. Major shareholders of the stock exchange listed their shares in the exchange, thus, damaging the impartiality and neutrality of the exchange as an intermediary.

From April, stock prices soared. The share price of the stock exchange increased by 88 times its initial public offering price while the share price of security and financial companies soared 74 times, and 15 times for transportation companies. As a result, some people became millionaires overnight. However, there would also be huge financial losses caused by severe price volatility.
The stock market continued to fluctuate significantly, but prices trended downward while volume decreased continuously. In 1963, strict controls to deter speculation were implemented, which did turn away speculators, but it kept pushing stock prices downward, as investors exited the market. This depressed prices further. Finally, the stock exchange was shut down on February 25 for an indefinite period owing to investor complaints of falling share prices. On February 8, Finance Minister Kim Se Ryeon resigned, and Hwang Jong Yul stepped in as the new Minister. I also submitted my resignation, since I was brought in by Finance Minister Kim. At this point, I was ready to leave my post, weary of endlessly battling the issues in the stock market; but my resignation was not accepted since no qualified candidate had been found to replace me.

At the Ministry of Finance, the stock market was overseen by a division that had a direct reporting line to the Minister, through the Division Director, Director-General of the Bureau of Finance, the Vice-Minister, and finally, the Minister. The position of division director was a very tough job to say the least.

I believed the root cause of the problems in the stock market stemmed from the ownership structure of the stock exchange. Korea’s stock market would be constantly subject to speculative activities, thus, at risk to crisis, as long as the stock exchange was a privately owned corporation. For an exchange to be healthy and sound, it needed to be a special public-owned structure. So the first challenge was converting the stock exchange’s ownership structure from private into public. This needed the approval of the new Minister of Finance, which I finally obtained after several long discussions.
I prepared a plan to establish a stock exchange with an initial investment of 500 million won from the government and the financial institutions. I immediately began discussions on my plan with the budget authority and the members of the Finance and Economic Committee of the Supreme Council. An agreement was reached after several negotiations, and, subsequently, I briefed Chairman Park and obtained his approval of the plan.

On April 27, 1963, the Stock Exchange Law was amended, thus, converting the stock exchange into a publicly owned company. On May 8, the Korea Stock Exchange was established with an initial investment of 300 million won from a consortium of financial institutions. The government invested its portion of the same amount in 1965. On the following day, trading on the exchange resumed, 73 days after it had been shut down. And I resigned as the Vice-Minister of Finance on June 3, after one year.

The central bank and the financial institutions in advanced countries, all share a common policy that prohibits their employees engaged in monetary and financial policymaking and or employed in the financial industry, from investing or trading in financial markets. This is an important control measure to check any conflict of interests. I myself had refrained from making stock investments since I was always in some manner involved, directly or indirectly, in policymaking matters that impacted interest rates and financial markets.

Speculation driven by manipulating stock prices is unsound and destabilizing, especially, when easy credit feeds the drive for speculative activities, posing great harm to the stability of the market.
and risks to investors. This is reason alone to stamp out transactions driven by easy credit from the stock market.

Predicting stocks is nearly impossible. Some globally leading brokerages, according to their internal rules, do not offer products and services in stock investment to certain client segments; instead they offer other methods for wealth accumulation. I believe that if one does not understand the economy, then one should consider investing in other assets that are less risky. If one still seeks to invest in stocks, then one should consider investing in blue-chip stocks or stock investment funds with a long-term view. I say this having been someone who has experienced and managed multiple financial crises of all magnitudes, and has witnessed the massive financial losses suffered by many small investors. Investing in stocks to reap short-term capital gains may prove worthwhile; but, I want to stress that it is risky business, and any investor investing in stocks should make investment decisions on their own and take full responsibility of the consequences.
After I resigned as the Vice-Minister of Finance on June 3, 1963, I took time to think about different paths to take for my career, considering I did not expect to work too long in government. I considered going to academia as a university professor in light of the vast and diverse knowledge and experiences in research and policymaking in the areas of finance, banking, and foreign exchange that I gained working at the Bank of Korea and in government.

I ended up landing a job at Yonsei University. I was given a job to teach courses on foreign exchange and international trade in the spring semester of 1964.

**Negotiations with Japan on Reparation Claims**

On March 10, 1964, however, I got instructions from the government to participate in talks with Japan on the settlement of reparation claims. Kim Jong Pil, the chief of KCIA, and Masayoshi
Ohira, the Japanese Foreign Minister, had already agreed on a basic principle in 1962. This would be known as the Kim-Ohira Memorandum, which was not publicly disclosed in either country at the time. Under the memorandum, it was agreed that reparations from Japan to Korea would include: USD 300 million of grants, provided in installments over a period of 10 years; USD 200 million of government loans, provided over a period of 10 years at an annual interest rate of 3.5%, with a maturity of 20 years and a grace period of seven years; and more than USD 100 million in private commercial loans.

I was to fly to Japan on March 11 as the Korean representative supporting the negotiations on cooperation funds on fishing and ships. The negotiations with Japan to secure cooperation funds on fishing and ships were to be led by Chang Ki Young, the President of the Hankook Ilbo.

It was commonly believed by Koreans that Korea had made great concessions by eliminating “the peace line” (that is, the line declared by President Syngman Rhee in January 1952, drawn 60 miles off Korea’s coastline to protect maritime and natural resources) in order to consummate an agreement with Japan. Thus, the objective of the negotiations was to secure Japan’s cooperation in fishing and ships and to secure as much of an increase as possible in private commercial loans provided by the Japanese.

The informal negotiations went well, succeeding in securing from Japan a proposal to provide commercial loans for an amount greater than initially agreed by Kim-Ohira. All that was left to negotiate was to fix the amount and terms and conditions of the loans. To try and
expedite an agreement by March, Kim Jong Pil, the lead negotiator, went to Japan via Taiwan and Vietnam for talks with Minister Ohira. Both made a pact to finish the talks by March, finalize an agreement by April, and sign it by May.

As soon as news of this pact broke, student demonstrators descended on Seoul, demanding an immediate stop to negotiations. The demonstrations continued for days, criticizing the government for its “shameless courtship” of Japan. The diplomatic mood between the two countries cooled quickly, leading to the suspension of all further talks after the 11th meeting on April 3. This helped narrow the divide on basic issues including: exclusive fishing zones, and the establishment of joint controlled waters and related control plans, and the establishment of the Fishery Joint Committee, the Fishery Regulation Research Committee, and the Fishery Economy Committee. This led to the conclusion of the unofficial negotiations which resulted in an agreement, in which Japan would provide commercial loans for fishing and shipping at an amount much greater than agreed under the Kim-Ohira Memorandum. The Minister of Agriculture and Forestry, Won Yong Suk, returned to Korea on April 9, while I returned on April 18 with Chang Ki Young.

The agreement was formalized as follows during talks between the Ministers of Foreign Affairs of the two countries, where the agreements on reparations, cultural assets, the status of Korean residents in Japan, and fishing and maritime issues were signed on April 3, 1965:

(1) The agreement on grants and government loans established under the Kim-Ohira Memorandum are reconfirmed.
(2) The total amount of commercial loans shall be increased to more than USD 300 million from more than USD 100 million. USD 90 million is included for the fishing cooperation fund and USD 30 million for the ship-related fund.

Reflections on the Future Direction of Korea’s Economy

While I was in Tokyo for a month during the negotiations, I met Chang Ki Young nearly every day to talk about the on-going negotiations. Between our meetings, we talked about Japan’s economy, and the future of Korea’s economy. During one of our conversations, Chang thought that it would be a good idea if I prepared a report on the future of Korea’s economy, which he would cite during a meeting with President Park. In thinking about the report, I reflected on the economies of the US and Japan as models. It was only natural since I spent considerable time studying, working, and living in the US. I had studied at Clark University in 1958 to attain a master’s degree in economics. I was in New York for one year from 1953 to 1954 working and helping to set up the New York office of the Bank of Korea. I also came to know and appreciate the economic characteristics of Japan. I had had an opportunity to collect and read books relating to the Japanese economy when working as a councilor of the Tokyo branch of the Bank of Korea for one year, and when staying in Tokyo for the Korea-Japan diplomatic normalization talks for two months in 1960 and for one month in 1964.

The US was a big country with lots of land, a huge population of
over 200 million, and abundant natural resources, all of which allowed it to organically develop its economy relying on local markets, not on exports. The US had a huge advantage in holding the world’s reserve currency, which literally gave it a free rein to print new money to finance its deficits. The federal system of government that unites its 50 states under one central government makes it well suited for a market-based economy, which is further reinforced by American’s deeply ingrained mindset of protecting individual freedom and minimizing the role of government.

On the other hand, Japan had a population of more than 100 million, not a lot of land and few natural resources. Japan has had to import the resources needed to produce goods for domestic demand and for exports to acquire foreign currency. Japan pursued an export-oriented industrialization, led by the government, to develop its economy, efficiently deploying its limited resources and capital. In particular, Japan made the development of the heavy and chemical manufacturing industries the centerpiece of its industrialization. The heavy and chemical industries are high tech oriented, consume fewer resources, and earn more foreign currency, making it much better for exports.

Korea was like Japan, having similar economic characteristics as Japan. It only made sense that Korea’s economy should go in the way of Japan’s. It was not enough to develop industries through import substitution. Korea had to pursue an export-oriented industrialization policy, focused on development of its own heavy and chemical industries to foster high tech industries. Korea had to enhance its global competitiveness. I wrote down my thoughts and gave them to Chang Ki Young when we returned to Korea.
When I returned to Korea on April 18, 1964, I began preparing lectures, as I was nearly set to start my professorship at Yonsei University, which was pending approval from the Ministry of Culture and Education. On May 9, members of the President’s cabinet led by Choi Doo Sun resigned en masse. That afternoon, I received a call from Chang Ki Young to meet as soon as possible. He had been offered the position of Deputy Prime Minister and Minister of Economic Planning Board by President Park, when he was briefing him on the results of the negotiations with Japan. Chang wasn’t entirely sure if he should accept the offer but he wanted me to prepare a presentation, highlighting the ideas we had talked about on the present state, and the future of Korea’s economy.

At the time, the IMF was pushing for market liberalization policies that sought to lower trade barriers, liberalize foreign exchange and interest rates, and deregulate trade. But the government pushed back, since it knew the economic impact of such policies would be widely felt, leading to a backlash from business. But I believed market liberalization policies were necessary despite the challenges to improve the industrial base, to promote export-oriented industrialization, to enhance global competitiveness, and ultimately, to drive economic development. So I prepared a report focusing on liberalization policies.

If interest rates were raised to be more reflective of market rates, firms would be burdened with higher principal and interest payments on their debt. This would also be true for firms with foreign currency loans, if the foreign exchange rate were devalued. If trade was deregulated, import duties reduced and markets were opened to foreign imports, local firms no longer protected may lose their
market share. Market liberalization policies could put companies at risk of failure that failed to cope by making structural improvements. This could lead to strong opposition by businesses, and by the ruling party, which is susceptible to public sentiment. The worst situation we could find ourselves in would be if market liberalization policies were to succumb to political pressure or opposition from business, and were stopped midway through implementation. This could destabilize the economy and undermine the administration’s political legitimacy. To successfully pull this off, it would take strong, resolute leadership from the President, full backing of the Ministries of Finance and Commerce and Industry, and continued cooperation among government agencies.

I made sure I would emphasis these points during my meeting with Chang. I headed off early the following day to meet him at his home. I arrived at 6 AM, only to see that I wasn’t the only one waiting to see him. But, he didn’t have me wait long to see him that morning. Chang was a busy man: a newspaper man, he was an expert in finance in his own right, always in tune with the global and local economy. He was also very creative and willing to take the initiative, which made him very politically astute. So it didn’t surprise me when he said: “I am only willing to join the President’s cabinet as Deputy Prime Minister, not as a minister. I am also not willing to join the cabinet unless certain conditions are met. I need to be given full control over economic policy matters, and allowed to pursue my economic policy agenda. If I am given unfettered authority, I am sure that I will successfully implement the market liberalization policies you suggested.” We had our meeting while he was eating breakfast and taking phone calls at the same time. In-between his eating and talking on the phone, I managed to stress my point that this
government had to have the political will to see the policies through to the very end for it to be successful, no matter how much business pushed back.

**Adoption of Export-Oriented Industrialization and Market Liberalization**

On the following day, a new cabinet was formed by Chung Il Kwon, the Prime Minister. Chang was appointed as the Deputy Prime Minister and Minister of the Economic Planning Board (EPB), while Park Choong Hoon was appointed as the Minister of Commerce and Industry.

A few days later, I met with the newly appointed Deputy Prime Minister Chang, who informed me of his discussions with President Park and Prime Minister Chung on the overall economic policy direction. He said that he highlighted the importance of adopting an export-oriented industrialization strategy and pursuing market liberalization, which were urgently needed but also were difficult to implement due to the possible adverse effects of liberalization on protected domestic industries. He said that the President was fully on board with this. More importantly, the President pledged his unyielding support and full backing and cooperation of all the government ministries including the Ministry of Finance and the Ministry of Commerce and Industry. Indeed, President Park endorsed the Deputy Prime Minister’s policies and gave him full discretion to carry out the market liberalization policies no matter what happened. As he was building an economic team, he asked me to work as a
minister of economy-related ministries, but I declined saying that I was about to start a second career as a professor at Yonsei University.

Immediately after taking his office, backed by all the ministries and agencies, Deputy Prime Minister Chang launched the efforts on market liberalization, successfully implementing the policies in a very short time. It was an impressive undertaking. So much so that the IMF, which had pushed for liberalization, lauded Korea’s achievements as a successful case study to its member countries, recognizing the government’s leadership and Korea’s economic potential. After word spread of Korea’s achievements, foreign loans, which could only be secured with the government’s guarantee, became much easier to access. However, there were some pains. During the three years when Deputy Prime Minister Chang was in office, there were five different Ministers of Finance.

On June 12, while I was busy preparing my lectures for my new teaching post at Yonsei University, I was unexpectedly appointed as the Vice-Minister of Commerce and Industry without any prior information or notice. I was appointed upon Deputy Prime Minister Chang’s recommendation. I was not given any advance notice since I was surely going to decline any offer. I had reached a crossroads in my life, thinking if my tenure as Vice-Minister would end up being short, perhaps a year or two. I thought to myself if it was right to commit myself to life of teaching as my new career. Can I even decline the offer? I had no choice but to accept the appointment with mixed emotions. I was all but set to start teaching at Yonsei University, as my approval from the Ministry of Culture and Education was pending. All I could do was to offer my sincere
apologies to the university, and Professor Lee Jong Ha and Professor Lee Ki Eul for all their support and effort in helping me, as well as Professor Choi Ho Jin, Professor Lim Ik Soon, and President Baek Nak Joon for offering me the professorship.

South Korea is just one third the size of Japan, measuring 99,400 km in land mass. Mountainous terrains cover nearly two thirds of the land, leaving less than a third of arable land and less than 10% of urban cities. Despite being a mountainous country, Korea was not endowed with abundant natural resources, only limited deposits of anthracite, tungsten, and limestone. Two thirds of the farming land was used to grow grain, half of which was rice. But the agricultural sector could provide enough food and feed to make Korea self-sufficient.

In 1965, Korea’s population was only 29 million, but its population density was the highest in the world except for small city-states such as Monaco and Vatican. The education level of Korea’s population was relatively high. In the early 1960s, the graduation rate for elementary level education was basically 100%, which was compulsory in Korea at the time. The illiteracy rate was near zero. So Korea’s biggest natural resource was its own people, educated and relatively affordable.

To make matters worse, the entire country, outside of Daegu and Busan, was left decimated, all of its manufacturing facilities nearly destroyed, in the wake of the Korean War. Reconstruction of Korea’s economy began after the ceasefire in 1953 with the help of aid from the US. Korea received a total of USD 2.1 billion in aid from the US from 1953 to 1960. During this period, Korea’s industrialization focused on manufacturing industries including milling, sugar
manufacturing, and textiles (cotton and wool), industries that could process wheat, raw sugar, raw cotton, and raw wool, supplied by US aid. The government also pursued import-substitution-based protectionist policies such as import quotas and restrictions, trade tariffs, and subsidized interest rates.

Industrial production recovered quickly, exceeding the pre-Korean War peak by 1956, increasing a further 16% by 1960. However, the economy soon suffered from a slowdown, limited by Korea’s relatively small domestic market. The average growth rate of the manufacturing industry fell from 17.0% (1954-57) to 6.9% (1958-61).

Meanwhile, Korea’s foreign exchange reserve began to decline after March 1962. At the end of 1962, the total reserve for gold and foreign exchange was USD 167 million, USD 39 million less than the total at the end of 1961. It continued to decrease in 1963, falling further to USD 114 million by June.

Korea’s foreign exchange reserve continued to dwindle, setting off the alarm of a pending foreign exchange crisis. In response, an export-import link system was instituted in January 1963 to promote exports while controlling imports based on quotas. However, raw materials which were necessary for the production of export goods and materials necessary for the construction of projects under the Five-Year Economic Development Plan were not subject to monitoring. Those exceptions were done away with by the middle of 1963, subjecting all imports to monitoring. Export subsidies were also used since 1961 along with a compensation trade system for certain exports.
When I was appointed the Vice-Minister of Commerce and Industry in early June 1964, export-oriented industrialization policies were needed to compete in the global economy. It was imperative for countries to overcome the limits of small and saturated domestic markets. The implementation of import substitution-based protectionist measures such as an overvalued exchange rate policy, restrictions on foreign trade or foreign exchange, differential duties, and subsidized interest rates, made import-substituting industries more profitable than export industries. This was the main reason for the weakness of export industries. Therefore, market liberalization policies including exchange rate and interest rate liberalization, import liberalization, and lower tariffs, were required to increase exports by selecting the technologies and production methods appropriate for the economic conditions characterized by abundant labor and inadequate capital, thereby, securing a comparative advantage in labor-intensive products.

In the late 1950s, the exchange rate was at 65 won to the dollar. There were two major devaluations: in 1961 and in 1964. In 1965, the government adopted a floating exchange rate system, allowing the exchange rate to fluctuate within a band. In 1965, interest rates also were liberalized to be more reflective of market rates. The real interest rate of deposits with a maturity of one year, controlling for inflation, was raised to 17.3% in 1965 from minus 8.4% in 1964. The liberalization of imports was led by the Ministry of Commerce and Industry. While the Ministry of Finance had jurisdiction over tariff rates, tariff reduction was closely related to import liberalization. During my time at the Ministry of Commerce and Industry, I made my best efforts to promote import liberalization and export-oriented industrialization.
Park Choong Hoon, the Minister of Commerce and Industry, set out three major policy objectives: the achievement of annual export targets; efficient construction of new plants under the Five-Year Economic Development Plan; and elimination of red tape and corruption. The minister was in charge of the overall policy direction while he entrusted me with executing the policy objectives.

As the Vice-Minister, I focused on import liberalization. First, I did away with the system of linking exports and imports in the second half of 1964. Then, I significantly increased the percentage of the import items for automatic approval, from almost zero to 8% within six months in the latter half of 1964, and to 62.7% by December 1965. In addition, I transferred the jurisdiction of import licensing and allocation of import quotas to the Bank of Korea, which greatly simplified the administrative responsibility of the ministry. In November 1964, I significantly reduced the number of items for import quotas, deepening import liberalization in preparation for the introduction of a single floating exchange rate system. In January 1965, I continued to dismantle many protectionist measures such as export subsidies, ex ante contracts with end user of imported goods, and barter trade, except for goods subject to a trade agreement, while taking apart what was left of the export-import link system. In March 22, 1965, the government introduced a floating exchange rate system, following a delay of 10 months, spent getting the necessary conditions in place for foreign exchange liberalization such as the elimination of import quotas, establishment of a foreign exchange certificate market, and securing funds to manage the foreign exchange market. The government had preannounced the transition to the single floating exchange rate system on May 3, 1964, when the Korean currency was devalued from 130 won to 255 won to the dollar.
The Ministry of Commerce and Industry made significant changes, which accelerated import liberalization. The method of classifying imported goods was simplified into three categories: automatically approved, restricted, and prohibited. The importing was allowed to be done only under L/Cs, D/As, D/Ps. The Ministry sought to change administrative process for approving imports from a positive-list system to a negative-list system, under which all goods could be imported unless otherwise restricted; by contrast, under a positive-list system, only goods that were on the list could be imported, restricting all other goods. The negative-list approach was finally adopted in 1967. Also, the high tariffs on consumer goods were significantly reduced in 1967. For instance, tariff rates for nondurable consumer goods were lowered from 74.2% in 1966 to 43.2% in 1967. To sum up, I made my best efforts to liberalize imports while implementing groundbreaking measures to encourage export industries.

With limited finance, banking, foreign exchange, and foreign investment, I believed Korea had to efficiently select and promote industries appropriate to Korea’s conditions and could yield results promptly, as a quick and sure way to achieve export-led industrialization. Once this was accomplished, it would lead to the promotion of other industries. In July 1965, 13 items were selected for export promotion that were considered to be superior in terms of the effects on the international division of labor, the balance of payments, and employment, as well as, having spillover effects on other industries. The 13 items were silk, cotton, china, rubber goods, woolen goods, plywood, clothing, leatherwear, handicraft, miscellaneous goods, radio and electronic devices, fish and shellfish, and canned button mushroom. For each of these industries, a deputy director was tasked with providing financial and technical assistance.
This policy proved very effective, producing 13 major export goods and promoting export-oriented industrialization of other industries. I worked as the Vice-Minister of Commerce and Industry for 20 months until January 1966 when I became the Minister of Finance. Though I suffered from some difficulties, it all seemed worthwhile as I was able to implement industrial policies that I believed in, and the way I envisioned.

The Ministry of Commerce and Industry had two Assistant Deputy Ministers, each with oversight in two areas of Korea’s economy under the ministry’s jurisdiction; one being trade and the other being the industrial sector including mining, manufacturing, and electricity. The international trade and the industrial sections co-existed, complementing each other, but also conflicting in certain areas. The ministry also administered patents, set standards, and conducted industrial research. When I began work at the ministry, I held a meeting of director-generals every morning. From time to time at start of my tenure, I also made sure to emphasis the importance of the ministry’s role in pursuing trade liberalization, explaining the theoretical rationale behind our free trade initiatives, and the benefits to Korea and to the rest of the world. I also talked about the vision, purpose, and function of the IMF and the GATT which were established to encourage free trade after the World War II. I spoke of the need to take a step by step approach in initiating trade liberalization polices, despite opposition from business. For the industrial sectors, I highlighted the need to roll back many of the protectionist measures set up to insulate industries, while promoting export-led industrialization and the heavy and chemical industries. Some industries needed to be supported until they were competitive enough to stand alone and compete in the world market.
It was hard going in the beginning, trying to implement the ministry’s new policies, going from import substitution to export-oriented industrialization. The divisions with its ultimate task of meeting export targets, and the divisions responsible for preventing foreign exchange crisis by controlling imports within certain limits, made it difficult for them to adopt the new policies, feeling that the existing measures like the export-import link system, the barter trade system, and the import quotas, were being rolled back too hastily. For example, such policy matters on import liberalization, the distribution of raw materials urgently imported to stabilize prices, and the expansion or allocation of facilities, almost always created conflicts of interest within the ministry and resistance from the industries.

According to the policy of “window administration” proposed by Minister Park, emphasizing transparency, I made decisions on every matter based on discussions at the meeting of director-generals,
which often turned into heated debates, flaring tensions at the ministry. Depending on the issue being discussed, directors of major decisions weighed in with passionate views. After hearing all the different views, I sought to be decisive and fair in making decisions considering the ministry’s mission of carrying out the trade liberalization policies and other industrial policy goals of the government.

One of the main objectives set by the ministry was achieving exports of USD 120 million in 1964 for the first time ever. A very ambitious goal indeed, considering getting to USD 100 million was a huge challenge in of itself. The goal was set high, and the ministry did its best to achieve this goal.

I strongly supported and encouraged the staff of the ministry to set high expectations, and to look beyond what was thought possible. Exports exceeded USD 100 million by the end of November. On the last calendar day of 1964, I was up late in the evening calculating the export figure for the year. Once I completed tallying the total figure, I phoned the President Park directly in lieu of Minister Park who was on a trip in Europe. The President wanted to know as soon as the export figure for the year was tallied. I told the President that we had achieved our goal of USD 120 million in exports, much to his satisfaction and to the comfort of the ministry’s staff. It was a proud moment for this country, and for me, one which I still remember to this day.
Honoring annual best export performers
Establishment of the National Tax Service and Preparations for Tax Reform

I was appointed as the Minister of Finance on January 25, 1966. My mission focused on three objectives: stabilizing the finance and banking sector to ensure currency stability and the efficient allocation of capital; reforming the tax system and tax administration; and promoting exports by establishing a foreign exchange bank and securing membership to GATT. In 1966, the First Five-Year Economic Development Plan was completed and preparations for the second plan were underway. Demand for financial resources was much greater under the Second Five-Year Economic Development Plans. One way I believed to meet the expected increase in the funding requirement was improving the administration of taxes and reforming the tax system to increase tax revenues, the biggest source of domestic capital. I believed it was possible to increase tax revenues by 20-30%, without even reforming the tax system, merely by improving the enforcement, administration, and collection of taxes, through the establishment of a national tax agency.
Since its inception, Korea’s tax system was revised in piecemeal fashion a few times depending on the circumstances. However, the organization itself that administered taxes had never undergone any changes for almost 20 years. The organizational structure included the Tax Bureau under the Ministry of Finance, which was supported by four regional tax agencies in Seoul, Daejeon, Gwangju, and Busan, 77 tax offices, and two branch offices.

By the latter half of 1965, it was clear that a national tax agency had to be created. This was one of the first initiatives I pushed as soon as I became the Minister of Finance, after receiving a report from a six member subcommittee on the Establishment of a National Tax Agency comprised of working-level staff within the ministry. In devising a plan for establishing a national tax agency, there was much debate on the future of existing local tax agencies, and how its powers would be organized and who would have authority over the agency’s human resource and headquarters. I believed a strong national tax agency was the foundation of any plan. I prepared a plan that kept the local agencies while placing the responsibility of collecting taxes with the Ministry of Finance and administrating taxes with the national tax agency. The Minister of Finance also had discretion on appointments of high ranking officials above Grade 2 with recommendations of the head of the national tax agency. In 1966, the Government Organization Law (Law of the Administrative Organization) was amended to create the National Tax Service. The amendment was approved by the cabinet on February 8 and the National Assembly on February 15. The National Tax Service was established on March 3, two months after I became the Minister of Finance.
Under the new structure, the National Tax Service consisted of the Tax Administration Supervisor, the Planning and Management Officer, the Tax Collection Bureau, the Direct Tax Bureau, the Indirect Tax Bureau, the Investigation Bureau, the Tax Collection and Inspection Bureau, the Tax Administration Bureau, and the General Affairs Division. By establishing the main office of the National Tax Service, the foundation to enhance and develop Korea’s tax administration was set. On top of five Grade 2 or Grade 3 positions including a director-general at the central Tax Bureau and the heads of the four regional agencies previously, the number of Grade 2 positions was increased to 10, enhancing morale among staff.

Lee Nak Seon (later to serve as Minister of Commerce and Industry and Minister of Construction), the Presidential Secretary of Civil Affairs, was appointed as the first Commissioner of the National Tax Service. Though I had discretionary power, as the Minister of Finance, over human resource decisions at the tax agency for Grade 2 or higher appointments, I made sure to heed the recommendations of Commissioner Lee and to encourage mutual cooperation. As soon as taking office, Commissioner Lee established the objective of raising tax revenues to 700 million won, or 70 billion won, which was 50% more than the budget established by the National Assembly. He took this challenge personally, engraving the numbers 700 on his car license plate. Commissioner Lee had established his reputation making tax evasion cases against two companies as the Presidential Secretary of Civil Affairs. The establishment of the Inspection Bureau and the Tax Collection Inspection Bureau at the main office of the National Tax Service significantly strengthened the tax authority’s investigative
capabilities. With the goal of achieving 70 billion won in tax revenue, businesses became much more mindful of paying taxes.

I believed that a basic mandate of tax administration was to promote the proper preparation and filing of tax documents. To have a well-functioning tax system, not only did the administration of taxes need to be efficient and reasonable, but taxpayers also needed to be educated and informed on the preparation and filing of tax forms. The tax form of the US Internal Revenue Service clearly indicates that its mission was to promote and maintain the voluntary compliance of taxpayers with the tax laws as much as possible. When I appointed Commissioner Lee, I made sure to underscore the importance of educating and informing our taxpayers of the tax codes and the instructions of preparing and filing tax forms. Commissioner Lee led a team from the National Tax Service responsible for educating tax payers. The team contacted individual taxpayers for income, corporate, commodity, and business taxes, and provided training on preparing and filing tax forms.

The work of Commissioner Lee and his team paid off, as local tax revenue increased by 68.7% from a year ago to 70.4 billion won in 1966. Tax revenues increased further by 47.6% to 104 billion won in 1967. During this time, there was not one single investigation into tax evasion. The achievements of the National Tax Service showed that new tax revenues could be generated by simply improving and strengthening the administration of taxes, without raising tax rates or creating new taxes. In part, the tax revenue was naturally increased as the national economy grew. But it also showed that Korea’s previous tax system badly needed sweeping reforms due to considerable amount of unreported taxes. In other words, it
confirmed the necessity and appropriateness of establishing the National Tax Service. In the early 1980s, the success story of Korea’s tax administration was presented at a seminar held at the East West Center. I was informed later by a researcher from the center that many participants from Asian countries were greatly impressed.

The position of an Assistant Deputy Minister of Tax Administration was created at the Ministry of Finance when the National Tax Service was launched. The Tax Bureau became the Tax System Bureau. The National Tax Service was responsible for tax administration, while the Tax Bureau was supposed to perform policy research and to introduce tax statutes that would improve the tax system from a long-term perspective. Previously, this was impossible because one small division, the Tax System Division, had to handle all the matters related to the tax system.

Since it was completely reformed in 1961, the tax system had not been changed, except for some minor amendments, until early 1966, when I became the Minister of Finance. Thus, the tax system was not suited to address the changes in the social and economic conditions and to meet the financial demands of the First Five-Year Economic Development Plan. Indeed, the excessively high tax rates and progressive tax rate scheme could not increase tax revenue; instead, they led high-income groups to save more or underreport taxable income.

The rate applied on individual income tax, corporate income tax, and the inheritance tax, was based on a progressive scheme, the highest tax rate being 70%. The progressive tax scheme was
supposed to pursue a fair and equitable redistribution of income by applying a higher tax rate on higher income groups and a lower tax rate on lower income groups. However, the tax rates applied on the higher income groups was excessively high relative to other countries, leading taxpayers to underreport taxable income.

Therefore, if the excessively high tax rates were reduced to more reasonable levels, then tax evasion or underreporting of income could be reduced, thereby, increasing the tax revenue base. If the increases in tax revenue were in turn used for welfare expenditures for the low-income group, then a more fair and equitable redistribution of income could be easily achieved.

There was also a political element that contributed to the excessively high tax rates in the higher income group. Over the years, the National Assembly lowered tax rates for the low income group, which led to a shortfall in the budget. To make up for this shortfall, tax rates for the higher income group were raised. This had been going on for several years. As soon as the new tax agency was established, I ordered a fundamental review of direct taxes on individuals, businesses, and estate as part of my tax reform initiative. The review also included an evaluation on other taxes including business, registration, liquor, and telecommunication.

Before being able to finish the tax reforms, however, I had to resign as the Minister of Finance in September 1966. Subsequently, the tax laws were amended in 1967; however, the direct tax rates applied on higher income groups were not revised. At the time, the average tenure of a Minister of Finance was less than one year. I do not regret my short tenure of nine months. But, I do regret not being
able to carry out the tax reforms that were supposed to fundamentally reform the excessive tax rates in a way that would lead to significant increases in tax revenue and to reduce underreporting of taxable income, thus, supporting economic development and expanding welfare expenditures.

Accession to the General Agreement on Tariffs and Trade

The General Agreement on Tariffs and Trade (GATT) was an initiative started by western democratic countries, led by the US and the UK, after World War II, to increase global trade, and to facilitate the reconstruction and development of the global economy. It was to serve as the cornerstone for global economic cooperation. It offered a number of benefits. First, the GATT provided access to overseas markets and an apparatus for negotiating multilateral trade agreements with all of the member countries. Countries like Korea no longer needed to negotiate bilateral trade agreements with other member countries. Also, products made in Korea could be freely sold without discrimination according to the international law.

Second, the GATT progressively reduced import tariffs through negotiations among member countries automatically allowed for lower tariffs on some 66,000 products made in new member countries like Korea, dramatically increasing the global competitiveness of Korean products. In addition, Korea as a GATT country was placed in an advantageous position compared to non-GATT countries, since it had a head start, by virtue of being a
member country, to negotiate trade agreements with other countries. Korea could now focus on negotiating tariffs or non-tariff barriers on other Korean exports, particularly agricultural and fishing products. Third, the GATT made it easier to export products to markets in underdeveloped countries, which had been very difficult to accomplish due to the lack of trade agreements. And, according to the most favored nation (MFN) principle, Korean products could be treated equally in overseas markets in terms of import quotas. Being a GATT country also made it possible to gain access to important trade information and data, since the GATT was at the center of global trade, and to subsequently prepare appropriate measures in a timely manner.

But before Korea could even think about entering the GATT, there was much to be done in the way of clearing the obstacles to Korea’s entry. In sum, Korea had to bring down many of its trade barriers including the export-import link system, import quotas, barter trade, and export subsidies. To lead our initiatives on the GATT, I created a new division within the Customs Bureau.

I thought it was a good time to initiate the process on the GATT accession, considering the agreement to reduce tariffs among GATT countries, as suggested by US President John F. Kennedy, was just about to be finalized. And by this time, significant progress had been made on Korea’s trade liberalization including the near finalization of the negative-list system for imports. To strike the iron while it was hot, we submitted an application to the GATT on May 20, 1966, after the cabinet’s approval. Then, we entered into negotiations with the GATT in Geneva, which went fairly well. The negotiations were successfully concluded with Korea’s official membership to the
GATT on May 15, 1967. Under the GATT, Korea negotiated tariff concessions on 60 products, 17 of which were subject to lower tariffs. A grace period was given to 41 products while the remaining two products were subject to the high end of reduced tariffs. A year later, Korea also participated in the Kennedy Round talks agreed on May 15, 1968. By agreeing on the bound rates for 18 products (tariff reduction for 7 products, and a tariff grace period for 11 products), Korea could benefit from the Kennedy Round which would reduce tariff rates by 35 to 50% by 1972. Korea’s accession to the GATT helped lay a foundation for Korea’s export development.

**Establishment of the Korea Exchange Bank**

After Korea’s entry into the GATT, I began working on the establishment of a foreign exchange bank, another tool to increase exports. After Korea’s liberation from Japan, the Chosun Exchange Bank, the first private, commercial bank to conduct foreign exchange, was established in June 1947. According to the Chosun Exchange Bank Law (the Military Government Law #145), the bank was established as a joint venture between the Bank of Chosun and the Chosun Industrial Bank. All of the bank’s personnel, except for two, were dispatched from the Bank of Chosun and the Chosun Industrial Bank. I was also dispatched from the Bank of Chosun. The Chosun Exchange Bank was given authority to conduct part of the foreign exchange operations delegated under the “Control on Trade with Foreign Countries,” under the Military Government Law #93.
However, after the Bank of Korea was created on June 12, 1950, the Chosun Exchange Bank’s foreign exchange and trade financing operations were transferred to the Bank of Korea. The articles on foreign exchange operations as prescribed by the Bank of Korea Law are summarized below:

1. The Bank of Korea shall manage the funds for overseas payment of the country and establish related foreign exchange policies.
2. The Chosun Exchange Bank shall be closed, and the International Bureau of the Bank of Korea shall be the only unit responsible for foreign exchange activities.
3. The concentrated deposit system shall be adopted. Under the system, all the foreign exchange acquired by local residents shall be deposited in the accounts at the Bank of Korea.
4. Except for the foreign exchange accounts of the government, the disposition of all deposited foreign exchange shall be subject to the regulations established by the Bank of Korea.

As a result, the Bank of Korea had a monopoly on foreign exchange activities, while managing the foreign exchange with the government. However, commercial banks had to be allowed to conduct foreign exchange operations to keep pace with increased trade volume. In response to this, five commercial banks, selected and approved by the Ministry of Finance, were designated as Class-B foreign exchange banks which allowed them to conduct limited foreign exchange operations on behalf of the Bank of Korea on February 22, 1962. The Bank of Korea was designated as a Class-A foreign exchange bank that could conduct all types of foreign exchange activities. The Class-B commercial banks began foreign exchange operations in April of the same year.
Ever since the First Five-Year Economic Development Plan was implemented in 1962, exports increased by more than 40% every year. This led to a rapid increase in foreign exchange activities, beyond a level that could be handled by the Bank of Korea alone. Furthermore, there was an increasing need for foreign branches of Korean banks, which the Bank of Korea, the central bank of Korea, could not easily accommodate. The Bank of Korea also could not provide commercial trade finance related services, so businesses had to go to a commercial bank for trade finance. However, it was too early to upgrade the five Class-B commercial banks that were conducting limited foreign exchange operations, to the status of Class-A. This made it more cumbersome for businesses, which had to go to different banks for foreign exchange and for trade finance. Also, it was looking more likely that diplomatic relations between Korea and Japan would be normalized soon, opening the door to Japanese banks to establish branches in Korea.

Considering all this, it was imperative to create a financial system of banks that could offer a wide range of transactions and services and compete with foreign banks. A review of the five Class-B commercial banks was conducted to assess whether the banks were up to this task. However, it was concluded that the banks had insufficient capital (less than 1 billion won) to compete with foreign banks. Moreover, the personnel of the banks did not have the skills and training to conduct highly complicated foreign exchange operations. In light of this, the decision was made to establish a new bank specialized in foreign exchange with global standards that could provide both foreign exchange and trade finance services, which were inter-related, and had the capability to establish a network of foreign branches. To do so, the following considerations were taken into account:
(1) The change in the financial system regarding foreign exchange could affect the outstanding foreign exchange payment guarantee provided by the Bank of Korea; and
(2) The creditability of the Bank of Korea, which had been accumulated by performing its foreign exchange business for 16 years, should be utilized as much as possible.

After legislation on establishing a foreign exchange bank was approved by the cabinet, it was submitted to the National Assembly on June 24, 1966, which approved it on July 11 with minor amendments and announced it on July 28. On June 24, 1966, the Korea Exchange Bank Law was approved by the National Assembly, which led to the creation of the Korea Exchange Bank (KEB) on January 30, 1967. KEB, the only bank specializing in foreign exchange in Korea, was launched with the mission of contributing to the growth of exports and to the improvement of the international balance of payments by conducing operations on foreign exchange and trade finance. KEB was capitalized entirely by the Bank of Korea, which not only transferred its assets and liabilities to KEB’s balance sheet, but also provided staffing.

Supporting the rapid increase in exports, KEB played an important role in providing foreign exchange funds necessary to implement the series of Economic Development Plans. It established a foreign network of 26 overseas branches, and affiliated banks in Canada, Hong Kong, Australia, London, Luxemburg, and Switzerland. KEB also grew to become one of the largest domestic banks in Korea with a network of 186 branches, contributing to the growth of the domestic economy.
After its establishment, the capabilities of other commercial banks to perform foreign exchange operations and provide foreign exchange funds matched that of KEB some 20 years later. So the bank itself was no longer needed. Since around 1987, privatization of KEB was discussed so that it could compete with other commercial banks in Korea. Finally, in December 1989, the Korea Exchange Bank Law was abolished; subsequently, KEB was privatized in January 1990, 23 years after the bank was created.
A Struggle to Secure Electric Power

After I had resigned as the Minister of Finance to take the political fall following a scandal at the Korea Fertilizer Corporation in September 1966, I passed the time reading and exercising. On October 3, 1967, while golfing, I was informed that I was appointed as Minister of Commerce and Industry. Park Choong Hoon, Minister of Commerce and Industry, was appointed as the Deputy Prime Minister after the resignation of Chang Ki Young.

Right away, I had to address Korea’s electricity shortage. South Korea suffered from electricity shortages ever since North Korea stopped supplying electricity to South Korea soon after the end of Japanese colonial rule. Even worse, the few facilities for generating and supplying power that did exist in South Korea were destroyed during the Korean War. Ever since the war, investing in and building up Korea’s electricity producing capacity was always a priority. It was one of the most important areas supported by US aid. For nine years, Korea had to ration its electricity until 1965 when electricity supply was sufficient to lift the rationing. But this would be short-
lived, as the demand for electricity would exceed supply, leading to a shortage in 1967. Again a quota on the usage of electricity had to be enforced again on June 19, 1967, which was temporarily lifted on July 5, only to be replaced by more strict rationing measures. This was one month before I became minister. The First Five-Year Electric Power Development Plan implemented from 1962 to 1966, helped to double the total capacity to generate power, from 360,000 KW in 1961 to 760,000 KW in 1967. However, demand grew rapidly, increasing 20.5% per year, surpassing Korea’s capacity to supply electricity. Indeed, demand for electricity was more than 860,000 KW, well above the 770,000 KW of electricity that could be generated.

The electricity shortage of 1967 was due to underinvestment. The initial investment proposed in the First Electric Power Development Plan had been reduced based on the recommendations of a US research team (Thomas Research Team) commissioned by US AID to conduct a study of Korea’s electricity requirements in September.
1964. The study conducted by the research team concluded that the electricity demand forecasted in the First Five-Year Electric Power Development Plan during period of 1962 and 1966 was too high, recommending to the Korean government and USOM to lower the projections. As such, the downward revisions to the initial investment plans reduced electricity capacity by 224,000 KW.

The research team also concluded that demand for electricity would grow at an annual rate of 11.9% over the period of the Second Five-Year Electric Power Development Plan. This was lower than the government’s assumptions, which forecasted electricity demand to grow at a rate of 15.4% per year during the second plan. The USOM accepted the research conclusions. As it turned out, the actual growth rate of demand far exceeded both forecasts, driven by Korea’s unprecedented rapid economic development led by the manufacturing industry. Demand for electricity grew at a rate of 20.5% in 1966, followed by 33.5% in 1967. Demand would grow at a rate of 29.6% during the period of the second plan, which was exceptional in the world.

Kori nuclear power plant

Against All Odds: The Trials and Triumphs of a Technocrat
The electricity shortage of 1967 was worsened by a severe drought, the worst in seven decades, which ground Korea’s hydro power generating capacity to a halt. At the time, hydro power accounted for 200,000 KW out of the total 870,000 KW of Korea’s power generating capacity. The drought had a far reaching impact, affecting 660,000 farming households and damaging 4 million km² of farming land. The drought left the reservoir beds dry of water.

Electricity is a special commodity that cannot be readily imported or stored. Producing electricity also requires a long gestation period. As such, expanding Korea’s power generating capacity took many years.

To address the immediate shortage in electricity while trying to buy some time to build up power generating capacity, I initiated a nationwide energy conservation program, “Turn off one light per one household” to reduce and ration energy consumption. The energy conservation program included other measures such as hourly rolling blackouts, and restrictions on the usage of neon signs, streetlights, and decorative lights, except for lights used for security purposes. Shops were limited to turning on only one light per show window. Manufacturers were recommended to institute rotating no power days and to operate at night when household demand for electricity was low. Every watt of electricity was accounted for in our quest to increase the supply of electricity through conservation methods. Korea literally lived and worked in the dark for some time.

In addressing the electricity shortage, I made it my objective to complete the construction of new power plants ahead of schedule. This included the construction of the Gunsan thermoelectric power
generation plant (75,000 KW), the third Hwacheon hydroelectric power generation plant (27,000 KW), and the third Busan thermoelectric power generation plant (105,000 KW). In parallel, I sought energy solutions that would result in less power generating capacity but could be constructed in less time. This included installing five gas turbine generators in Ulsan (90,000 KW), six diesel generators in Wangsipri (30,000 KW), and six diesel generators in Bupyeong (30,000 KW). The effect of increased capacity to generate power was felt almost immediately, and led to the lifting of restrictions on electricity usage from August 1968, after Korea’s power generating capacity was increased by 202,000 KW. By the end of 1968, Korea’s power generating capacity was increased to 1,274,000 KW.

The electricity shortage of 1967 and the rolling blackouts implemented soon after greatly disrupted everyday life and industrial production, resulting in hardships and loss of production. I made a daily visit to the Korea Electric Power Corporation (KEPCO) to monitor the situation, and to Namsan Mountain to check and promote electricity conservation. At the end of 1967 when the shortage of electricity was most severe, I took every possible measure, even having out-of-service trolleys and working diesel trains generate electricity. After experiencing all this, I was determined to find a more tenable solution to Korea’s electrical power needs to prevent from such disruptions from happening again. I knew that as Korea’s economy grew so would the difficulties if it was not resolved. Because so much funding is required to maintain and build power generating capacity, power and electricity always took up a considerable portion of the national budget. This made it an easy target during government budget cuts. So, the budget authority had a
tendency to set the excess reserve ratio for electricity as low as possible. The main causes of the electricity shortages in 1967 and 1968 were the gross underestimation of demand growth for electricity and the halt in hydroelectric power generation due to the severe droughts. Another cause was the low reserve margin of about 10%.

I made sure to put the future of Korea’s energy policy at the top of the President’s agenda. First and foremost, I reiterated the point that electricity cannot be readily imported or stored. Second, I emphasized that the demand for electricity would continue to grow as industrialization progressed and living standards improved. And an electricity shortage would have devastating effects on business, working to constrain economic development and export growth. Third, a reserve margin of 20-40% was needed not only as a precautionary measure in case a plant were to shutdown, but also as a buffer when plants undergo routine maintenance. For example, for every 1 million KW of power generating capacity, a reserve margin of 40% was necessary to offset a decrease in the power supply due to the shut-down of one or two plants. For every 10 million KW of power generating capacity, a reserve margin of 20% was necessary.

I stressed that sufficient investment in electricity had to be made early and in advance. The President heeded the policy advice to secure adequate electricity reserves by making investments early, and made the development of a policy plan a top priority. Since then, Korea has not suffered from serious electricity shortages.
Export Promotion and Industrial Upgrading

Throughout the 1960s, the government carried out export-oriented industrialization policies as the centerpiece of its strategy for achieving economic development. The government sought to expand and strengthen its capacity to promote an export-led growth policy by selecting and supporting export-oriented industries with a focus on small and medium sized companies, by improving government programs and administration systems for promoting exports, and by providing incentives to enter new overseas markets. Since 1964, the Ministry of Commerce and Industry prepared an annual Comprehensive Plan for Export Promotion, which systematically outlined the export promotion programs. Some of the significant programs were as follows:

1. 50% business income tax and corporate tax exemption on income derived from exports or export-related activities and foreign currency income earned.
2. Exemption of import duties on raw materials used for export goods.
3. Special reduction in interest rates for export financing.
4. Establishment of the Korea Trade Promotion Corporation (KOTRA) to collect information on and to develop foreign markets, and Korea Trade Company (Goryeo Muyeok) under the Korea International Trade Association (KITA) to provide export support to small and medium-sized enterprises.
5. Fostering export-oriented companies.
6. Awarding contributions to national exports according to the National Award Law (including technicians, engineers, and salesmen of manufacturing companies), particularly on Export Day.
From 1967 until 1969, I prepared and implemented a Comprehensive Plan for Export Promotion each year, nurturing export industries under the maxim: “expanding infrastructure for exports” in 1967; “establishing a mass production system in the export industries” in 1968; and “modernizing facilities in the export industries” in 1969. In addition, I sought to increase the quality of exports, enhance technologies for design and packaging, and upgrade the manpower of technicians. For every year but one that I was at the ministry, we managed to meet our export targets. In 1967, we fell short of achieving our target of USD 360 million. In the following years, all of our targets were met; USD 500 million in 1968; and USD 700 million in 1969.

Amongst all the policies and programs to promote exports, the monthly export promotion meeting chaired by President Park, beginning in 1965, was the most effective way of promoting exports. The meeting convened government ministers, leading industrialists and financiers responsible for trade to report and review monthly and regional export figures and trends. The monthly meetings allowed for discussions on export policies and economic and business trends while addressing outstanding issues and problems. At the meeting, the progress of implementing export promotion policies was reported and reviewed, and problems were addressed. This helped to institutionalize the policies and systems to promote exports. Above all, it held policymakers and business leaders accountable: only good results were encouraged and rewarded. Driven by President Park’s strong determination to make Korea into an exporting power, led by the belief that “exports reflected a nation’s power,” all of government, under Minister Park Choong Hoon’s motto of “exports first,” was united in the efforts to turn Korea into an exporting power.
From 1962, exports began to increase rapidly, driven by export-oriented industrialization policies focused on labor-intensive industries. Accordingly, Korea’s economy started to take off. From 1965 to 1969, the annual growth rate of exports and actual GNP were 37.3% and 10.0%, respectively. Also, exports as a percentage of GNP rapidly increased from 5.7% to 14.9% over the same period.

However, the significant increase in exports was driven mostly by final consumer goods that were labor-intensive products, produced at the end of a production process. It mostly consisted of assembly, where raw materials and half-finished goods, capital goods, and producer goods, were imported to produce the final good for exporting. As the exports of final goods expanded over time, the imports of producer goods increased, reaching the “effective minimum production scale” where imported producer goods could be locally produced by the heavy and chemical industries. In addition, the local production of producer goods that were previously imported resulted in foreign currency savings, which were used in the local production of other producer goods, further promoting the heavy and chemical industries. In other words, once the volume of processing trade reached a critical mass, the development of the heavy and chemical industries could be started. For Korea, that point was reached in 1967, the same time I became the Minister of Commerce and Industry, and subsequently, I played a major role in the promotion of the heavy and chemical industries under the Second Five-Year Economic Development Plan.
Birth of POSCO

Two major initiatives in developing the heavy and chemical industries during the Second Five-Year Economic Development Plan period (1967-1971) were the establishment of POSCO and the Ulsan Petrochemical Industrial Complex. The government led the way. The Ministry of Commerce and Industry was responsible for the construction of POSCO with help from the EPB, and vice versa for the Ulsan Petrochemical Industrial Complex.

It was no secret that Korea badly wanted to build an integrated steel and iron mill. In March 1967, the first year of the Second Five-Year Plan, the Korean International Steel Association (KISA) was founded, comprised of 18 companies, and four countries including the US, the UK, West Germany and Italy (joined later by France). Koppers Company from the US served as the secretary of KISA. In October 1967, KISA entered into an agreement with the Korean government on the construction of an integrated steel and iron mill with a production capacity of 600,000 ton. Based on the agreement, KISA conducted negotiations with the World Bank, the Export-Import Bank of the United States (EX-IM) and other creditors from the UK, West Germany, Italy, and France, to secure financing. However, there was little progress in the negotiations.

The world frowned upon developing countries that sought to construct an integrated steel and iron mill. At an annual general meeting of the IMF and the World Bank, this view was made clear by Eugene Black, the President of the World Bank (1949-1963), when he said (to paraphrase): “There are three myths in a developing country. The first is construction of express ways, the second
construction of an integrated steel and iron mill, and the third is construction of a monument for the head of state.” Black’s comments were not unfounded.

After World War II, a whole host of developing countries including India, Turkey, Mexico and Brazil, tried to construct steel mills as a way to secure economic independence. These countries tried to build integrated steel and iron mills, typically with a production capacity of one million tons, but many of them ran into financial difficulty due to various problems in technology, management, and scale. As such, the World Bank, at the time, was not willing to provide any form of support to developing countries seeking to construct steel mills. The KISA tried just about everything to secure financing, only to fail. By late 1968, KISA had concluded that it was all but impossible to secure the capital needed to construct an integrated steel and iron mill in Korea.

A meeting of ministers between Korea and Japan was held in Tokyo from August 27 to 29, 1968. Kim Hak Ryul, the Deputy Prime Minister and Minister of the EPB, and I, on the behest of the President Park, went to Tokyo to discuss the possibility of securing Japan’s cooperation in constructing the steel mill. In Japan, the Foreign Ministry handled economic and trade relations with other countries while the Ministry of International Trade and Industry (MITI) looked after the heavy and chemical industries. Japan’s Economic Planning Agency had more to do with macro-economic research and planning, and policymaking. Ultimately, the MITI was going to review and determine whether and how to cooperate with Korea in the construction of a steel mill. Accordingly, we decided on a division of labor: Kim Hak Ryul dealt with the Foreign Ministry.
and Economic Planning Agency, and I with the MITI. After finalizing the three day talks on trade related agreements to address the trade imbalance between Korea and Japan, and the reduction or elimination of non-tariff restrictions on exports of agricultural and fishing goods to Japan, I began discussions on obtaining Japan’s cooperation in the construction of a steel mill. Masayoshi Ohira was the Minster of International Trade and Industry at the time. Being one of Hayato Ikeda’s three trusted men, he had a direct line to the former Prime Minister, and was a prominent figure in the Sato government. Ohira served as the Minister of Foreign Affairs and the Minister of Finance, and would later serve as Prime Minister himself. I had a few official and unofficial meetings with Minister Ohira, who was accompanied by Shoichi Akazawa, the Director-General of the Heavy Industries Bureau (later to serve as Vice-President of Fuji Telecom and Chairman of JETRO). Akazawa oversaw the heavy industries at the MITI.

After hearing the proposal, Minister Ohira was dismissive of Korea’s plan to build its own integrated steel mill. It was too small in scale, required massive investment in infrastructure, which ultimately made it an unprofitable proposition, and possibly, a detriment to Korea’s economy. Instead, Ohira suggested that Korea simply buy steel from Japan, not because it would benefit Japan, but because it would benefit Korea more than to produce its own steel. Indeed, achieving economies of scale is a critical element of steel production. At the time, steel mills with a production capacity of 8 to 10 million ton were being constructed around the world. Korea’s plan called for only 600,000 tons in capacity, when capacity of at least one million tons was deemed as the minimum required to be globally competitive. To support the production of steel, Korea needed to
make huge investments in its infrastructure including ports, water systems, roads, and railways. Last but not least, Korea had to secure the necessary financing to fund these investments at rates that would make it possible to produce steel at globally competitive prices. So Korea faced an uphill battle in its efforts to construct a steel mill that would be able to produce steel at globally competitive prices for consumption by its export industries, and other domestic industries such as construction and transportation.

My response was that Korea would eventually increase its production capacity to one million tons. The infrastructure investments would be funded by the national budget. Also, some of the reparations from Japan could be used to fund the construction of the steel mill, which would lower financing costs. And I stressed that unlike other developing countries, Korea had sufficient domestic demand for steel of up to one million tons, allowing it produce steel that was globally competitive and profitable. I also told him that Korea was also seeking cooperation from other advanced countries, outside of Japan. I explained that cooperation would contribute to improving relations between our two countries, leading to better trade and economic relations. Minister Ohira agreed that Korea’s plan could be more profitable compared to other countries with similar capacity, if the construction was funded with non-interest bearing funds from Japan and the infrastructure investments were funded by the government. However, Minister Ohira cautioned that Japan could not commit to this plan until the KISA negotiations with other countries including the US, UK and Germany, were concluded. Throughout our conversation, Minister Ohira was attentive and reserved, remaining expressionless, not showing his hand; but I sensed he saw the merits of our proposal. The ministerial talks
concluded with a joint statement confirming Japan’s understanding of Korea’s plan to construct a steel mill in Pohang by 1972. The statement also confirmed Japan’s intention of sending a team of experts to conduct a survey in Korea.

The next morning I invited Akazawa for breakfast. I wanted to get a frank assessment of our plans. Akazawa, by the nature of his position, had the technical expertise in industrial policymaking, and was sufficiently high-ranking in government, to gauge the economic and political viability of our plan. In frank terms, Akazawa thought the proposition was at least worth considering, if local funds were covered by the national budget and the foreign capital was covered by the funds at no interest from Japan. After returning to Korea, Deputy Prime Minister Kim and I briefed President Park on our negotiations, who upon hearing Japan’s willingness to consider cooperating with Korea, made the decision to draw on Japan’s cooperation, if KISA was not able to finalize its negotiations soon.

At the third meeting of the International Economic Consultative Organization for Korea (IECOK) held in Manila in April 1969, the World Bank officially stated its position to oppose Korea’s plan to build an integrated steel and iron mill; subsequently, in May 1969, the US EX-IM declined to provide loans, as the plan was assessed to be economically infeasible. In response, President Park decided that the only alternative left was to construct the steel mill with cooperation from Japan. The following outlines the key conditions and provisions to securing funds from Japan.

(1) Production capacity of the integrated steel and iron mill shall be one million ton.
(2) In construction of the steel mill, the interest expense burden
shall be significantly reduced by drawing on the reparation funds from Japan.

(3) The construction costs of the steel mill shall be greatly reduced by funding the construction costs of infrastructure such as ports, docks, roads, and railways, with the national budget.

(4) The government shall enact the Steel Industry Promotion Act establishing various government support measures including tax and tariff exemptions, provision on special depreciation of costs, reduction of public utility charges, and provision of financial funds, to ensure the profitability of the steel mill.

In September 1969, a Japanese team headed by Director-General Akazawa came to Korea. The World Bank sent their team a month later. The World Bank asserted that the construction costs of building the infrastructure including ports, water facilities, roads, and railways, should be borne by the steel mill, not by the government. However, the Korean government was able to persuade the World Bank in the merits of having the government pay for the construction costs by making the case that the infrastructure would benefit the whole nation, not just the steel mill; while Korea faced unique conditions as a developing country. Also, the Bank recognized the economic as well as technological feasibility of the construction plan after engaging in working-level cooperation and site inspection.

At last, the accord between Korea and Japan on the construction of an integrated steel and iron mill was entered into in December 1969. Construction began soon after. The funds would be allocated from the Japanese reparation funds. The reparation funds included grants of USD 300 million, soft loans of USD 200 million, and
commercial loans of USD 300 million or more. For the grants and the soft loans, there was an understandably strong demand for compensation for the distinguished services to independence, civil claims against the Japanese colonial rule, and fishermen’s damages resulting from the elimination of the peace line. However, President Park stood resolute in making the decision to invest a large portion of the reparation funds in building a steel mill. A summary of the financial terms and conditions of the Japanese funds are provided below:

- Funds with no interests (grants): USD 30,800,000
- Funds with the annual interest rate of 3.5% (soft loans): USD 46,428,000
- Loans from the Export-Import Bank of Japan with the interest rate of 5.875%: USD 52,498,000
- Private commercial loans (Supplier’s Credit) with the interest rate of 6.5%: USD 38,332,000
- Total: USD 168,058,000

The construction of the main steel mill with a planned capacity of 1,030,000 tons for the Pohang Iron and Steel Company (POSCO) began on April 1970, taking three years to complete on July 1973, with the cooperation of the government ministries. Meantime, construction work for the supporting infrastructure had begun in April 1968. Park Tai Joon (later to serve as Prime Minister), who had gained President Park’s confidence while in the army, led POSCO as its CEO with assistance from Vice-President Ko Jun Sik and other employees. The efforts and hard work of all of POSCO’s employees should not be forgotten. Since its inception, POSCO has been profitable.
The government invested 75% of the initial paid-in capital while the rest was invested by Korea Tungsten Co., a state-owned company. The loans from the government and banks were converted into equity while all of its earnings were retained and not paid out as dividends. (No dividends were paid until 1983.) Retained earnings were used to finance further expansion. After the first expansion of production capacity to 2.6 million ton and the second expansion to 5.5 million ton, POSCO’s total production capacity reached 8.5 million ton in May 1981.

Steel is a basic, essential material for all industries including the defense industry. The three basic processes of steel manufacturing are as follows.

1. Pig iron manufacturing process which produces pig iron by reducing and melting iron ores into coke in a huge blast furnace.
2. Steel manufacturing process which produces intermediate products such as steel ingots and steel sheets by processing raw materials such as pig iron or scrap iron in a revolving furnace, an electric furnace or an open-hearth furnace.
3. Rolling process which produces a variety of rolled steel by heating and rolling steel sheets with a roller.

The cost of producing steel can be reduced through advanced integrated steel and iron manufacturing, which automates and accelerates the production processes by using raw materials such as iron ores or coke. It is near impossible for a small developing country with a small domestic market to achieve economies of scale in steel production. Many have tried, only to have failed. Driven by President Park’s unrelenting will and leadership and by the government’s
comprehensive industrial policy, Korea was able to achieve what so many have failed to do.

Establishment of the Ulsan Petrochemical Complex

When I became the Minister of Commerce and Industry in October 1967, the projects for the construction of petrochemical plants, which were led by private-sector companies on their own, were not delivering expected results. Thus, I made policy changes, in which the government would construct the industrial complex first, and then, sell individual plants to private-sector companies.

Petrochemical manufacturing has three processes as follows.
(1) The first process produces basic materials such as ethylene,
propylene, benzene, and butadiene, by distilling or breaking down petroleum.

(2) The second process produces low density polyethylene (LDPE), high density polyethylene (HDPE), polypropylene (PP), acrylonitrile (AN), and caprolactam, by polymerizing and mixing the basic materials produced during the first process.

(3) The third process produces synthetic resins, synthetic fiber, and synthetic rubber, by processing the materials produced during the second process.

Prior to the construction of the Ulsan Petrochemical Complex, Korea imported materials produced in the second phase, and then, processed the materials to produce synthetic resins, synthetic fiber, and synthetic rubber, which were exported or sold domestically. As Korea’s production levels exceeded the effective minimum production scale for the raw materials, the decision was made to build a petrochemical industrial complex, housing oil refineries and naphtha-cracking plants, to produce materials from the first and second processing stage. The construction of the petrochemical complex was pursued under the Second Five-Year Economic Development Plan as one of the two core projects, with the other being the Pohang Iron and Steel Company. To assess the feasibility of a petrochemical industry in Korea, I commissioned Arthur D. Little (ADL) to conduct a survey in 1966. At the same time, I created the Petrochemical Division at the Ministry of Commerce and Industry to oversee the project.

As Korea was late to the game, the most difficult challenge to developing a petrochemical industry was figuring out how Korea
could compete with other advanced countries, especially Japan. The petrochemical industry is a process-oriented, “throughput” industry, where achieving economies of scale is critical. In particular, the middle distillate produced by cracking naphtha has to be disposed, if it cannot be fully utilized by downstream plants, which would significantly reduce profits. Coordinated investment is critical.

The report by ADL concluded that a petrochemical industry was feasible in Korea, but recommended that the production capacity of the naphtha-cracking plant be capped at 32,000 tons (ethylene) due to insufficient demand. Also, the report suggested that downstream plants producing the eleven materials including ethylene and propylene be constructed first. However, it was clear that Korea could not be competitive with a capacity of 32,000 tons, especially when advanced countries were already operating large-scale naphtha-cracking plants with a capacity of 300,000 tons or 500,000 tons. Independently, the government considered a capacity of 66,000 tons, before finally deciding on a capacity of 100,000 tons, with plans to increase the capacity to 150,000 tons in the near future. In addition, the government decided to build 12 downstream plants.

With the capacity increasing to 100,000 tons, middle distillates were expected to increase significantly, making the simultaneous construction and operation of the 12 major sub-affiliated plants all the more important. In addition to the construction of the naphtha-cracking plant, the downstream plants needed to be up and running to keep utilization of the middle distillates high.

When I took over the project on developing the petrochemical industry, I discovered that some companies, which the government
had chosen to build downstream plants, were not progressing on schedule due to their inability to secure financing in a timely fashion. As this could have jeopardized the entire project, I had no choice but to replace poorly performing companies, despite their threats to pursue legal action.

The new plan was to have the public sector carry out the construction of the core plants. Once construction was completed, individual plants would be sold to private-sector companies. As such, the Korea Oil Corporation, a state-owned enterprise, was selected to construct the naphtha—cracking plant, while Chungju Fertilizer, another state-owned enterprise, was selected to build the plants for processing PE, VCM, AN, and caprolactam. It was also selected to build the utility center producing and distributing steam and electricity for the whole complex. Finally, the existing private-sector companies were left to lead the construction of plants for processing PP, SBR, methanol, phthalic anhydride, and alkyl benzene.

Constructing one plant was difficult enough. So one can imagine the difficulties faced in constructing 12 plants, all at the same time. The most difficult decision proved to be selecting the production methods for each plant. The petrochemical industry was characterized by rapid technological progress. For example, there were several patented production methods for PE. Every plant built in every country had a different production method, built by a different engineering and construction company. So, a comparison of all the different productions methods had to be done to determine which method was the most suitable, considering criteria like

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productivity, operational rates, and work safety. A comparison also had to be made to assess the financing costs of each method.

I entrusted this difficult task to O Won-chol, the Director-General of the First Industry Bureau at the Ministry of Commerce and Industry, Park Jin Suk, the CEO of the Chungju Fertilizer Company, and Ma Kyung Suk, the technology director of the Chungju Fertilizer Company. O Won-chol was well regarded in industrial administration, and was one of the best technical experts in petrochemicals. Park Jin Suk, a former military lieutenant general, was an astute businessman and fluent in English. Ma Kyung Seok was also an expert in petrochemicals, and very capable manager. I took every one of their recommendations and decisions without any changes.

Suffice to say, some of the local companies that formed joint ventures with foreign companies cried foul after they were no longer deemed fit to participate in the construction of petrochemical plants, leading them to petition the Blue House several times to make their case. At times, I was consulted by the President Park, who also sought the view of the Ministry of Commerce and Industry and the presidential secretaries in regards to their claims. Sometimes, the companies had reasonable grounds for their claims. This often led me to have heated debates with the presidential secretaries during meetings with President Park. But I always spoke my mind and gave my frank opinions. President Park always supported the decisions made by the Ministry of Commerce and Industry. Once companies
realized that their fortunes could not be reversed or changed, they stopped making petitions.

On July 8, 1968, nine months after I became the Minister, I made a visit to the US for a ministerial-level meeting on commerce and industry between Korea and the US in Washington, DC. At this time, a decision had not been made on the financing method—direct foreign investment or loans—for the construction of many of the downstream plants. After the meetings concluded, I flew to Middleland City, Michigan, to visit Dow Chemical Company to persuade its management, which was still hesitant to invest in Korea, in the merits of investing in Korea.

I met Dow Chemical’s Chairman, CEO, and a dozen of the company’s executives to assure them that the development of the petrochemical industry was of national and strategic importance that had the full support of the President and the government. Though initial plans were to build capacity up to 100,000 tons, the downstream plants were to be built in parallel to the main plant to ensure the venture was profitable from the start. After days of long meetings, frank discussions, and negotiations, Dow Chemical’s management agreed to make an investment in Korea. It was the crowning achievement of more than ten days’ labor by the Minister of Commerce and Industry of Korea, the head of the supervisory ministry for the Korean petrochemical industry. The delayed investment negotiations were finalized in short order, and the construction of the 12 plants began. Soon after, construction on the plants began. In October 1970, the naphtha-cracking plant, including the nine plants for processing LDPE, VCM, AN, PP, phthalic
anhydride, alkylbenzene, and SBR, as well as, the utility center were constructed. The remaining plants for processing caprolactam, ethanol, and acetaldehyde, were also built within two years.

Ulsan petrochemical complex (January 1964)

From the start, Korea’s petrochemical industry has been profitable. Despite having an initial capacity of only 100,000 tons, the simultaneous construction of the downstream plants ensured the viability of Korea’s petrochemical industry. The development of the petrochemical industry not only helped to meet domestic demand but also contributed to exports. Korea has been recognized as a leader in the petrochemical industry, showing that even developing countries can have an advanced petrochemical industry. The words of a US petrochemical executive best sum up Korea’s remarkable
achievement: “Flying west from the US and past Japan, one will not find another petrochemical plant after Korea until one reaches Italy.”

Since the implementation of the Ulsan Petrochemical Complex Project, many other projects at the second stage have been initiated including the construction of plants for processing HDPE, styrene monomer, ethylene glycol, and terephthalic acid (TPA), further increasing the profitability of the Korean petrochemical industry. In the 1970s, Korea was able to develop a more advanced petrochemical industry by building the Yeocheon Petrochemical Industrial Complex.

**Creation of the Export Promotion Special Account Fund**

On September 1, 1988, the Korea World Trade Center was constructed on 18,000 m² of land. The Korea International Trade Association occupied 55 floors of the building, while the Korea Convention and Exhibition Center (COEX) occupied four floors. The rest of the building was occupied by a hotel, a department store, and the airport express terminal. I was invited to the opening ceremony where I was honored by senior executives of the trade association for establishing the Export Promotion Special Account Fund in 1968, when I was the Minister of Commerce and Industry, which contributed to the construction of the trade center.

In 1968, Korea’s exports were still in the early stages of development. Korea’s export volume in 1968 was USD 350 million,
11 times bigger than the volume of USD 32 million achieved in 1962, but still short of the goal of USD 360 million by USD 10 million. At this point, achieving the export targets of USD 500 million for 1968 and USD 700 million for 1968 seemed daunting. To promote exports, Korea needed to establish policy measures including: incentives for companies to make inroads into new overseas markets; promotion of domestic and overseas trade shows and expos; investing in the development of technologies and designs in product packaging; and upgrading inspection offices and equipment to ensure for the quality of export goods.

The Ministry of Commerce and Industry could not secure the government budget needed to promote exports due to the poor state of Korea’s finances. It had to find an alternative funding source. Faced with this reality, I recommended that a new approach should be taken as a way to raise funds to promote exports during the 7th export promotion meeting in 1968. President Park quickly took to the idea, and tasked me to prepare a plan.

Introducing a special-purpose tax made management of a country’s fiscal budget inflexible. Both the budget authority and the tax authority were reluctant to introduce one. However, I believed that a quasi-tax similar to a special-purpose tax was the only feasible way to secure funding for export promotion. I managed to get the Minister of the EPB to agree to this plan fairly quickly. However, it took longer to convince the Minister of Finance to agree to the plan. I also managed to get the Vice-Ministers from each of the ministries on board after a bit of swaying. Finally, I asked the Assistant Secretary for Commerce, the Director-General of the Commerce Bureau, and the Director of the Commerce Division to begin

Electricity, Steel, Petrochemicals, and Export Promotion
negotiations with working-level officials and to get them to agree to
the plan. After long, difficult negotiations due to opposition from
some of the budget and tax officials, we managed to agree to allow
the Korea International Trade Association to impose a special fee of
a certain rate on imports. The revenues from the fees were then to be
put in a fund to promote exports. On December 18, 1968, at the last
export promotion meeting of that year, President Park approved the
following:

(1) The Korea International Trade Association imposes and
collects special fees on all imports when an import approval or
permission is issued, except for raw materials for foreign
exchange earning purposes or official purposes.

(2) Initially, the special fees shall be imposed on import amount at
1%, but progressively reduced in the future depending on the
increase in the revenue or the expansion of export-supporting
projects.

(3) The special fees shall be called the Export Promotion Special
Account Fund, and administered by the management and
operation committee at the Korea International Trade
Association.

(4) The Export Promotion Special Account Fund shall be used
only for export promotion projects with an approval from the
export promotion meeting of the government.

(5) The special fees shall be collected effective from January 1, 1969.

I attended a temporary general meeting of the Korea International
Trade Association to plan out a strategy on how best to deploy the
funds to promote exports. I advised that the association unanimously
agree to establish an export promotion fund that would benefit the
whole nation, even though the special fees would increase the costs
of imported goods. I also stressed that the export promotion fund had to be appropriately operated and managed, since the special fees were fundamentally similar to taxes.

Accordingly, the Foreign Trade Act was amended to adopt the special fees, effective January 1, 1969. Also, the Corporate Income Tax Law and the Individual Income Tax Law were amended to allow the special fees to be tax deductible from income earned. In the first year the special fees on imports were levied, I made sure that the revenues raised in the first year were mostly used to fund for expenses related to companies exploring new overseas markets, and for the development of design and packaging centers. At the time, Korea barely achieved its export target of USD 500 million in the previous year, which did not leave sufficient foreign exchange. Also, Korean companies, especially small companies, were financially weak and could not afford to make business trips overseas, barely being able to afford the visa related fees. It limited many companies’ ability to make fact-finding business trips, hampering their ability to acquire the right information on markets and products, which was often the cause for the low quality of products.

It was important, I thought, that export-oriented companies be exposed to the global market to gain valuable experience and knowledge on different products and markets. This type of exposure would allow them to produce globally competitive products. Regardless of the industry, a trade show or an exhibition, where exporters and importers gathered, was held all the time somewhere in the world. I sought to promote programs that provided financial support by paying for most of the travel expenses of export companies sending their marketing teams to a trade show or
exhibition abroad. This helped them market their products aggressively, gain global exposure, and obtain valuable market insights.

Exporting companies largely sat around, waiting for an overseas order to come in. But after getting some badly needed exposure to markets abroad, exporting companies began to receive more orders. Korean companies studied, and tried to emulate the products of overseas competitors in ideas, design, and quality. This type of direct exposure to global markets led exporters to improve the quality of their products and services.

In the 1960s, the quality of design and packaging used by Korean exporters was poor by international standards. The final, packaged product often looked cheap and sold at low prices. The materials and methods used were well below internationally accepted standards. To improve the quality of a product’s design and packaging, the government established the Design and Packaging Center which performed design studies and produced and distributed internationally accepted packaging materials. If materials could not be locally procured, they were imported in bulk by the center to reduce costs. Also, industries were encouraged to invest in the development of new designs and packaging method.

In 1970, the funds were used to also support several new initiatives including the global marketing activities of KOTRA and the export promotion activities of diplomatic offices. Also, the funds were used to attract investments in the Korea Trade Company, an agency set up to support exports in small volumes. In addition, support was provided in the expansion of facilities and procurement
of equipment at export quality inspection and assurance offices, enhancement of foreign language education facilities at Hankook University of Foreign Studies, productivity improvement projects of exporters, and sharing of expenses incurred from fines imposed by other countries.

Also, the funds were used to construct the 22-story trade center building, which is currently owned by Asiana Airlines. In addition, all the government’s equity in the Korea Commercial Bank was purchased to establish a bank specialized in foreign trade, and the 18,000 m² of land in Samsung-dong, Gangnam-gu, Seoul, in hopes of building a new trade center some day.

A new trade center building was needed during the mid-1980s. So, the funds from selling the 22 story building and the shares in Korea Commercial Bank with loans borrowed from banks were used to construct the new state-of-art building on the 18,000 m² of land. Indeed, the new trade center building, COEX, now sits on prime real estate in the heart of the Seoul, and has an international hotel, a department store and an airport express terminal. Over the years, the rate applied on special fees has been reduced six times from the initial rate of 1% as exports have continued to grow. As of 1990, the rate was 0.15%.

I never would have thought that planting the seeds of a simple policy nearly 20 years ago could grow to contribute so much to Korea’s advancement. I pay tribute to the steadfast efforts of the Ministry of Commerce and Industry and the Korea International Trade Association for making this happen.
Policymaking on the Front Lines 1: Social and Economic Transformation

10. Unexpected Appointment as President Park’s Chief of Staff
12. Green Revolution and Dual Grain Price Policy
13. Saemaul Undong (New Village Movement)
14. Reforestation
15. Expressways
16. Moratorium on Curb Loans
17. Value Added Tax
18. National Healthcare
On October 17, 1969, a referendum was held to amend the constitution that would allow President Park to remain in office for a third consecutive term. A majority voted in favor of the referendum to amend the constitution. (Voter turn-out was 77.1% with 65.1% voting yes and 31.3% voting no.) As such, the cabinet of Chung Il Kwon resigned, allowing President Park to fulfill his responsibility in leading the people of Korea with fresh new ideas.

I had been the Minister of Commerce and Industry for the previous 2 years, and I was proud of the great many things we were able to achieve. So, I felt it was a good time for me to leave government. I began to finalize pending issues, and to pack my personal belongings. On October 20, all the members of the President’s cabinet resigned. Later that afternoon, I received word that President Park wanted to see me in his office. Most of my meetings with President Park were about economic or industrial matters. But considering the events of the day, I wasn’t sure what to expect: I wondered if he wanted to discuss the recent resignations by the cabinet members. When I entered the President's office, he was
by the window, peering out with his arms folded. I bowed to him, and then, he asked me to sit down. He then advised me that I was to be his next Chief of Staff. Before I could even ponder the consequences of what the President had just told me, I replied: “I may know some things of economics but I know nothing of politics. I dare say that I am not up to the task of being the Chief of Staff to the President.”

President Park said: “The economy is the fundamental basis of a nation. If the economy is well, people shall prosper. This is the basis for political stability and a strong national defense.” Korea’s national security weighed heavily on President Park’s mind. There were constant reminders of the threat North Korea posed to South Korea’s national security throughout the 1960s. On January 21, 1968, North Korea launched a commando raid on the Blue House. On January 23, 1968, the Pueblo, a US intelligence ship, was taken by the North Koreans. On November 2, 1968, 100 North Korean guerrillas raided Uljin and Samcheok. On April 15, 1969, an US intelligence airplane, the EC121, was shot down.

He believed the nature and purpose of the recent war-like actions and provocations of North Korea were different from previous incidents, which only solidified his belief that the nation could face dangers as great as the Korean War, if it did not strengthen its national defense. He was disheartened by the lack of decisiveness on the part of the US in response to North Korea’s taking of the Pueblo and shooting down of the intelligence plane.

The President told me Korea’s national security and defense, and foreign policy, would be top priorities, ensuring Korea does not face
a crisis like the Korean War. He told me that he would take personal stewardship of this; entrusting me to manage the nation’s economy as his Chief of Staff. I was to identify and address economic issues based on the prevailing conditions, and to brief him on the economic policies focused on export-led industrialization and development of the agriculture sector. After meeting with the President for 50 minutes, I left his office not feeling a sense of excitement but a deep sense of urgency. I felt the economic future of an entire nation had been placed in my hands. As soon as I got back to my office, I informed my assistant of the news, and asked her to send my personal belongings to my home. Then, I left the office. On my way home, I stopped by my parent’s home to inform them of my appointment. They were also concerned about my new responsibilities, and wished me well. When I told my wife of the news, a heavy sigh of grief came over her, since she too would have new responsibilities as the wife of the President’s Chief of Staff, much more than any Minister’s wife. That evening, after my family gathered, I promised to devote myself more to my family and the important things in life. Only the proverb of “Man proposes and God disposes” was on my mind.
A Vicious Cycle of Poverty in Rural Areas

Korea’s geography is very mountainous; only 22% of its land is arable. About 2 million hectares (ha) of the agricultural land were farmed by more than 2 million households. So, the cultivated acreage per household was approximately 1 ha. Korea has one of the highest population densities in the world. Its weather is marked by four seasons. Summers provide excellent conditions for rice farming but nothing could be cultivated during the long and cold winters, when the land and labor were left idle, leading to seasonal unemployment and inefficient use of agricultural resources. All put together, it was difficult to raise the standard of living in the agriculture sector.

During the period after Korea’s liberation from Japan until the 5.16 Revolution in 1961, the biggest issue confronting the government was to address the food shortage in rural areas in the midst of the political chaos and severe inflation. The food shortage caused by the large influx of Koreans coming back from overseas and North Korea, and by the lifting of food rationing provisions that
was implemented during war time. At the same time, the production of grain could not keep up with demand due to a shortage of fertilizers and lack of farming technologies. As a result, grain prices soared. If not for the emergency aid from the US, Korea could not have survived the food shortage.

Meanwhile, the Syngman Rhee government pursued agricultural reforms under the Land Reform Act, legislated in June 1949. The Land Reform Act was a set of measures based on the principle of farmers owning land, or “land to the tiller.”

The problem was that not many farmers were able to own land after the Korean War. The whole country was devastated, and most farmers lost their farming cattle during the war. After the ceasefire, small farmers with cultivated acreage of less than 1 ha, who accounted for 72% of all the farmers, were financially burdened by having to make in-kind installment payments of 30% of their yearly crop output to farm on the land. On top of this, farmers were subject to a 5% tax on their yearly crop output. Burdened financially, many farmers sold their land; consequently, the tenant-farming system became more pronounced.

However, the government was not in a position, financially and economically, to provide any substantive support to the farmers, despite a number of rural development plans. During the postwar reconstruction period from 1953 to 1960, the government implemented a series of plans to rebuild Korea’s agricultural sector, which was heavily damaged during the war. The plans included: Five-Year Grain Production Expansion Plan (1953-1957), Five-Year Livestock Industry Restoration Plan (1953-1957), Five-Year

The government also sought to stabilize prices for grain and rice. In the early 1960s, the prices for grains like rice and barley were too low while 80% of the farm households were in debt with high interest rate loans. To keep grain prices low, measures were implemented to support farmers in paying their land income taxes in-kind. Efforts to stabilize rice prices and general prices were made by controlling inflation, maintaining the exchange rate, and implementing the grain-mortgage financing system. Despite these initiatives, the economic plight of the farmers worsened, many suffered from food shortages, forced to eat tree bark and grass just to survive. Poor farmers were caught in a vicious cycle of poverty, constantly in financial debt, often paying an annual interest rate of over 50%, only to have to borrow more or use a decent year’s harvest to pay off their debt in the spring and autumn. When the long winters came, farmers would lay idle, often drinking and gambling. Many were discouraged to work hard, feeling trapped under a mountain of debt. It seemed poverty stricken farmers could not escape from this vicious cycle of poverty or "Asian stagnation."

**Improving the Living Standards of Farmers**

For 18 years from the time he led the revolution to his death, President Park made two economic policies as his top agenda: economic development through export-oriented industrialization and enriching the lives of farmers. The President was determined to
restore and modernize Korea, and to help farmers attain a better way of life. President Park believed that the chronic indebtedness of farmers was the biggest obstacle to economic improvement in the agricultural sector, declaring, “The starving people will be freed of their financial burdens.”

As the first step to reconstruct the agricultural economy, the President implemented a measure to reduce high-interest loans on May 25, 1961. Then, the National Reconstruction Movement Act was legislated on June 11, 1961, under the banner of “creating a welfare state,” based on the principles of democracy, self-reliance, and self-help, in hopes of helping farmers secure a more prosperous life. The reduction of high-interest loans was a revolutionary method to alleviate absolute poverty in the agricultural sector, which prevailed during the “the farm hardship period.” The National Reconstruction Movement was a national campaign to support farming and fishing villages which had been stuck in a state of dejection and resignation for thousands of years. However, the National Reconstruction Movement was initiated while Korea was trying to rebuild itself economically in the early 1960s. Korea’s financial and banking system were poor; the government lacked financial resources to repay the high-interest loans on behalf of the farmers, and to help improve their economic situation. The government tried to alleviate the indebtedness of farmers, but it took a long time before any substantive progress was made.

The production of rice and barley accounted for most of the income of farming households. The initiatives in the agricultural sector focused on improving the basic conditions needed for farming such as improving soil fertility and constructing irrigation and water
systems. Also, much of the arable land needed to be transformed to mechanize farming and to raise productivity. From the outset of the 5.16 Revolution, President Park emphasized enhancing soil fertility, developing agricultural water sources, and readjusting arable land, setting out to achieve these objectives as an important part of Korea’s modernization from the 1960s. In the early 1960s, farmers relied largely on chemical fertilizers to nourish the soil. This was ruinous to soil, lowering the productivity of farmers and causing damage to the environment due to disease or insects. For instance, farmers could have used rice straws for compost to fertilize the soil; instead the rice straws were used to make roofs or straw goods to sell.

To raise agricultural productivity, Korea embarked on a series of agricultural policy initiatives. One small but high-impact initiative, a voluntary-based program, sought to help farmers improve soil fertility by introducing new techniques and providing resources, during the off season. Farmers were given lime, taught to plow fields deeper and to use compost, as ways to be more efficient with the soil.

At first, farmers were less than enthusiastic about the initiatives. To help raise awareness, the President made every effort to personally visit the farmers when he could. It didn’t take long before farmers saw the benefits of the new farming techniques, and adopted them. One major objective of President Park’s agricultural policy was to improve productivity by mechanizing farming. To mechanize farming, the agricultural land had to be readjusted to accommodate the farming machines. Kim In, the first Governor of Gyeongbuk during the military, government led this project to readjust the land, despite the poor state of the government’s finances. Once work had been completed on the farming lands, a push was made to mechanize...
farming in the 1960s; however, there were major obstacles to achieving the policy objectives. First, the abundant labor supply in the agricultural sector meant that farmers didn’t need machines. Moreover, farmers didn’t have the financial means to buy farming
machines, which were not readily available in Korea due to its underdeveloped machinery industry.

![Mechanized rice transplanting (1970s)](image)

It wasn’t until the 1970s that farmers were able to make some progress. By the end of 1979, nearly 323,000 ha of arable land had been readjusted, which accounted for 55% of the total arable land in Korea. The agricultural sector experienced a labor shortage which made farmers rely more on farming machines. By this time, Korea’s manufacturing industry had caught up considerably, producing various farming machines including cultivators, sprayers, water pumps, threshers, cutters, rice-planters, and tractors. The use of farming machines became more widespread, mechanizing Korea’s agricultural sector, and raising productivity. Also, the Saemaul Movement encouraged shared ownership of farming machines.
among individual farmers to maximize its use and to spread out the financial burden of purchasing a machine. President Park was involved at every step of the process and knew every detail of the policies, even making sure that a network of after-sale service was established so that farmers could easily access maintenance and repair services.

President Park harvests rice — Korea attained rice self-sufficiency in 1976
Reviving the Glory of Youngsan River

Korea has four major rivers: the Han River, the Geum River, the Nakdong River and the Youngsan River. Korea receives 980 to 1400 mm of rainfall on average per year, most of it during the rainy season in the summer. Droughts and floods were a constant source of suffering for the farmers due to a lack of dams and poor reservoir facilities. Furthermore, during the cold winter from November to March, all the land and labor were left idle, except when barley and spinach were planted. These were the major reasons for poverty among farming households. To help farmers escape from poverty, President Park sought to prevent droughts and flooding, and to promote year-round farming where various vegetables could be grown during the winter. He did his best to develop water resources and agricultural water, and to introduce greenhouse cultivation.
To prevent damage from droughts and floods, President Park sought to construct large-scale multi-purpose dams along the major four rivers. Several dams were constructed in the rivers connecting to the Han River in the North including the Soyang River Dam, the biggest rock-filled dam in Asia, the Chuncheon Dam, the Uiam Dam, and Paldang Dam. These dams were built to withstand some of the biggest floods of the century. To the south of the Han River, the construction of the Chungju Dam, which began in 1978, was completed in the 1980s. Also, the Imjin Area Project, a large-scale agricultural project, was completed during the 1980s. The Geum River basin covering Chungcheongnam-do (South Chungcheong province), Chungcheongbuk-do (North Chungcheong province), and Jeollabuk-do (North Jeolla province), was at the center of Korea’s agricultural sector. A large-scale comprehensive agricultural development project was completed where the Daecheong Dam was built in 1980 in the Geum River to supply water to its basins located in Gongju, Nonsan, Ganggyeong, and Gunsan. The dam also supplied water to the residents in Cheongju and the factories in Daejeon. Also, the Pyeongtaek District Comprehensive Development Plan was completed where a tide embankment was built at Asan Bay to create a huge artificial freshwater lake.

From the tip of Jeollabuk-do (North Jeolla province), the Youngsan River flows through Jeollanam-do (South Jeolla province) to Korea’s southern coast. The river was prone to droughts in the dry season and floods in the rainy season, resulting in extreme fluctuations in the water supply, which disrupted the water supply to farmers in the adjacent plains and residents of Gwangju and Mokpo. The lack of a steady water supply had a huge negative impact on Jeolla provinces’ agricultural and manufacturing business, a
fundamental reason for the widespread poverty in the region. It accordingly became to be known as the river of tears. The severe droughts of 1967 and 1968 led to a mass migration of farmers out of the region.

To prevent floods and to secure a steady water supply for the region, President Park launched a series of development initiatives. In the First Youngsan River Development Plan, a series of dams including the Jangseong Dam, the Damyang Dam, the Daecho Dam, and the Dongbok Dam were constructed. Furthermore, an embankment at the mouth of the Youngsan River was built in the early 1980s, creating an artificial lake that provided a steady supply of water to Jeolla regions. After these efforts, joy instead of tears flowed down the Youngsan River.

The Nakdong River flowed through Gyeongsangbuk-do (North Gyeongsang province) and Gyeongsangnam-do (South Gyeongsang province), and into the ocean in Busan. The river was an important source of water for residents and farmers living in the Yeongnam region. The water was also important to factories along the southeastern coastline. A series of dams including the Andong dam, the second largest multi-purpose dam, Namgang Dam, and Yeongcheon Dam were constructed as well. Of course, more small and medium sized dams were necessary to fully utilize the water of Korea’s major rivers, but the construction of these major dams made it possible to utilize most of the water sources.

In June 1964, Korea experienced severe droughts throughout the region of Yeongnam; its rivers and rice fields were dried, completely bare of water. The rice fields looked like a turtle’s dry, cracked shell.
The drought caused considerable economic damage, even threatened the supply of drinking water. Farmers and local officials were left helpless. During his visit to the devastated region, the President tried to console and reassure the people of the region that water would flow again in the region.

Faced with this disaster, the President gave the go-ahead to find and secure other methods for securing sources of water, namely, surface and underground water in river beds and rice fields with water pumps. Surface water could be accessed by digging in the dried river beds, even in dried rice paddies, if it was dug deep enough. This was the first of its kind in Korea. An initial survey conducted of the region concluded the existence of adequate surface and underground water, some only a dozen meters below the surface. A more complete survey of the entire country was conducted later. In 1965, the government initiated a plan to develop other sources of water for year-round farming. This led to the development of water pumping stations and small reservoirs for storing water, followed by larger reservoirs. The plan sought to convert 85% of the nation’s rice paddies into well-irrigated ones.

In a letter sent to the Ministry of Agriculture and Forestry on August 26, 1968, President Park wrote: “Our ancestors had put the fate of their livelihood in the hands of the Heaven and Mother Nature; sometimes neither would look favorably upon them. We must break from this old tradition and put our future in our hands. We have overcome the farm hardship period. Now we must overcome droughts.” The President’s words preceded the policy actions to develop the water supply system for the agricultural sector, a permanent solution to the age-old problem of unreliable water...
supply that had plagued Korean farmers. The President’s mandate of developing a sustainable agricultural water supply was effected under the Governmental Orders #22 and #23, issued in August and November, respectively. The major points of the order were as follows. “The supply of underground water should form the basis of developing a water supply system for the agricultural sector. A plan needs to be prepared after determining the areas prone to drought that need to be well irrigated, then, the areas that can be used for dry farming, and finally, other areas. The development of the water supply system should be funded through domestic means first, and then, other means such as reparation funds from Japan or foreign loans or investments, should be considered. We have to devote our will, knowledge, effort, and endurance to find a tenable solution.”

Accordingly, the government put its weight behind a plan to develop a water supply system for the agricultural sector focused on tapping underground water resources in December 1968. As a result, the rate of irrigation of rice fields improved significantly, increasing to 81% in 1971 from 58% in 1967. Much of the water supply development projects were initiated during the Third Five-Year Economic Development Plan. The objective of developing a water system was to secure a reliable supply of water to irrigate the rice fields. A large amount of foreign loans were used to fund these initiatives, which achieved results that exceeded initial targets. During this period, water utilization plans and large-scale comprehensive development plans were implemented in the basins of the four major rivers such as the Han River, the Geum River, the Youngsan River and the Nakdong River. It was a turning point in the history of Korea’s agricultural development.
Korea would not have to again face the difficulties experienced in the Yeongnam region during the severe droughts in 1967 and 1968. This was made possible by President Park’s decision to use part of the reparation funds received from Japan together with funds from foreign investments to fund the development of the water supply system as well as other large-scale infrastructure. This was truly a turning point in Korea’s history of agricultural development. Korea’s farmers had overcome droughts by learning to tap underground water in river beds and to supply water to remote places with pumps and hoses. Farmers would no longer have to endure hardships, as their forefathers had done for thousands of years. By the end of 1979, when President Park passed away, the rate of irrigation of rice fields had increased to 87.3%. It was a human victory for the farmers to overcome droughts.

**Korea’s Silver Revolution**

In early 1965, President Park made a visit to Gimhae, during a tour of the country side. During his tour, the President came upon a greenhouse made of polyethylene imported from Japan, which was built by a local farmer. Despite the cold winter weather, the farmer was able to grow a variety of vegetables including cucumber, lettuce, and tomato. The greenhouse must have been the first in Korea. The farmer was able to make a tidy profit from selling the produce considering it was the off-season. In Korea, the winter months of November to March marked the off-season for the agricultural sector. Nothing could be grown in the harsh weather conditions, leaving farmers idle. Finding ways farmers could use the off-season
productively was one of the government’s policy objectives. If farmers could be productive in the winter months, it would help to increase farming household income.

After seeing the fruits of the greenhouse in Gimhae, President Park sought the cooperation of local governments to see if greenhouse farming was feasible and a viable way for farmers to make an income like Japanese farmers. With the support of local governments and the Ministry of Agriculture and Forestry and the Ministry of Home Affairs, greenhouse farming was introduced in the southern regions Korea that had more temperate weather conditions. In particular, the towns of Gimhae and Suncheon set up big greenhouse farming complexes, producing excellent results. In urban areas, Daejeon and other big cities south of Daejeon also introduced greenhouse farming with favorable results. However, the greenhouses built in the cities north of Daejeon including Seoul, which had one fourth of Korea’s total population, did not have the same success. So, it was thought that greenhouse farming was not feasible in the regions north of Daejeon.

Not to be deterred, President Park believed that greenhouses were sustainable in all parts of Korea with research. In 1970, construction of the Seoul-Busan Expressway and the Ulsan Petrochemical Complex were completed, opening the way to mass production of polyethylene film at affordable prices. This gave President Park the chance to prove that greenhouses with the right resources could work in the northern regions of Korea. Two young upstarts from Gimhae, experienced in greenhouse farming were given a plot of land just outside of Gyeonggi-do, near the Forestry Environment Complex and close to Giheung Interchange (IC) on the Seoul-Busan Expressway.
The greenhouse farmers were given land, a home, and the necessary materials and equipment, to make it happen. The extraordinary thing about this whole venture was that it was all on the President’s own initiative and money. If the farmers weren’t motivated enough, the President even had the land registered under their names as extra incentive. He expected the farmers to succeed in making greenhouse farming sustainable near Seoul, becoming an example to others. Park Jin Hwan, the Presidential Special Aide, helped manage and support the farmers on the behest of the President.

Also, a team of professors from Seoul National University and a research team from the Gyeonggi-do Rural Development Administration also provided support. After overcoming many difficulties, the two farmers were able to prove greenhouse farming in the suburbs of Seoul during the cold winter was feasible, even profitable. Accordingly, the Ministry of Agriculture and Forestation and the Ministry of Home Affairs encouraged greenhouse farming throughout the country.

Around the time greenhouse farming of produce began to take off, the Monopoly Office, headed by Shin Gwan Seop, initiated work on cultivating tobacco using polyethylene film, which significantly increased productivity. He decided to conduct research on this, which if proved successful, would be introduced to tobacco farmers. Tobacco farming in greenhouses first started in the plains in the southern regions, in the suburbs of big cities, and in the mountain regions where tobacco was cultivated. But, it spread throughout the nation in the 1970s. President Park took a helicopter to inspect the sites. During winter, I could see a sea of silver vinyl greenhouses glittering as far as the eye could see from atop the helicopter.
For thousands of years, farmers were left idle by the doldrums of winter--a major cause of their economic plight. It was the President’s strong will and determination that brought about many of the changes in Korea’s agricultural sector through the policies to secure year-round farming. As the national income increased, the demand for agricultural goods increased. Not only could farmers prosper but also the nation could enjoy the bounties of their labor year-round. It was not so much a Green Revolution as it was a Silver Revolution, a symbol of silver colored rooftops of greenhouses scattered throughout the country that marked a turning point in Korea’s agricultural history, and in the life of farmers. Hanyang Chemical, a joint venture company between the Korean government and Dow Chemical, produced polyethylene films, the main materials for greenhouses. Until the end of 1960, Korea imported about 2,000 tons of polyethylene films every year. However, this company produced 70,000-74,000 tons per year, contributing to the Silver Revolution. The Chairman of Dow Chemical at the time remarked about the pride he felt in contributing to the development of Korea’s agricultural sector and the livelihood of farmers. I echo his sentiment.
Developing New Rice Varieties

Before its liberation from Japan, Korea was a food-exporting country, only to suffer from food shortages, after its liberation. During its colonial rule of Korea, Japan sought to exploit its colony by increasing rice production. This plan was successful, as Korea was able to export a great deal of rice to Japan and Manchuria. Korea experienced a huge influx of Koreans living overseas in Japan, Manchuria, and China, after its liberations from Japan; then again, after the peninsula was divided, from Koreans fleeing from North Korea. As such, South Korea’s population had increased by nearly four million people, causing serious food shortages, which was worsened by the devastation of the agricultural sector and by the influx of North Korean refugees during the Korean War.

The twin goals of President Park were to build a nation that was strong enough to defend itself militarily and that was self-reliant economically. For a country to be economically self-reliant, it also had to be able to feed itself. In March 1964, the National Conference...
on Increasing Food Production was held at the main auditorium of the Rural Development Administration, where the governors, mayors, and heads of rural development offices, were gathered. At the conference, President Park remarked: “Every nation in the world is pursuing a self-reliant economy. It is clear that a self-reliant economy is based on being self-sufficient in food. We have to make every effort to increase our food production, led by a strong determination to address our country’s food shortage on our own. It is not impossible. It is our mission: we can, and we must do it. Once we complete this mission, our nation can thrive.” With these words, the drive to increase Korea’s food production began.

In 1965, the Rural Development Administration (RDA) in Suwon began a research project to develop a new, higher yielding rice variety. In 1967, the Crop Experiment and Research Team at the Rural Development Administration succeeded in developing a new rice variety, called IR 667, by crossbreeding a traditional Japanese rice variety with a new foreign rice variety from India. Rice varieties could be classified as two kinds: Japanese variety and Indian variety. The Japanese rice variety, which was more familiar to Koreans, was more elastic and short-grained; while the Indian rice variety, also known as Vietnamese rice, was longer, slimmer, less elastic, and more crumbly. However, the yield rate of the Indian rice was much greater compared to the Japanese rice. The Japanese rice was found to be grown in Japan, Korea, and parts of China, north of the Yangtze River, while the Indian rice was found be to grown in the rest of Asia.

The newly developed high-yield variety (IR667) was a hybrid between “Daejungjaerae # 1” from Taiwan and “Yukara” from
Japan. With cooperation from the International Rice Research Institute (IRRI), our research team modified this new rice variety so it could grow in Korea. The new, modified variety was cultivated in an IRRI lab in the Philippines for mass production in a short time. Then, experimental cultivation of the IR667 began in three sites located in Suwon, Miryang, and Iri from 1969. This new rice variety, the first of its kind, was named the “Unification Rice.” The new variety was planted in 10,000 experimental farms to monitor their productivity and adaptability in Korea.

In Korea, the Green Revolution began in May 1968, when Dr. Kim In Hwan was appointed the head of the Rural Development Administration. In December of the same year, the Rice Research Institute began to collaborate with the International Rice Research Institute in the Philippines to exchange knowledge and technology, and conduct joint research and training projects. Dr. Kim was given a budget and an incentive of 100 million won to find a greenhouse farming method that shortened the breeding cycle. Called the “miracle rice seed,” the Unification Rice variety was successful in producing high yields, but it was vulnerable to cold weather, disease, and insects. To guard the rice against damage from cold weather, the rice needed to be planted earlier by quickly raising younger rice plants in vinyl covered rice seedbeds to retain heat, rather than in traditional lowland rice seedbeds. The rice then needed to be harvested before winter set in. Also, the best measure against damage from disease or insects was early detection. Any abnormal signs were supposed to be reported to the RDA. So it was important to educate and train farmers on the cultivation of the new rice variety to guard against these risks, protect against these vulnerabilities. An instructor from the regional office had to manage seven farming villages on
average, providing assistance on building rice seedbeds, detecting
damages from disease or insects early, and teaching new cultivation
methods. The RDA focused on introducing new farming methods
and educating farmers on cultivating the new rice variety. From
1972, the RDA, led by Dr. Kim, introduced the Unification Rice
variety, which was planted by farmers on about 110,000 ha of land.

One day I met the Japanese Ambassador to Korea, Mr. Masahide
Kanayama, who wanted to meet and share Japan’s experience in
cultivating new rice varieties. The Ambassador warned: “A new rice
variety needed to be thoroughly tested, even if it took a long time,
before introducing it. Otherwise, new rice varieties could bring new
diseases and insects foreign to Korea, causing lower yields.” Japan
had unfortunately experienced such problems in their development
and introduction of new rice varieties. He got word from another
Japanese expert that the Unification Rice posed similar risks. I
thought this was serious enough to advise the President of this
matter. I quickly called the Minister of Agriculture and Forestry, Kim
Bo Hyun, who told me that he took a risk in making the decision to
distribute the new rice variety, before all the experimental tests on
cultivation were completed. After hearing this, all I remembered was
the story of the great Irish potato famine that was triggered by the
introduction of a new potato variety brought over by an English
explorer from the Caribbean. The new variety led to disease,
devastating potato production, which led to a famine that resulted in
the death of two million people. This led to a massive migration of
Irish farmers to the US, one of whom was the great-grandfather of
President John F. Kennedy. I worried thinking that the new rice
variety might cause something similar.
A sobering expression dawned on the face of President Park, after I briefed him. After having thought about it for some time, the President made the decision not to override the decision of the Ministry of Agriculture and the team of researchers but wanted strict countermeasures in place for any contingencies. I thought the President's decision was reflective of his intentions not to undermine the hard work and efforts of those at the ministry and research team. Fortunately, total rice production increased by 3% to yield 27,481,000 seom compared to the year before. The yield of the Unification Rice averaged 386 kg per ha, which was 17% greater than the yield averaged by the traditional rice at 326 kg. The cultivation of the new rice, as well as tree, variety had succeeded largely due to the on-site preparatory education and training administered by the RDA. Indeed, the hard work and efforts of the Ministry led by Minister Kim Bo Hyun and the RDA had paid off. The agricultural ministry and RDA authorities aggressively pushed for wide spread cultivation of the Unification Rice in 1973. With the continued efforts of all the relevant authorities, the rice production increased to 30 million seom.

Following the success of the Unification Rice, subsequent new rice varieties were developed and cultivated from 1975, such as Yushin, Miryang # 23, Miryang # 30, Suwon # 264, and Nopung. Some of the names of the new rice varieties can be attributed to President Park’s initiative in 1978 of having new varieties of trees or rice named after their developers as a way to reward and boost morale. It symbolized the contributions of the researchers in making Korea self-sufficient. The new rice varieties of Raegyeong, Nopung, and Hyun owe their names to Dr. Park Rae Gyeong, and Dr. Park No Pung, who led the development of these new rice varieties; while a
new tree variety of aspens was named after Dr. Hyun Sin Kyu. The new rice varieties led to a significant increase in rice production, which exceeded 32,424,000 seom in 1975, continuing to increase in the subsequent years: 35,969,000 seom in 1976, and 41,706,000 seom in 1977. With new rice varieties and cultivation methods, Korea no longer suffered from food shortages; in fact, the increased production of rice resulted in an oversupply. As such, various measures that had been implemented to reduce the consumption of rice for 14 years were lifted.

In developing a new rice variety, many features of the rice must be taken into consideration, its ability to produce a high yield, its taste, and its vulnerabilities to disease and insects. The new, Indian rice variety was developed by the International Rice Institute using IR rice varieties, but Koreans didn’t like the way it tasted. Koreans had become accustomed to the taste of Japanese rice. Thus, a new variety had to be elastic and taste like Japanese rice, while able to produce high yields. The Unification Rice, which Koreans did not take to, was phased out in 1978. The Nopung Rice, which was less vulnerable to disease or insects, also failed the taste test and was phased out in 1979. The Yushin Rice, introduced in 1975, was also eventually phased out. By the late 1970s, the only remaining new rice varieties that were still cultivated were ones that tasted like Japanese rice but also produced high yields: Miryang #23, Miryang #30, and Suwon #264.

In 1978, the rice harvest for that year, grown using Nopung, was poor due to extremely hot weather and insects from China. The significance of the poor harvest was magnified as it fell on a presidential and parliamentary election year. Faced with the pending
political fallout from discontent farmers, I had to quickly redress the situation. In doing so, I came to understand the factors behind the poor rice harvest. It seemed that the cultivation of a new variety required relatively more fertilizers, water, and time, as well as, plenty of pesticides since new varieties were relatively more susceptible to disease or insects. This meant that the costs of farming a new variety were much higher.

Korea’s success in the cultivation of new rice varieties can be attributed to many factors including: the use of new farming methods to increase yields like cooperative farming and sharing pesticides; the expansion of heat-retaining rice seedbeds; and the introduction of a time table system. The single, biggest obstacle to increasing rice production was the constraint on labor resources, since rice planting and barley harvesting were done during the same time of the year. Hence, labor was not sufficient enough to plant and harvest at the same time. This often led farmers to miss-time the harvesting of rice seedlings; thus, rice seedlings were not given enough time to grow in warmer temperature. To improve the harvesting of rice seedlings, a new, non-traditional method of using heat-retaining rice seedbeds while improved management techniques were introduced. Before new varieties were introduced, the rate of using the heat-retaining method to cultivate seedlings was 7%. By 1977, it increased to 80%, resulting in higher yields. With the introduction of new rice varieties, a time table system was introduced to set time schedules and to keep track of the major stages in farming including rice seed bedding, rice planting, barley and rice harvesting, barley seed sowing and bean sowing. The system of time tables was introduced and promoted in each region, encouraging farmers to manage their time. In cultivating the new rice varieties, measures were put in place to detect and to
prevent possible signs of plant disease and insects due to increased use of fertilizers and more dense cultivation of crops. To support this, agencies in charge of pest control and pesticide services were established. In addition, cooperative farming was promoted to concentrate farming in a single cluster, which allowed several farmers to form groups to farm rice together. This allowed the RDA to focus all of its efforts in one area, and farmers to share best practices more easily, resulting in increased production of rice for the group.

In 1973, President Park established an incentive system for the employees of the RDA and for the farmers to reward outstanding achievements and promote performance. The employees of the RDA were given a bonus amounting to two months pay for their valuable efforts. As a way to encourage farmers and to promote the modernization of farming, in 1973, 3,765 farming households, which produced more than 600 kg of rice per ha with more than 182 m² of rice paddies, were awarded 100,000 won. Also, 54 farmers, which produced 600 kg of rice per ha with more than 5 ha of rice paddies, were also rewarded. This incentive-based system lasted until 1976 with the bonus money being increased every year. The system of rewarding based on performance greatly encouraged the improvement and the widespread use of farming technologies.

The cultivation of the Unification Rice and the Saemaul (New Village) Movement began at the same time in the early 1970s; in that the introduction of farming of new rice varieties was part of the Saemaul Movement. During the Saemaul Movement, farmers learned how to cooperate with each other, and the experiences gained through the Saemaul Movement contributed to cooperative farming
and to adopt new advanced farming methods. Young farmers with advanced farming methods became leaders of cooperative farming. Under their leadership, farmers cooperated and worked together on all areas of farming, such as selecting a variety, raising rice seedlings, fertilizing, irrigating, joint pest controlling, and harvesting. Such cooperative farming practices were widely adopted throughout the nation, which led to the rapid spread and adoption of high yield rice varieties and new farming methods and techniques.

In pursuing economic stability and growth, and the national defense, achieving self-sufficiency in staple grains was one of President Park’s ultimate goals. He led the development of the basins along the four major rivers and the application of underground water, thereby, securing a steady supply of water in the agricultural sector and preventing the damaging effects of droughts and floods. New higher-yielding rice varieties called “miracle rice seeds” were developed while new advanced farming methods and techniques were adopted, which led to increased rice production of more than 38 million seom per year, absent of a severe natural disaster. The agricultural policies of President Park sowed the seeds of a Green Revolution in Korea; an achievement admired by other countries.

**Resolving the Urban-Rural Income Gap**

In the 1950s, the economic growth disparity between urban areas and rural areas was not a political issue; everyone, in urban and rural areas, suffered great hardship in the wake of the Korean War. However, the economic disparity between the urban and rural
population that widened as Korea began to industrialize rapidly after the implementation of the First Five-Year Economic Development Plan in 1962, became a political issue in the late 1960s. The agricultural sector could not keep pace with the industrial sector, despite efforts to develop and modernize the agricultural sector. The urban-rural income gap came to the fore as a major issue during the presidential election of 1967, when the presidential candidate of the opposition party pledged to introduce a dual grain price system and to reduce the cost of fertilizers by 50%.

Faced with mounting pressure to raise rice prices, President Park was convinced that supporting farmers to produce crops other than rice was a better way to improve their income prospects. Beginning in 1968, a series of initiatives were launched to improve the economic state of farmers and fishermen. To meet these objectives, the President declared: “These initiatives seek to develop, in addition to the traditional agricultural sector of producing staple grains, a commercial agricultural sector to produce raw materials for the industrial sector or to grow crops for domestic or overseas markets. The new opportunities in commercial agriculture will contribute to increasing the income of farmers, so that both the rural and urban areas can prosper together. This will also help to further develop and modernize Korea's agricultural regions.”

In an annual message in 1968, President Park vowed to focus on achieving balanced regional development. On June 10, 1968, the Farmer’s Day, the President followed his promise with these words of encouragement: “We continue to do our best to increase food production because we are still facing food shortages. However, we also have to increase the economic prospects of farmers by
cultivating profitable commercial crops or cash crops, or by raising livestock.”

Under a series of initiatives, the government sought to help in the construction of agricultural complexes comprised of greenhouses to grow vegetables and fruits, and raise cattle. The first special program aimed at increasing the income of farmers and fishermen was implemented from 1968 to 1971. Originally, 13 complexes were planned for construction. To this the President remarked: “The concepts are good but the number of complexes seems too small. 13 complexes seem too small of a number to have any meaningful impact on the whole nation. Using all of the government’s available financial and administrative means, the scope of the projects and the number of complexes should be expanded, so that they can be built all across the nation.” The final plan consisted of 90 complexes with 43 projects, allowing for the participation of 410,000 farming households, which accounted for 16.5% of the total farming households.

The construction of the complexes and administration of the projects under the plan called for close cooperation between the central and local governments. For instance, if a project sought to construct a silk farming complex on top of an undeveloped hill, then the governor of the local government, where the hill was located, took charge of getting it ready for construction. The local government was supposed to get approval from the Korea Forest Service to clear the land and to rent the equipment needed from the Ministry of Construction to ready the forest. After the forest had been cleared and the hill was ready for construction, then, the business or individual that would operate the silk farming complex was supposed
to be selected. Presumably, this would also entail the need to address the issue of ownership of the land. Then, the support and resources needed to start production such as seeds, equipment, and know-how were supposed to be provided by the RDA. Meanwhile, the local government was supposed to help the business obtain financing from banks.

Before local governments could participate, the central government had to grant authority to local governments to administer its part in the project. So, a special committee was established within the central government to support the local governments. The committee was comprised of various ministries such as the Ministry of Agriculture and Forestation, the Ministry of Home Affairs, the Ministry of Commerce and Industry, the Ministry of Construction, the Ministry of Finance, and the Economic Planning Board. Each complex was given a designated number so that its progress could be monitored by a Presidential Secretariat, and any issues could be addressed if identified. Even the President monitored the progress of the projects. With the support of President Park and cooperation among the government ministries and agencies, the plan succeeded in increasing the income of farming households. Also, the experiences gained by government ministries and agencies in these projects allowed them to cooperate and work together better during the Saemaul Movement in the 1970s.

The first income-boosting program implemented between 1968 and 1971 had good results as well as bad ones. It was very successful in producing various vegetables and fruits, button mushrooms, silk farming, as well as raising cattle; but, attempts to produce Angora rabbits, trout, asparagus, and hops, failed due to insufficient demand
or lack of technologies. Overall, the initiatives raised the average income of farming households that participated by 13.2% more than farming households that did not participate. Korea’s export of agricultural and fish products increased 2.5 times, especially oysters (18 times), button mushrooms (10 times), clams (3.3 times), silk (2.5 times), and shiitake mushrooms (2.4 times).

Building on the accomplishments of the first plan, the government implemented the second plan from 1972 to 1976. The number of regions included was 137 and the number of farming households included increased to 750,000. The second plan expanded the type of agricultural products produced to 21 items, such as stockbreeding, silkworm farming, fish farming, and the cultivation of commercial crops, chestnuts and shiitake mushrooms, and collection of forest products. Starting in 1974, the second income-boosting program was integrated as part of the Saemaul Movement, being named as the Saemaul Special Plan for increasing the income of farmers.

### New Grain Price Policy and Dual Price System

Agricultural prices have a far-reaching impact on the whole economy, affecting farmers and consumers alike. As such, government is expected to play a role in managing agricultural prices by maintaining certain price levels to match market and trade conditions. By balancing supply and demand, a reasonable price policy in the agricultural sector can be achieved that would benefit producers and consumers.
During the Great Depression in the 1930s, even advanced countries abandoned the non-interventionist policies when it came to the agricultural sector, and began to play a more active role in supporting the agricultural sector. Even today, such support of the agricultural sector is a basic policy of governments with the objective of maintaining price stability and supporting the income of farmers.

Traditionally, Korea’s agricultural sector was dependent on rice and barley, which accounted for most of the agricultural products consumed, since they were staples of the Korean people. Hence, rice and barley were at the center of Korea’s agricultural price policies. Ever since being liberated from Japan until 1967, the government sought to maintain a low grain price policy as way to stabilize prices, allowing for industrialization. The agricultural sector and the ruling Republican Party pushed for a high grain price policy, whenever government procurement prices were set every year; while the Ministry of Finance (MOF) and the Economic Planning Board (EPB) pushed for a low price policy. This often led to much debate, but the argument for a low price policy, or economic stability, always prevailed.

Despite strong opposition from MOF and the EPB, President Park pushed ahead with raising grain prices in 1968, as part of his overall objective to improve the income of farmers. In 1967, the price for rice and barley produced in Korea was the highest in the world; in other words, Korean grown rice and barley was not globally competitive. The First and Second Five-Year Economic Development Plans had laid the foundation for the development of the industrial sector, which was expected to continue on its rapid growth trajectory. At the time, President Park believed the time was

Green Revolution and Dual Grain Price Policy
right to focus policy efforts on narrowing the gap in development between the industrial and agricultural sector, thus, reducing the economic disparity between urban and rural areas. Of course, this meant reversing the policy of low grain prices. Case in point, Japan continued to maintain high grain prices after World War II until the late 1970s, under a dual price system: The government procured grain at high prices to boost rural income and sold at low prices to support urban workers. This led to a huge deficit. Despite strong opposition and the risk it placed on Korea’s finances, President Park made the decision to raise grain prices with the aim of developing the agricultural sector, alongside the industrial sector, by increasing agricultural production to level of self-sufficiency and improving the income of farmers, all of which would contribute to social stability.

In 1968, the government abandoned the low grain price policy, raising grain prices to give farmers incentive to increase production. From 1965 to 1967, the government purchase price was increased by about 10%. The rate of increase was greater in the subsequent years, rising by 13.7% in 1968, 22.6% in 1969, 35.9% in 1970, and 25.0% in 1971. The average rate of increase was 24.8% per year during 1968 to 1975, far exceeding the average rate of increase of wholesale prices of 15.3% over the same period. The policy of high grain prices was maintained until 1976. Also, a dual price system for barley was introduced in 1969. This system was very effective in terms of increasing agricultural production and reducing rice consumption.

In 1972, the government began announcing the purchase price for barley before the start of the crop season to raise production. Furthermore, the government purchased as much barley as farmers wanted to sell at higher prices, greatly contributing to their income.
At the same time, the government sold barley back at prices 50% lower than rice to encourage the consumption of barley rather than rice. Increasing the production of barley was a goal of President Park, always remarking that Korea could not afford to let its agricultural land and farmers sit idle, even during the cold winter when greenhouses made farming possible.

Barley was well suited for Korea. It could be grown in the dry rice fields during winter. It was possible to grow barley anywhere south of Gyeonggi. In Korea, barley was the most appropriate grain for growing in winter on drained rice paddy fields. The President took the need to conserve rice and consume barley, to heart. During the decade I served as his Chief of Staff, I was amazed that how he always made sure to mix rice with barley and to eat wheat flour noodles for lunch instead of rice—especially since, I too had to eat wheat flour noodles, which I enjoy but found a bit difficult to eat for every lunch for ten years.

The dual price system was applied to multiple grains starting in 1973, and then to rice starting in 1975. Indeed, many of the negative impacts of a high grain price policy followed, including mounting deficits. The President outlined the following points:

(1) As long as government finances will allow it, a high grain price policy shall be pursued even if it increased the price level somewhat.

(2) Limits on rice imports shall be applied to increase the local production of rice and the income of local farmers. In case of a rice shortage, limits on rice imports shall be eased.
(3) The high grain price policy shall not be indefinite. It shall be implemented until the income of farmers reaches the income level of urban workers, based on income derived from the increased production of rice, barley, specialized crops, silk, and livestock.
Korea Swept by the Saemaul Undong

The commonly perceived notion of Korean farmers being lazy, squandering, and uncooperative, having only themselves to blame for their misery, could not be farther from the truth. Farmers had to resort to a life of diligence, economy, and cooperation to make a living. The dearth of arable land, where population was densely concentrated, largely subjugated farmers to growing rice in small sized plots. Most farmers were caught in a vicious cycle of poverty, debilitated by the burden of debt, which buried their spirits and gave rise to their misconception. Having devoted years to the study of education and to the service of the military, President Park understood the virtues of discipline, frugality, cooperation, and self-reliance. Based on these basic tenets, President Park attempted to spark a national reform movement in the early days after the 5.16 Revolution. Unfortunately, this movement did not take. However, the idea of modernizing the agricultural sector and improving the economic welfare of farmers based on the principles of discipline, frugality, cooperation, and self-reliance, was always on the President’s mind.
In July 1969, the entire region of North and South Gyeongsang provinces was ravaged by floods. While visiting the affected areas in August, President Park took notice of a small village (Sindo 1-ri, Cheongdo-eup, Cheongdo-gun, Gyeongsangbuk-do) that had recovered quickly from the floods. More impressive were the improvements to the village including widened roads, and better fences and roofs of the houses. Apparently, the villagers during a town meeting decided to work together to make improvements to the village while fixing the damage caused by the flood. Impressed by the show of cooperation and self-reliance by the villagers, President Park initiated a new movement to awaken the spirits of farmers that lay latent; its capacity for diligence, self-help, and cooperation, and to improve the standards of living in rural areas.

At a local town hall meeting on April 22, 1970 attended by the governors of the local governments to discuss the government’s response to the effects of drought, President Park spoke of the virtues of self-help and cooperation while telling the story of the small village. The President appealed to the farmers with words of encouragement: “Help yourselves to escape from poverty. Poverty cannot be overcome by placing responsibility on others, by blaming government for lack of help, nor by believing you are fated to poverty. We cannot, the government cannot help those who do not want to help themselves. Everyone - farmers, local governments, and field hands - must cooperate together to build a “new village.” (“Saemaul”)

But before the Ministry of Home Affairs could initiate its policy plan, the necessary financial resources to fund the programs had to be secured. By then, government spending had already been budgeted
and approved, leaving nothing for the Saemaul Movement. In 1970, four world-class cement plants were completed in Korea, no longer making cement a scarce commodity. Instead, the cement industry sought help for the disposal of their mounting inventory. President Park sought to utilize this oversupply of inventory for the Saemaul Movement.

Tasked by the President to secure the necessary budget for the Saemaul Movement, I made an exhaustive assessment of the current budget but came up empty. The Deputy Prime Minister in charge of the budget advised that 3 trillion won could be allocated. Upon briefing the President, who had discussed the matter with the Minister of Home Affairs, the decision was made to purchase the surplus of inventory of cement for the Saemaul Movement.

In July 1970, 300-350 bags of cement were distributed to each farming and fishing village free of charge, subject to it being used for the good of the village. This entitled every household to about five bags each worth 4,000 won, as each village averaged about 80 households. Along with the cement, about 20 project ideas that the villages could undertake were offered including construction of access roads to villages, small bridges, roofs, wells, public baths and wash areas, and stream embankments. Otherwise, the villages were left to their own ingenuity. The results from the first year of the Saemaul Movement exceeded the expectations of the villages, while far exceeding the government’s expectations. People in the villages were proud of the Saemaul Movement projects accomplished in the first year (from November 1970 to March 1971). It was not rare to find villagers adding their own money and labor to the pot to ensure the successful completion of the project. Encouraged by the
government’s support, villagers did not hold back in their efforts, making it a point of pride. The Ministry of Home Affairs was commissioned by the President to conduct a detailed evaluation of the Saemaul projects with cooperation from local governments. The report found that about 16,000 villages out of about 35,000 villages in the country produced favorable performances.

“Dispensation of Justice”: Reward Based on Performance

In the face of great opposition and possible political backlash, President Park made the hard decision to exclude the villages of about 18,000, which did not produce any results, from participating in the second year of the Saemaul Movement. Only the villages of about 16,600 or so from the first year that produced results were invited to participate. The ruling party feared that the 18,000 excluded villages would not support them in the next election. Despite pleas to reconsider from the Ministry of Home Affairs and the ruling party, the President stood by his decision, driven by a conviction of taking a stick and a carrot approach to break the habitual dependency of farmers on others and to instill a can-do spirit of self-help. Thus, the government would only support the villages that produced results on their own efforts. At a meeting with the ruling party and cabinet, President Park said, “I will make sure the government does all it can to help those who desire to help themselves and others. But I will not seek to help those that do not make an effort or do not cooperate with others. This is the only way to break the habitual dependency of farmers on others and to instill a
can-do spirit of self-help. Regardless of the political consequences and elections lost, I shall honor the principle of dispensation of justice based on deeds.” I wholeheartedly agreed with the President's words but couldn’t stop worrying about the political consequences.

Unbeknownst to anyone, however, the reaction from the farmers excluded from the program was muted. There was no feeling of ill will, but only regret for not making an effort in the first year of the Saemaul Movement. More than a third of the villages (6,108 villages) that had not performed well before, participated in the second year with their own money. President Park commended the villagers for understanding “his true intentions,” and “the spirit of the Saemaul Movement.” Based on the principle of justice, President Park sought to make government support performance-based by giving priority to villages that performed the best.

To determine the level of self-reliance of a village, the level of participation in each of the villages was measured for 35,000 villages, which were classified as base villages, self-help villages, and self-reliant villages. To encourage higher participation in base villages, only self-help and self-reliant villages were given government support. Base villages had to initiate self-improvement projects on their own to merit government support. Indeed, the Saemaul Movement spilled over to other villages, creating a sense of missed opportunity among villages that did not participate. The classification of villages was based on surveys of villagers. The surveys sought to assess the villagers’ opinion of the government’s support program. Such responses included providing their own financial resources and labor, cooperating with each other, increasing productivity, and developing industrial products. A village’s
classification directly determined the amount of government support it would receive the following year. Good efforts resulted in more support the following year; while bad efforts resulted in nothing. This promoted a healthy spirit of competition and cooperation among the farmers, helping to instill a new work ethos. Soon the Saemaul Movement spread like a wildfire across the country. Over time, base villages transformed into self-help villages, and then to self-reliant villages. Saemaul Movement brought about a transformational change in the rural farming villages, instilling an ethos of self-help and cooperation.

The income of farmers exceeded the income of urban people by 1974. The goal of reaching the target income level of 1981 was achieved in 1977, when 98% of the 35,000 villages in Korea became self-reliant villages. In April 1980, the 10 year anniversary of the Saemaul Movement, 35,950 new community centers were established, 44,000 km of new roads in rural areas were constructed, 40,000 km of village roads were widened, and 4,440 km of agricultural waterways were built.

The Saemaul Movement came in three stages: establishing the basics of Saemaul (1971-1973), achieving self-help (1974-1976), and becoming self-reliant (1977-1981). The target income of farming households was set as 1.4 million won for the year of 1981. But, it was attained in 1977 as the Saemaul Movement was very successful from the beginning.
Free of Politics

President Park made sure not to politicize the *Saemaul* Movement in any way. In the early 1970s, when *Saemaul* took hold of the country, the President frowned on the idea by the political leadership of the ruling party to encourage the solicitation of *Saemaul* leaders as party members. President Park remarked: “The *Saemaul* Movement shall not be used for political gain. Only in its purest form can the principles of diligence, self-help, and cooperation, manifest themselves to bring prosperity to farmers and our country. Party members who become *Saemaul* leaders can remain members, but *Saemaul* leaders, not members of the party, shall not be encouraged to join.” President Park also opposed an idea to provide government support to the 4H Club, after a study revealed problems among the youth, who would be encouraged to become members of the ruling party. The President remarked, “The government shall continue to support the 4H Club because of the good work it does, not for political gain.” Since then, President Park’s promise to keep the *Saemaul* Movement free of politics was strictly kept—at least until his death.

In any of the villages, you could find people that favored the opposition party. Some villages experienced political differences among their people, after going through several elections. The *Saemaul* Movement would have failed, if it was tainted by politics. Free from the influence of politics, the *Saemaul* Movement was a pure national movement to help farmers break themselves free of poverty by instilling an ethos based on the principles of diligence, self-help, and cooperation. Recognizing this fact, participating farmers made their best efforts, finding that they could produce
remarkable performances on their own: that’s why the movement was sustainable.

Construction of village entrance road

Before

After

Renovated communal laundry site

Policymaking on the Front Lines 1: Social and Economic Transformation
Saemaul Undong [New Village Movement]

Before

After

Changed village entrance with a new bridge

Cutting weeds to make compost
Making Lives Better

The Saemaul Movement sought to improve the country in many ways, but it embodied something greater, a movement to awaken the spirit of farmers; its capacity for diligence, self-help, and cooperation. Increasing the economic opportunities of farmers lay at the core of the Saemaul Movement. To this end, President Park wanted the Saemaul Movement to achieve three goals: awaken the spirit of farmers; improve the living standard in rural farming villages; and bring economic prosperity to the rural farming villages. The policies on the development and modernization of the agricultural sector sought to bring economic opportunities to farmers.
In the early 1970s when the Saemaul Movement began, a new higher yielding rice variety called the Unification Rice was introduced. Along with its introduction, the first of the initiatives in the Saemaul Movement sought to promote cooperative farming to increase the production of rice. From then on, cooperative farming spread throughout the country. Young farmers, who learned advanced farming methods often led other farmers to work together on different areas of farming including: selecting a variety, raising rice seedlings, fertilizing, irrigating, applying pesticides, and harvesting. Such cooperative farming practices were widely adopted. Before long, nearly every farming community was growing the Unification Rice. This led to a significant rise in rice production, increasing to 4.9 ton from 3.5 ton per ha from 1970 to 1977.

The second income-boosting program for farmers and fishermen was renamed Saemaul Income-Boosting Program (1972-1976), which focused on promoting greenhouse farming, bee farming, and the cultivation of various crops and livestock including button mushrooms, fruits, tobacco, fish farming and beef cattle. Also, policy efforts focused on increasing the non-farming income of farmers through a new village factory movement.

Korea’s agricultural economy developed significantly, raising the standard of living in rural, farming areas. It resulted in a more balanced economic growth between urban people and farmers. Income from crops other than rice and barley accounted for a greater portion of farmers’ income. An increase in non-farming income helped to offset income differentials due to size of the farming land. The average income of a single farming household in 1970 was 256,000 won, approximately USD 825. The average income per
capita, assuming that a farming household had 6 family members, was USD 137. In 1975, the average income of a single farming household was 873,000 won, or about USD 1,804 while income per capita was USD 300. In 1978, the average income of a single farming household was USD 3,893 and income per capita was USD 700. From 1970 to 1978, the income per capita of farmers increased by more than five times from USD 137 to USD 700. In real terms, income increased by about three times.

The income disparity between rural and urban areas in 1967 was quite severe. On average, a farmer made just 60.1% of what an urban worker made. By 1974, the income of farmers exceeded that of urban workers. In 1965, income from rice and barley represented 71.7% of the total income of farmers. In 1979, it decreased to 64.1%; at the same time, the proportion of income derived from other agricultural products including vegetables, fruits, and livestock increased significantly. Also, the proportion of non-farming income increased to 31.3% in 1979 from 20.9% in 1965. In 1965, the income of farmers with more than 2 ha of farmland was three times larger than that of farmers with less than 0.5 ha of farmland. However, in 1979, this figure fell to 2.2 times.

In the 1970s, the economic welfare of farmers improved significantly, resulting in a higher standard of living. First, in the early 1970s, a new higher-yielding rice variety was introduced. Second, the government provided huge financial support to the agricultural sector by maintaining a high grain price policy through government purchases of the Unification Rice. Third, agricultural resources were allocated to the production of cash crops and high-income crops. Fourth, urbanization and industrialization were...
expanded to rural areas, increasing the non-farming income of farmers. Fifth, huge investments were made in modernizing farming methods and technologies, and in rural development under the Saemaul Movement. Farmers put their best efforts forward, based on the Saemaul principles of diligence, self-help, and cooperation. As their income, savings, and wealth increased following the government’s policies, farmers were motivated to work harder. They sang: “Let’s live much better, let’s live much better,” and “improved, improved,” expressing their dreams, hopes, and joy, under the Saemaul Movement.

Transformation of Rural Villages

The Saemaul Movement brought about transformational changes in the rural farming communities. Villages inaccessible by car due to narrow, winding roads with partially constructed bridges were made accessible by improving roads and building bridges through cooperative efforts. By the late 1970s, all 35,000 villages across Korea were made accessible by car, except for the villages on remote islands. Local transportation was greatly improved with expanded bus lines, taxis began service in village towns, and motorcycles became widely used, greatly improving transportation in villages. Second, farmers voluntarily reinforced the embankments of small rivers and streams.

Third, thatched roofs made of straw, which represented nearly 80% of all the roofs in rural farming villages, or 2.5 million houses, were replaced with roofs made of tile or slate through cooperative
work among villages. Old homes were renovated into new ones. Efforts to improve one village home led to whole villages being improved. What began as small projects grew into much bigger ones, such as paving roads, building sewer facilities, renovating homes, building shopping centers, and replanting the trees. Before the Saemaul Movement, bringing drinking water to the house from wells that were often unsanitary was laborious and time consuming. Small-scale water supply facilities were built, which pumped water into tanks and supplied water to homes through pipes. If this could not work in some areas, the wells were dug deeper and water was pumped up and supplied to home kitchens through pipes. This water supply system was made easier when electricity was supplied to villages. Also, wells in farming villages were highly improved, after new excavation methods were introduced. The modernization of the water supply system made life easier and improved sanitary conditions, reducing outbreaks of diseases such as typhoid and dysentery, and improving standards of living.

In December 1965, the Electricity Development Act was legislated, as a top policy initiative, to develop Korea’s electricity supply. By the end of the 1960s, only 20% of homes in rural farming villages had electricity. Under the Saemaul Movement, large scale efforts to improve the electricity system were carried out from the early 1970s, based on the policy of giving priority to villages that performed the best. By 1979, electricity was supplied to 2,228,000 households, which accounted for 98.7% of the total farming households. Under the Saemaul Movement, electricity was supplied to all villages on steel towers or independent power plants except for remote villages in the mountain. By the end of 1979, it is fair to say that the whole nation was supplied with electricity, except for
remote, sparsely populated islands, which had plans to install independent power generators in stages.

In 1970, only a handful of villages, about 3,800, had the services of a telephone, about one tenth of the total 35,000 farming and fishing villages in the nation. From 1971, telephone service was widely installed in villages, as a part of the Saemaul Movement. By 1978, all the towns of Korea were outfitted with telephone service; while, remote islands were provided with wireless telecommunication for every 50 people in 1979. From the second year of the Saemaul Movement, many villages began to construct community centers, creating a place people could gather for leisure or work, especially during the cold winter months. Communal kitchens, day-care facilities, and playgrounds were built in the centers, which often attracted the opening of shops nearby. This brought many comforts and conveniences to villagers.
From Rural Villages to Factories and Cities

Most of the industrial labor force came from rural areas while many of their family members stayed behind. During national holidays, many workers journeyed back home to be with their family, sometimes to find new homes or roofs built, even the entire village remade. It seemed everyday life had changed. Suddenly people were enjoying the benefits of modern life like high tech kitchens, electric rice cookers, televisions, electric fans, and refrigerators, as well as water supply systems. *Saemaul* Movement stories of hardship and overcoming adversity by rising to the challenge abounded, fostering a belief that anything was possible. With a bankbook in her hand, a mother who had never had one before, could talk of the hard earned money, and of making future plans for her family. After returning to their hometown and hearing the experiences of their family members and seeing the fruits of their efforts, they were impressed and realized the importance of the *Saemaul* Movement.

The history of Korea’s urbanization and industrialization was still very short in the early 1970s, so most of the people in urban cities were born in and came from rural areas. Their ties to their families kept them close to their hometowns, and soon word of the good works of the *Saemaul* Movement spread throughout urban centers. It was encouraging to hear of news that cars could now access the villages, and water and electricity could now be supplied directly to rural homes. Many in urban areas sent money or daily necessities back home to encourage the *Saemaul* Movement.

Seeing the benefits of the *Saemaul* Movement made believers out of the people living in cities. It positively changed the perception of
the hapless farmer, fated to live out a life of poverty. Many in urban cities were inspired by the *Saemaul* Movement, leading them to reflect on their own chaotic lives and to think about adopting *Saemaul* values in their lives.

From the beginning of the *Saemaul* Movement, the *Saemaul* leaders, village leaders both men and women, of each village were educated on the “*Saemaul* values.” Public workers from the central and local government also took part in learning. In the hot summer of 1974, even members of the cabinet joined in, and subsequently, other professions including college professors, journalists, entrepreneurs, artists and religious people participated in learning. As public and societal leaders were educated on the *Saemaul* values, the *Saemaul* Movement was on the cusp of spreading throughout Korea. Seeing how farmers were doing their best to make their villages better, many influential leaders agreed that it was the right time to introduce the *Saemaul* Movement to cities, factories, and schools.

The initiatives of the Urban *Saemaul* Movement included keeping cities clean, maintaining public order, and promoting neighborhood outreach, respect of parents and the elderly, and nature conservation. Schools, especially in rural areas, drew up their own *Saemaul* projects that fit their particular condition based on the *Saemaul* Movement in their region. There were numerous examples of teachers and students taking the initiative and producing outstanding results without support from the government. That is, the second generation of the *Saemaul* Movement naturally took real life experiences and lessons of *Saemaul*. This made great contributions to maintaining the values of *Saemaul* for a long time.
After learning the *Saemaul* values together with farmers, business leaders introduced the *Saemaul* Movement in their factories. The factory workers welcomed it, since many of them heard of the transformational changes and benefits in their hometowns, or personally experienced it through their families. Business leaders incorporated a lot of what they learned from the *Saemaul* Movement. They sought to enhance work conditions of their employees by building dining halls and improving housing conditions at factories, making them more hospitable by putting in health facilities while promoting a healthier life style. Employees were offered more opportunities to pursue higher education. The principles of *Saemaul* for team meetings were applied in the operation of quality control teams and meetings between labor and management. As employees felt that management had their interests in mind, they sought to increase productivity and cooperation with management. Factory workers were always on the mind of President Park. During visits to factories, he was attentive to living and working conditions at factories. He stressed to young workers the importance of an education even in poverty, urging them to take advantage of free night schools to get ahead in life. Under President Park, industrial schools were made to qualify as regular schools. Many CEOs such as Kim Han Su, of Hanil Synthetic Fiber in Masan, established large industrial schools. Graduation ceremonies at industrial schools was always a bitter, sweet moment for many graduates, who shed tears of joy and sorrow, reflecting on a life of poverty in the past, and a life of prosperity in the future.
Training Ground for Democracy and Local Autonomy

Under the Saemaul Movement, all decisions were made in cooperation and free discussion led by Saemaul leaders. It did not matter what was being decided, whether it was selecting the type or color of a roof or the style of a home, or addressing financial matters, or building a community center, a consensus was needed to be reached for all the projects.

At the start of the Saemaul Movement, people of all villages were reluctant to actively participate, both the rich and poor in general. People with higher education did not want to be involved while younger and older people were not easily accepting of it. The rich did not want to offer their land for Saemaul projects while the poor did not want to work for free. The educated people did not expect to live in their villages forever. Older people didn’t want change, preferring the old of way life while younger people were looking to move to cities. Even more challenging was getting the farmers to cooperate and agree on projects. It was very difficult drawing cooperation on projects to widen access roads to, and inner roads in, villages. In order for cars to access villages, roads 2-4 meters wide leading to villages needed to be increased to 3-5 meters, which encroached on private property. The owners of the land, where the roads needed to be widened, were supposed to donate the land for the good of the public. The situation was worse for roads running within the villages, which ran through not only private land but also buildings, which needed to be demolished. Typically, whole villages totaling 100 houses were built without planning for a long time, creating narrow, congested roads where not even a carriage could pass. The
government kept to the principles of Saemaul, and did not intervene to decide who should donate the land and how much. It also did not provide compensation for any losses incurred. For many nights, farmers and land owners held open discussions, before finally agreeing to a remedy.

The *Saemaul* Movement also helped to significantly progress the rights and social status of women. Rural farming villages traditionally had a patriarchal social structure, where men made decisions on all important matters. *Saemaul* initiatives like widening roads affected many homes regardless of who lived in it, man or women. But the onus was on everyone to be part of the discussion on the project and to attend meetings. After a while, people realized the benefits of active participation by women. As a result, every village had two *Saemaul* leaders, one female and the other one male.

Woman’s associations were organized in all the villages, as women began to play an important role in the *Saemaul* Movement. Women led the campaign to raise funds by saving rice. A spoonful of rice was saved in a box whenever rice was cooked. The boxes were collected by the women’s association, and then sold to raise money, which were used to fund projects of the women’s association. Housewives in rural farming villages learned the virtues of frugality, which led farming households to save more.

Traditionally, most farmers in Korea did not keep a bank deposit account. After the campaign to save rice, more farmers began to save money in a bank deposit account. As more savings was deposited in bank accounts, the total size of deposits in financial institutions such as Nonghyup (National Agricultural Cooperative Federation) or
credit cooperative associations increased. The average amount of deposits per farming household held by Nonghyup increased significantly to 245,300 won (USD 507) in 1978, from 4,300 won (USD 12) in 1971. This allowed Nonghyup to rely more on its deposits to extend credit. Until the mid-1960s, about 70% of the loans provided by Nonghyup were funded by the government or bank loans. However, this percentage decreased to 25% by the mid-1970s.

The *Saemaul* Women’s Associations also led campaigns to curb drinking and gambling, which was quite pervasive in rural farming villages. Old habits formed, when farmers were left idle during the agricultural off-season. The efforts of the Women’s Associations helped farmers reduce their dependence on drinking and gambling.

The *Saemaul* Movement fostered an environment where farmers could naturally learn the principles of democratic decision-making and autonomy by participating in meetings, not by reading a book or hearing a lecture. Indeed, the important role of women in the family and society came to be more appreciated. Men and women came to understand and adopt the principles of democracy and local autonomy, thus, enhancing their rights through the *Saemaul* Movement. At every community center, records of a village’s basic statistics, the performance results of projects, and efforts by the women’s association, were maintained. These records are tributes to all the men and women for their remarkable efforts and their capacity for democracy and autonomy. The goals and dreams of farmers were also displayed in many cases at the community centers.

Under the leadership of President Park, many individuals from the ministries and local governments made their best efforts to
implement the Saemaul Movement. Especially, Park Jin Hwan, the Special Presidential Aide, and Kim Jun, the Head of the Saemaul Leaders’ Training Center, made great contributions. When Kim Jun fell ill of overwork, President Park, without telling anyone, sent him Chinese herbal medicine, saying that the Saemaul Movement could not succeed without him.

President Park and the Saemaul Movement

In autumn of 1971, when the Saemaul Movement was gaining momentum, President Park had suffered an injury, fracturing his ribs while bathing in the morning. All the official events were suspended, and he took the rest of day off, leaving me to advise him of any official matters. One day in the morning, during a briefing, President Park handed me a sheet with a song he had written about the Saemaul Movement. A song of encouragement he thought the farmers could sing. The President asked that it be seen by a professional musician. Hong Sung Cheol, the Presidential Secretary, invited Hong Yun Taik of the National Symphony Orchestra, who after looking over the song said it was good but thought that the ending of the song could be set to a different note. The President himself made the change to the song on the spot. He then asked that the leader of the army marching band play the song. It was a cheerful, energetic, and joyful song. The Saemaul Song was written by President Park and scored by his second daughter, Geun Young, who was studying at the College of Music at Seoul National University. The original song had three verses.
On May 18, 1972, President Park attended a national conference in Gwangju to promote the *Saemaul* Movement. On our way back to Seoul, the President handed the fourth and final verse to the *Saemaul* Song to Kim Sung Jin, the Blue House Press Secretary, to publicly announce it. The fourth verse included the words: “Let’s work while fighting and let’s fight while working to rebuild our nation.” In the beginning of the *Saemaul* Movement, the President wrote “*Saemaul* Song” with the words: “Let’s remove thatched houses and widen the roads of our villages” and “Let’s make our villages rich by increasing our income,” to encourage participation. In the mid 1970s, as the *Saemaul* Movement swept across the nation, the President wrote a second *Saemaul* song, entitled “My Fatherland” to summon the patriotic spirit of the *Saemaul* Movement. “*Saemaul* Song” was a cheerful and energizing song to promote the *Saemaul* Movement, while “My Fatherland” was a more solemn and moving song to instill patriotism.

While agricultural development policy efforts were underway in the late 1960s, President Park realized the importance of cooperation among the government ministries. To encourage cooperation, outstanding *Saemaul* achievements were shared at the monthly meetings on economic trends, chaired by the President and attended by all the cabinet members and the leaders of the ruling party. In June 1971, two farmers were chosen to share their *Saemaul* achievements, which included success stories of *Saemaul’s* impact on industrial factories and schools.

After the meeting, *Saemaul* presenters lunched with President Park together with the local governor (in case the presenter was a farmer), the superintendent of education (in case the presenter was a
teacher) or the CEO (in case the presenter was a factory worker). To
the presenters, President Park pledged his full support of their
initiatives, and encouraged their good works. From the mid 1970s,
President Park had the Ministry of Home Affairs give a briefing on
the progress of the Saemaul Movement at the regular monthly
cabinet meeting held at the Blue House to monitor its progress, to
identify ways to enhance cooperation among government ministries,
and to address any problems.

President Park was always in touch with the Saemaul Movement
through constant updates and frequent visits to many of the local
regions. Even on difficult days, the President was always comforted
hearing words of good works being achieved by the Saemaul
Movement. At the national Saemaul Conference to Enhance Farmers’ Income in May 1972 in Gwangju, the President remarked:
“The Saemaul Movement stands for a new cultural philosophy, a
new Korea. It is important for us to live well, but it is more important
to secure prosperity for our villages, for our nation, and for the future
of our children. We must strive so that our children will look back
and proudly speak of the achievements of the Saemaul Movement in
the 1970s.”

The Saemaul Movement changed Korea’s agrarian society, which
had suffered from poverty for thousands of years. Villages were
transformed into prosperous or self-reliant villages, enriching all the
rural villages with a new sense of vitality and motivation. Illustrated
by the remarkable achievements, it taught farmers the valuable lesson
of, “We can live better if we try.” Korea was swept by the spirit of
Saemaul. Of course, some of the President’s achievements may be
open to criticism. However, we must be appreciative of his
leadership and the great success of the Saemaul Movement, which sought to help farmers and fishermen escape from poverty, and to make our villages better and our nation prosper.

<Saemaul Song>

The morning bell has rung, a new morning has broken.  
Let’s get up together and change our village into a new one.

(Chorus) Let’s make our village a good place to live on our own.  
Let’s remove thatched houses and widen the roads of our village.  
Let’s make green hills and elaborately manage them.  
Let’s cooperate with each other and work hard.  
Let’s change our village into a rich one by increasing our income.  
Let’s work while fighting bravely.  
Let’s fight while working to change our nation into a new one.
Chapter 14

Reforestation

Forest Conservation Laws and Policies of the 1960s

From the outset of his rule in 1961, President Park drove the forest conservation movement, or the re-foresting of Korea’s land, until his death in 1979. It took nearly a dozen years to re-cover Korea’s landscape with blankets of trees—a remarkably short time considering Korea lay barren of trees at one point. After Japan entered World War II, entire forests on public and private land were cut down for lumber to build ships. Towards the end of Japan’s occupation, the forests were seriously damaged, being deprived of tree barks, leaves, oil, and even roots. Due to its bigger population and more flat landscape, South Korea was not endowed with rich forests like North Korea, which had one of the world’s most abundant forests. South Korea depended on trees as a natural resource for heating, especially after North Korea stopped supplying electricity to South Korea and coal production was beset with problems. The period of the Korean War only worsened the situation. The unlawful cutting of trees spread because of the political chaos and poor administration. During postwar reconstruction, Korea’s forests were depleted further, as the lack of foreign exchange meant
that the huge demand for lumber had to be satisfied domestically. After years of over-logging and destruction, Korea’s land and mountains were left completely bare of trees. Thus, reforestation was one of the most important national issues in Korea at the end of 1950s. Forests covered 66% of the land in Korea. In the 1950s, Korea had the lowest lumber accumulation rate per unit area.

Trees provide lumber, barks, fruits, medicinal plants, and wildlife. But forests also serve other important roles; they help to control flooding and soil erosion; they offer environmental benefits; they embody the beauty of nature. Korea’s mountains sit on bedrocks made of granite or granite gneiss that make its landscape prone to weathering and soil erosion. Also, extreme temperature differences create weathering effects. Korea’s terrain is mountainous, with the Taebaek Mountains running north and south. Korea was prone to flooding because its rivers run short and the waters run fast, and its rainfall is concentrated in July and August. This made Korea susceptible to landslides and floods during the rainy season and droughts during the dry season.

Korea experienced frequent floods until the mid-1970s, caused mainly by deforestation. Except for the Temporary Forest Protection Act passed in 1951, Korea managed its forests using the same laws and regulations based on the Forest Act of 1911, established during Japanese rule. After the 5.16 Revolution in 1961, a series of reform-minded measures were introduced for the conservation of Korea’s forests and reforestation. The Forest Law of 1961 was designed to serve as the legal basis for a new system of forestry policy. In the same year, the Forest Protection Act was introduced to prevent illegal lumbering. The act instituted several measures to limit
deforestation such as requiring a permit to cut trees, for which the volume of trees that were cut down was capped based on national limits. Also, the act required that lumber be sealed, and that a letter of confirmation be obtained to transport or remove tree-related products.

With the objective of restoring and protecting Korea’s badly damaged natural ecosystem, which was harmful to the forest due to insects, the Hunting Act of 1961 placed limits on the hunting of wildlife in terms of when and where hunting was allowed, and the type of hunting that was permitted. In 1962, the Act on Sand Arrestation Works was newly legislated to modify the old laws and regulations. To promote efficient sand arrestation under the act, the government could conduct necessary sand arrestation works for any forests without obtaining the consent of the owners of the forests, with a prescribed level of compensation for losses incurred by the owners.

The Korean floor heating system of ondol (similar to hypocaust of Ancient Rome) consumed significant amount of trees. But it wasn’t just the trees in that branches, roots, and leaves were also used for fire. This was ruinous to the soil, since leaves acted as nutrients to soil. Thus, the land could not be reforested through conventional methods of planting trees. Instead, the land had to undergo anti-erosion or sand arrestation works before trees could be planted. With the nation financially reeling, the government resorted to passing the Temporary Act of Forest Reclamation, which was implemented in 1963 until 1964, to mobilize compulsory labor. For two years, the government undertook massive sand arrestation works to prepare the land for tree planting.
In 1966, the Act to Rationalize Slash-and-Burn Farming was legislated, which sought to end slash-and-burn farming by relocating a small population of nomadic mountain dwellers. Under the act, the displaced farmers were given government support in relocating. In the remote areas of Gangwon-do and Gyeongsangnam-do, nomadic farmers burned down sections of forests to fertilize the soil for farming. Once the soil was depleted of its nutrients after a few years, the farmers moved on to another location. In many cases, the nomadic mountain dwellers farmed on steep mountain sides, which were more prone to large forest fires. This led to the desolation of entire forests.

In the 1960s, the basis for forest protection and conservation was established by modifying laws and regulations, instituting new systems, and reinforcing administration. Led by the examples of President Park, all Korean people, including public workers, soldiers, and students, planted millions of trees and sowed grass seeds on Sand Arrestation Day (March 15) and Arbor Day (April 5). Despite all of the work and effort, it took time to re-soil, plant, and grow trees in Korea, which was left so barren. Over time, Korea’s landscape began to change gradually. In 1967, Hyun aspens developed by Dr. Hyun Sin Kyu of the Suwon Agricultural College were planted all over Korea. In 1969, new cultivation technologies were introduced for planting chestnut trees, walnut trees, and jujube trees, as part of the policy on improving the living standards of farmers. Chestnut trees were quite resistant to insects. Eventually, the efforts of Korea’s reforestation became visible, as mountains began to turn green and awareness in conservation among people grew.
Placing the Korea Forest Service under the Ministry of Home Affairs

As an avid horticulturist, I knew something about trees. When I was appointed as the Chief of Staff in October 1969, I was encouraged by President Park’s deep interest in forest conservation, leading me to further my interest by reading books and making frequent visits every Sunday to a forest experiment station in Gwangreung, Gyeonggi-do with my family. I learned a lot about the technologies used to grow trees. After studying the reforestation projects initiated during 1970 to 1972, I found that a massive reforestation project required a great deal of preparation in advance and the appropriate knowledge and tools to be successful.

Until 1967, forestry administration was a responsibility of the Forest Bureau of the Ministry of Agriculture and Forestry. However, in January 1967, the Korea Forest Service (KFS) was established as a separate government agency under the Ministry of Agriculture and Forestry, and subsequently, it took over the responsibility. I thought that a grass-roots movement led by the local governments, teachers, and Saemaul leaders was needed to raise awareness across the nation to educate people on the knowledge and tools of planting trees. To do this, I felt that the KFS had to be taken out of the Ministry of Agriculture and Forestry and moved to the powerful Ministry of Home Affairs with its well-established local networks. In the summer of 1972, I sought the advice of Dr. Hyun Sin Kyu at the Korean Institute of Forest Genetics (now part of the Korea Forest Research Institute). He was an internationally renowned scientist in the field of botany, specializing in trees. In fact, Dr. Hyun and the institute made significant contributions to Korea’s reforestation by breeding a new
variety of trees, called the *Eunsasi* aspen (Hyun aspen). Dr. Hyun seconded my view on institutional reorganization, saying, “To protect our forests, and for rapid reforestation, it would be better to have the KFS under the Ministry of Home Affairs.” I spent the rest of the day hearing Dr. Hyun speak about tree breeding and reforestation. Before I left, I asked him if the President could help in any way further this work at the institute. Without mentioning any issues of staffing, funding, or facilities, Dr. Hyun raised the point that the lack of sufficient land to breed trees made his research somewhat difficult. I left with a good impression of Dr. Hyun, who seemed noble in his scholarly pursuits and dedicated to his research.

On the next day, after my briefing, President Park decided to transfer the KFS to the Ministry of Home Affairs, for the reforestation and preservation of Korea’s forests. (After Korea’s reforestation was accomplished, the KFS was moved back to the Ministry of Agriculture and Forestry on July 1, 1987.) The President also made sure to address the institute’s lack of land for tree breeding labs.

In 1972, the Government Organization Law (Law of the Administrative Organization) was amended, placing the KFS under the oversight of the Ministry of Home Affairs. And, Sohn Soo Ik, the Governor of Gyeonggi-do, was appointed as the first Head of the KFS. Sohn Soo Ik was smart, creative, driven. He had a great sense for organizations, and gained the confidence of President Park. He began his career at the Ministry of Home Affairs, before working as a presidential secretary of political affairs at the start of the *Saemaul* Movement. After working as a director-general, Sohn became the Governor of Gyeonggi-do.
The transfer of KSF also elevated the local government agencies under it such as the Forestry Divisions (or Green Land Divisions) to Forestry Bureaus (or Agricultural and Forestry Bureaus), which had oversight of the newly created Forestry Management Divisions and Tree Planting Divisions. Also, provincial forestry offices, sand arrestation offices, and provincial forest experiment stations were created under the governor's office, while public workers in charge of forests were placed at the local governments.

As a result, a centralized system led by the KFS was established with a local network of government offices, enhancing government cooperation in implementing its policies, and providing a platform to disseminate knowledge and know-how in reforestation through grass-roots movement. To integrate various functions and to facilitate cooperation, local public officials, such as mayors and governors, were given responsibility over several functions including conservation management, monitoring, and conservation education by forestry offices. I also monitored the progress of the forest conservation and reforestation efforts through the Presidential Secretary of Political Affairs, and made sure its staff had a good knowledge of tree planting. Dr. Im Gyoung Bin of the Forestry Department at Seoul National University led the efforts to effectively identify and support the nationwide reforestation projects.
Ten-Year Reforestation Plan Accomplished in Six Years

Korea had in many ways advanced so much in the reclamation of its forests since the 1960s; however, so much more had to be done. Immediately after being appointed the Head of the KFS, Sohn Soo Ik established the First Ten-Year Plan (1973-1982) for Mountain Reclamation and Reforestation in 1973. The plan called for a massive reforestation effort of Korea’s mountains by encouraging all peoples and organizations to participate in planting trees. The plan sought to completely re-plant the mountains with trees. The objective of the first plan was to bring about rapid reforestation by promoting re-soiling and tree planting. The second plan was supposed to build on the first plan by focusing on the longer-term goal of developing Korea’s forests into a commercial industry for lumber. Remarkably, the objectives under the First Ten-Year Plan were completed by 1978, in just six years, covering all of the nation’s mountains with trees. Major policies of the first plan are as follows.

Anti-erosion work [Photo by Yook Dong Baek]
Arbor day

Sand arrestation and forestation work

Policymaking on the Front Lines 1: Social and Economic Transformation
It used to be that Arbor Day, April 5 of every year, was formally the only day for planting trees in Korea. However, starting in 1973, a longer period was devoted to planting trees. The days falling in between March 21 to April 20 of every year were marked for National Tree Planting, where local governments were given the choice of selecting one day out of the period to encourage people to participate in tree planting efforts. On tree planting days, all the employees of the KFS and other forestry-related government offices made visits to the planting sites to provide assistance and offer instructions on planting trees.

- Carefully dig up the seedlings not damaging their roots.
- Selection of healthy seedlings shall be conducted in a tent to keep the seedlings moist.
- Seedlings shall be packed together with Canadian parrot feather.
- Transferring of seedlings shall be conducted in the same day when they are packed.
- After receiving seedlings, temporarily plant seedlings in a row until the day of planting.
- To plant trees, dig a deep and wide hole, and then place the materials in the order of fertilizer, humus soil, and soil without rocks from the bottom.

Joint research works between industry and academia were set up to study and develop new tree species suitable for Korea. Also, the ratio of fast-growing “rapid-growth trees” to slow-growing “long-term tree” was set at 7 to 3 to encourage rapid reforestation. And, in order to promote mass production of seedlings and specialized planting technologies, the existing pool of 42 species of trees was reduced to 10 species including chestnut trees as a fruit tree; Italian
poplars, Hyun aspens, royal foxglove trees, alder trees, and acacias, as rapid-growth trees; and nut pines, larches, and Japanese cedars and cypresses, as long-term trees.

The nationwide tree planting effort was also made part of the *Saemaul* Movement, which focused on the cultivation of tree seedlings and tree planting as a way to increase the income of farmers. Government support was provided through the provision of tree seeds and materials needed to cultivate tree seedlings as well as through priority sales. Training and education on cultivation methods and technologies were also part of the government’s support. Once an appropriate time for planting and the tree types to be planted were determined, the KFS with the villagers, and *Saemaul* leaders led the tree planting projects that were conducted in cooperation with other villages. This also included joint efforts on inspecting trees in the months of autumn. The project leaders from the villages were hand-chosen by the KFS, which wanted leaders that studied forestry in agricultural high schools. Each village was assigned three leaders. *Saemaul* leaders also received training on cultivating seedlings and planting trees. This served as the model for village tree planting and training initiatives. Land owners were required to plant trees on their property; otherwise, the government could induce the owners to comply. Also, revenue-sharing schemes between villages and absentee land owners were promoted to incentivize tree planting. Under this scheme, villagers cultivated trees on the absentee owner’s land and received a percentage of the profits made by selling the trees for commercial use. Also, a performance-based reward scheme was used for sand arrestation works for farmers so as to maximize the sand arrestation and tree planting efforts. The combination of these measures helped to complete the reforestation project four years ahead of schedule.
Traditionally, forests were the main sources of fuel in Korea, even in urban areas until coal was introduced in 1957. In rural areas, people used not only trees but also tree leaves that were lying on the ground. Since it was practically free, the burning of leaves as fuel was widespread. This was so ruinous to the soil, which depended on leaves for nutrients. The poor condition of the ground made re-soiling it much more arduous and harmful to drinking water. Even small, younger trees were being cut down, further hampering the forest's ability to restock itself with trees. Therefore, policy measures to address the energy needs of farming villages were needed.

It was apparent that a sustainable source of energy was needed for rural areas. As a part of the First Five-Year Economic Development Plan in 1962, President Park sought to allocate 552,000 ha of land to develop a “fuel forest” to meet the energy needs of rural regions. This policy initiative was also made part of the Second Five-Year Economic Development Plan. However, the policies did not produce the type of results that were expected according to a research conducted in 1972. In fact, nearly half of the projects undertaken were deemed to have not met their objectives. Of the many reasons for the failure, the biggest reason was that the owners of the land preferred to use the land for maximum economic benefit rather than plant trees to meet rural fuel needs.

In 1974, President Park suggested that the trees to meet fuel needs be grown on unused public land, or on any unused land, particularly along the waysides of rural areas, abundant with weasel bush clovers. Meanwhile, research was conducted to improve the efficiency of wood-burning furnaces, which led to the introduction of a furnace that consumed 30% less wood. During 1974-1976, the government
improved the furnaces of about 6,700,000 rural households, achieving a remarkable savings of 3.3 million tons in forest fuel. Also, forest management techniques were strongly promoted by the government, such as periodic thinning and trimming of trees, which produced considerable amount of additional fuel, helping to alleviate the fuel shortage problem in rural farming villages.

By 1977, the energy shortage in rural farming villages was resolved as 847,000 ha of land, about 2,000 ha bigger than planned, was as “fuel forest”; the forest management projects provided added relief. At the same time, electricity began to flow to rural areas for the first time, while coal and oil started to replace traditional sources of energy fuels.

**Forest Management after Tree Planting: Silviculture Day**

Before the KFS was moved from the Ministry of Agricultural and Forestry, it was not able to monitor the trees that were planted during nation-wide tree planting initiatives, like Arbor Day, due to a lack of human resources. It was not until the KFS was brought under the Ministry of Home Affairs in 1973 that it had the necessary authority and network of local human resources to monitor the newly planted trees. Relevant organizations and human resources were deployed at local governments and the heads of the local governments began to feel a sense of responsibility. KFS’s follow-up monitoring included planting complementary trees, fertilizing, weeding, tree trimming, growing seedlings, and cultivating special trees.
The planting of complementary trees was conducted in plantations where the rooting rate was less than 80%. Also, rural farming villages joined hands in weeding to ensure the growth of newly planted young seedlings. Weeding was done twice a year in areas overrun by wild plants. After being trained and educated, public workers, Saemaul leaders, and farmers worked together to trim trees and grow seedlings. To avoid the busy harvest season, the projects were conducted twice during August to December as joint projects among villages. Letting nothing go to waste, the resulting weeds were composted; while shrubs and tree scraps were used for burning. This led to three effects simultaneously: tree cultivation, forest conservation, and additional energy sources.

On-site inspections of the newly planted trees were conducted nationwide every year by trained inspectors from both the central and local governments to monitor their progress and to conduct research. Inspectors from the local governments would visit the sites of other municipalities to make comparisons. The results of the inspections were used as teaching tools to help farmers recognize the importance of using new methods and technologies in planting and cultivating trees, and conservation of the mountains and forests. To promote forest management, the first Saturday of November of every year was marked as a special day for conducting forestry inspection and maintenance. Many people participated in helping to maintain Korea’s forests by fertilizing, thinning and trimming trees, and inspecting. In developing more effective fertilization methods, the Korean Institute of Forest Genetics found that measuring the period of time that soil was fertilized had considerable effects. In growing the new breed of trees developed by Dr. Hyun, the aspens grew 66% more when fertilized three times a year with 200g of commercial
fertilizer. On July 6, 1976, compound fertilizers under a prescribed method were used to grow trees more quickly while the logging period was shortened to increase productivity. This was meaningful in the sense that something as simple as applying fertilizers to trees as is done for crops could produce significant results.

Leaves that had fallen and lay on the ground were essential to the environment, as they provided valuable nutrients to trees and helped against land erosion that led to floods. Leaves also helped to keep forests humid, preventing damage from insects and disease. To preserve the natural habitat of forests, the removal of leaves was prohibited soon after Korea’s liberation from Japan. This law was reinforced in 1975 as measures to address the energy shortage in rural farming villages were implemented. Led by local police, villages themselves were responsible for obeying and enforcing the law. After 1975, there were no more cases of fallen leaves being removed. Leaves began to accumulate at a rate of 20 million tons per year, which had the same effect of 500,000 tons of fertilizers. As a way to continuously promote the conservation of forests, the first Saturday of November was chosen as Silviculture Day for the up-keeping and maintenance of forests. On this day, people participated in activities such as fertilizing, inspecting, preventing insect and disease infestation, and trimming and thinning of trees.
Economically Feasible Reforestation

In 1962, under the First Five-Year Economic Development Plan, a movement to promote the preservation of Korea’s mountains and forests was initiated. Italian poplar trees were introduced by the Korean Institute of Forest Genetics in 1961, and planted everywhere. To encourage their planting, the Hankook Ilbo in cooperation with the Korea Poplar Committee, the Poplar Processing Association, and the Match Manufacturing Cooperative Federation donated poplar seedlings. Also, local scholarship funds were raised all over the country through poplar planting projects.

In 1967, Dr. Hyun Sin Kyu developed Hyun aspens after his long-time research at the Korean Institute of Forest Genetics. As fast-growing trees, Hyun aspens were planted throughout the country. In 1968, under the Five-Year Plan on Planting Special-Purpose Trees to Increase the Income of Farmers, new cultivating technologies for chestnut trees, walnut trees, jujube trees, and shiitake mushrooms were disseminated, and insect-resistant enhanced varieties of chestnut trees were introduced.

Sohn Soo Ik, Head of the KSF, led the implementation of the Ten-Year Mountain Reclamation and Reforestation Plan during 1973-1982, in which the biggest issue was determining the type of trees to use in populating the land and the ratio of fast-growing to slow-growing trees. After much debate on this issue, the decision was made to set a ratio of 7 fast-growing trees to 3 slow-growing trees. Also, the decision to streamline “the tree portfolio” from 42 to 10 species allowed for the mass production of seedlings and the use of more specialized planting methods and technologies. Depending
on the distinct characteristics of each region, however, other species of trees such as persimmon trees, ginkgos, walnut trees, and citron trees were also introduced. If the Ten-Year Plan proved successful, then the proportion of slow-growing trees was supposed to be increased to help develop the commercial lumber industry.

As it turned out, the Ten-Year Plan implemented in 1973 was accomplished in six years, much sooner than planned. During visits to the Ministry of Home Affairs in January 1977 and the Chungcheong provinces in February 1977, President Park said: “Our policies not only seek to plant trees to grow our forests, but also plant the seeds so that farmers can reap their economic benefits.” As such, the KFS sought to create 86 commercially viable forests with 2,000 ha of land in 1979. In introducing other tree species to develop the commercial tree industry, lumbering on a large scale was prohibited, only allowing limited lumbering to maintain the soil’s fertility and prevent insect or disease infestation. Public officials and forestry personnel were trained and educated on lumbering for the purpose of upgrading tree species. The Gyeongju-Yangsan section of the Seoul-Busan Expressway was a model of this approach. Also, forests were mixed with both needle-leaf trees and broad-leaf trees rather than having mainly needle-leaf trees.

As chestnuts grew and became more abundant, the President tasked the Korea Institute of Science and Technology (KIST) to develop a cheap, convenient chestnut opener. He also had Jung So Young, the Chief Economic Presidential Secretary, lead a team to develop chestnut cookies, comparable to those made in France, which could be exported. For President Park, the hardships of his childhood, the memory of feeling hungry with nothing to eat, would
never fade, but he took solace in knowing the children in rural and farming villages would be able to enjoy the many simple pleasures chestnuts afforded.

End of Slash-and-Burn Farming

Nomadic farmers burned sections of forests, often on steep mountain sides, to fertilize the soil for farming. This caused much damage to forests, sometimes causing large forest fires, and even raising national security issues. In 1966, the Act to Rationalize Slash-and-Burn Farming sought to provide government assistance to nomadic farmers for their relocation.

The burning down of forests for farming was widespread in the mountainous regions of Gangwon, North Chungcheong, and North Gyeongsang provinces, and somewhat in Gyeonggi and North Jeolla provinces. Based on an initial estimate of about 300,000 nomadic farmers, it was thought that the government could only assist half of the farmers in 1972 under current budget constraints. Nomadic farming came about after poor farmers with no land began farming in the mountains, but over time, the cast of nomadic farmers became more eclectic; some were criminals, failed businessmen, religious fanatics, and army deserters, seeking refuge in the mountains. Many that were displaced from the mountains, under government assistance, often went back. Since the nomadic farmers were scattered all over in remote areas, obtaining an accurate figure on the number of nomadic farmers was impossible. This led to discrepancies in the reported number every year. A census of the
nomadic farmers was conducted in 1973 and 1974, which was used in the government’s four year financial assistance program that began in 1974. Under the plan, nomadic farmers in the region of Gangwon and North Chungcheong were targeted first, followed by farmers in North Gyeongsang and other regions. The basic objective was to displace farmers living on steeper mountain sides (greater than 20 degree slope), and to provide government assistance in relocating them. For farmers living on less steep slopes (Less than 20 degree), the government sought to convert the land into farming land and sell it to the farmers under an installment plan. The goal was restoring 70% or more of the land used by nomadic famers while assisting them to relocate.

Government assistance in relocating the farmers included subsidies to pay for moving expenses and construction costs for a new home, loans to purchase livestock, as well as, financial support for establishing tree nurseries, and building mulberry plantations. It also included employment opportunities in public works projects. By 1977, the last year of the plan had come to an end with the relocation of 2,300 households. A few more farmers were relocated in the subsequent year after being spotted by aerial reconnaissance planes. But it brought an end to hundreds of years of nomadic slash-and-burn farming: a relic of Korea’s poverty.
Youngil Reclamation Project

Until the mid-1960s, most of the reforestation efforts focused on reclamation of the land’s soil for tree planting. In 1962, the Soil Reclamation Act was legislated, at the same time, a national conference was held to train and educate forestry service workers on sand arrestation. The Temporary Measure on Forest Reclamation was implemented from February 1963 to December 1964, which mobilized compulsory labor, allowing for government budget to be spent on sand arrestation. To facilitate training and education on sand arrestation, a training center was established in Gimcheon. By 1964, nearly 300,000 ha of land, out of the total 370,000 ha initially planned, was finished with sand arrestation. Starting in 1965, maintenance work began sand arrestation. From 1968, sand arrestation work on 14 sites began with aid from UNDP and World Forest Organization (WFO) in terms of technology, equipment, and grain.

However, some regions remained untouched even in the early 1970s due to the special construction methods and huge costs that were required. Among them, the region of Youngil, near Pohang, was the largest and the most difficult. Its area covered 4,500 ha of land, flanked in the rear by a few bare mountains. It was an eyesore. It was also the first thing seen by anyone flying from Japan to Korea after crossing the East Sea (Sea of Japan). President Park believed if Youngil was restored first, then all the rest of the sites would seem less daunting. And if it was going to be the first thing anyone saw of Korea, then there was no better reason for restoring it first. Work commenced on Youngil, after having mobilized all technology and ingenuity available in Korea to accomplish the task. On a visit to
Youngil, while accompanying President Park, I found it to be quite a large area of land, surrounded by high, bare mountains with not a single patch of grass. The soil-less mountains lay exposed, showing its coarse gravel and sand. This made the mountain difficult, if not dangerous, to climb, as the loose gravel made it slippery. After an initial survey of the site, and trial and error, work began to prepare the land for sand arrestation. There were several steps in the soil reclamation process. First, walls made of stone, gravel and cement, were built on the side of the mountains, much like the steps of a pyramid. This was to prevent soil run-off when it rained. Then, soil had to be imported and placed over the pyramid steps, so that trees such as alder trees, acacia trees, and pine trees could grow.

More than anything, the Youngil reclamation project was an exercise in civil engineering. It consumed huge amounts of labor, time, and construction costs. It took five years to complete the project. The men and women that worked in restoring Youngil were given awards by President Park. Their work showed that anything was possible.

The region of Daegwallyeong sat high at an altitude of more than 800 m, which brought cold temperatures, little sunshine, and hard gusts of wind. Daegwallyeong lay practically desolate, having little vegetation. All its trees were torched by nomadic farmers. President Park wanted to remake Daegwallyeong with trees and forests into a shining example of what could be done with hard work and ingenuity. At the opening ceremony of the Yeongdong Expressway, President Park announced that Daegwallyeong would undergo reforestation. The biggest challenge was protecting the young seedlings from the hard winds of Daegwallyeong by building walls
lying 3 km long to break the wind. Also, the seedlings had to be fertilized with chemicals to prevent withering. Work went on day and night to finish the job.

**Wildlife Protection**

Years of unchecked hunting and deforestation after liberation from Japan severely damaged Korea’s natural wildlife, disturbing the balance of the ecosystem. Protecting Korea’s nature was urgent not only to prevent further endangerment of wildlife and animals but also to restore the natural balance of the environment. For instance, the population of different species of wild birds such as nightingales, pheasants, and chickadees, had to be increased to reduce the harmful environmental effects of insects. Protection of wild animals was important to preserve Korea’s beautiful nature.

The Wildlife and Animal Protection and Hunting Act of 1967 prohibited hunting for three years from August 1, 1972 to July 31, 1975. Though the wildlife population began to increase, its level was still below normal. So hunting was further prohibited until 1978.

But hunters and farmers complained about the extension, saying wild birds and animals damaged their crops. So, some exceptions were provided such as the hunting of sparrows using a single load air gun to protect rice fields from damage, and the hunting of birds in airports to prevent damage to airplanes or accidents. Also, hunting was permitted in Jeju Island to support its tourism and leisure industry. Otherwise, the hunting of wild animals was strictly
prohibited. In 1979, the hunting restrictions were extended again to 1981. Thanks to these efforts to protect and preserve wildlife, many unique migratory birds and other wild animals have brought life back to Korea’s nature.

**Restoration of Korea’s Mountains and Forests**

Once a forest has been depleted of its trees, restoring it is difficult to do, since trees take more than 20 years to grow. Korea’s forests were left devastated during the chaotic years at the end of Japanese rule, and the years after liberation from Japan and the Korean War. Previous governments tried to restore Korea’s forests but to no avail.

Under President Park, Korea’s reforestation efforts began in the early 1960s. The Reforestation Act in 1961 laid the statutory framework. Starting in 1962, the Five-Year Reforestation Plan was implemented under the First Five-Year Economic Development Plan. Until the mid-1960s, the first part of the plan focused on land reclamation, efforts to prepare the land for tree planting. In 1967, the KFS was created, and then, it was put under the control of the Ministry of Home Affairs in 1973, to lead the national reforestation initiatives, which were also part of the *Saemaul* Movement. The KFS prepared a Ten-Year Mountain Reclamation and Reforestation Plan, which sought to balance rapid reforestation by planting a prescribed mix of fast-growing and slow-growing trees, and to promote the cultivation of fruit trees in the agricultural sector, as a way to offer more economic opportunities for farmers.
The second phase of the reforestation effort began with the goal of building up long-term trees in 1977. During this time, the reforestation policy addressed many issues including the securing of sustainable energy sources for rural farming villages, displacement of nomadic mountain dwellers, and re-covering Korea’s landscape with trees. By 1984, 84% of all the trees in Korea were less than 20 years old and 51% were less than 10 years old. Giant Japanese cedars and cypresses adorn the mountains of Halla; strong pine and fir trees stand tall on Daegwallyeong; and scores of chestnut trees grace Korea’s countryside. Dense forests of sweet persimmon trees blanket Busan and Masan, and Youngil, which was once completely bare of trees. Fukuda Takeo, a former prime minister of Japan, and a friend of President Park, once recalled to me when I was Korean Ambassador to Japan: “Korea reminded me of naked mountains. A devastated forest is very difficult to restore. But, President Park succeeded in the reforestation of Korea in less than 20 years. I think that this is more difficult and valuable than any other economic achievement such as Korea’s rapid economic growth, the increase in exports, and improved employment.”

Conservation of Korea’s Nature and Wildlife

Nature can be thought of as God’s greatest gift to mankind. Humans cannot exist without nature. It is the source of our very existence and happiness, and passes with it the traditions of our ancestors. Nature sits very still yet full of life, order, and harmony. When order and harmony in nature are broken, it can respond in cruel ways. It is undeniable that nature stands to suffer as the complexity of human life and the human population, grow ever more.
It is generally understood that the peoples of a country will take time to pursue leisure when their income per capita exceeds a certain level. In Korea, income per capita reached 100 US dollars in the 1970s, after the First Five-year Economic Development Plan. During this time, Korea’s expressways were built across the nation. Korea, being no different from other countries, experienced a boom in leisure travel; people scattered all over its countryside to take some rest and relaxation. In the wake of the vacationers, the countryside was littered with garbage and damaged trees, once painstakingly planted. Exhausts from cars, the number of which multiplied as economic development took hold, left the leaves of trees blackened. Indeed, Korea’s rapid economic development and increased social mobility had damaging effects on nature and the environment, at least initially.

During a visit to the rural regions on September 5, 1977, President Park stayed at the Geumo Mountain Tourist Hotel, near his hometown. The President was born in Sangmo-dong, and attended the Seonsan Elementary School located at the foot of the mountain. So Geumo Mountain, which he often climbed as a child, holds many special memories of his childhood. During a scenic hike near the top of the Geumo Mountain, the President walked to a serene pond that had a waterfall.

Instead of being able to enjoy the natural scenery, the President was shocked at the sight of garbage scattered all around the pond; leftover food, paper trash, empty cans and bottles. The nearby area and trails were also littered with garbage. The scene stirred thoughts of a different kind, one that was very different from his memories. President Park thought that other places like Geumo Mountain would
have the same problems with no way of managing it. But before we left the pond, I along with the other staff members were obliged to help the President clean up the mess.

A few days after the trip, President Park proposed promoting a national nature conservation movement on September 10, 1977, during a monthly economic trends briefing. The Ministry of Home Affairs on the request of the President prepared a plan that sought to create a governmental organization to lead the initiative by drawing cooperation from volunteer-based private organizations.

President Park said: “If humans destroy nature, it will respond fiercely to mankind. The destruction of nature will lead to the destruction of mankind. Korea’s nature has recently been seriously damaged by rapid industrialization. The Nature Conservation Movement will seek to prevent such damages to Korea’s nature.” He added: “To make home in a beautiful environment during Korea’s modernization, we must respect nature’s order and harmony, using it with care.” He also highlighted: “It is our mission and responsibility to take what was passed on to us from our ancestors, and make it more beautiful and useful for future generations. Holding nature as sacred as we hold our bodies is as important as protecting and loving our country.”

In 1977, the Minister of Home Affairs, Kim Chi Yeol, convened a meeting of local governors, and introduced the basics of the Nature Conservation Movement. The Nature Conservation Committee, a government agency, was created, which was chaired by the Prime Minister. Also, the Nature Conservation Conference, a private organization composed of 21 members, was established. Along with
the committee and the conference, 44,000 nature conservation societies were created by region, work place, or interest group. Each society was tasked with maintaining the parks, mountains, rivers, lakes, and other nature sites of Korea. To formalize this, nature conservation associations were established and supervised by local governments led by governors and mayors. On October 24, the conservation movement was also taken up by the Presidential Secretariat. On the same day, the Nature Conservation Movement officially commenced in Bukhan Mountain for the first time in Korea’s history. On November 5, on Forest Management Day, nationwide rallies were held to promote and spread the movement throughout the nation.

The scope or goal of a nation’s conservation movement can be very extensive and different depending on the circumstances. In Korea, the movement was focused on three areas: purification of nature, conservation of nature, and environmental conservation. Environmental conservation was pursued by strictly imposing limits on air, water, and noise pollution, and environmentally harmful chemicals according to the Environment Conservation Act and other related laws and regulations, by educating and supervising companies. However, the efforts on the purification and conservation of nature were based on the voluntary participation of Korea’s people. When President Park was alive, nature conservation societies conducted the Nature Conservation Movement throughout the country at least once a month except during the winter. With such efforts, Korea’s natural environments were kept pristine.

The Ministry of Home Affairs, with cooperation from experts, sought to make Nature Conservation’s charter be focused on raising
awareness among people that the nature conservation movement should be the responsibility and mission of everyone, and should be passed on to future generations. On October 5, 1978, on the first anniversary of the movement, the Charter was declared at the Sejong Center for the Performing Arts where President Park delivered an address. He said: “Though we are late, I am comforted to know that we now appreciate the importance and value of Korea’s natural environment, and that people are voluntarily taking up the Nature Conservation Movement. The Charter of Nature Conservation shall provide a code of conduct that all of us should abide by from now on. The Nature Conservation Movement is a cleansing of the spirit that is able to make everyone’s mind pure like nature.” Even after President Park passed away, the Saemaul Movement and the Nature Conservation Movement still live on, but enthusiasm for the movements seems to have weakened. I sincerely hope that the true spirit of the Saemaul Movement and the Nature Conservation Movement will live on forever.
Chapter 15

Expressways

Korea’s Roads after Liberation from Japan

On September 7, 1945, the US established the US Far Eastern Command, as the military government, in South Korea, which preceded the landing of the US army in Incheon on the very next day. For the next three years, the US military government governed South Korea, until the first Korean government was established in August 1948. As soon as the US army landed, they began to rebuild the roads, damaged during World War II. It was a top priority of the military government and it also sought to address the rampant unemployment in Korea after the liberation from Japan.

Roadwork to repair and repave the Seoul-Busan highway began on Route 1 in Siheung, Gyeonggi-do in August 1946 led by the US military government. It was the first large-scale road paved with asphalt in Korea, nearly 15 cm thick of asphalt. Korea lacked the equipment to pave roads, so the US army provided the heavy machinery and trained Korean technicians to operate the equipment. The project was completed in July 1947, about one year after it started, consuming about 850,000 man-days.
The Korean War and Roads

The new Korean government wasted no time in their efforts to reconstruct Korea anew. With 9.8 billion won of aid from the Economic Cooperation Administration (ECA), work on building bridges connecting Korea’s main roads began in 1950. The surveys of the rivers and designs of the bridges were completed. Construction on some bridges was about to start. But, the Korean War put a stop to everything, only 22 months since the new government was established. The devastation wrought by the Korean War was unprecedented in the history of Korea. Most industrial facilities were left damaged and paralyzed or utterly destroyed. At the onset of the Korean War, most roads were narrow, winding, and made of gravel instead of pavement. The UN Forces struggled mightily because of this early in the war. The UN Forces could not use the roads to transport its heavy weapons. The Korean army had to widen stretches of roads totaling 1,300 km together with the Construction Bureau of the Ministry of Home Affairs, and help from nearby villages. Amazingly, it took just six months from July to December 1951 to widen the roads. Three US engineering battalions also worked on widening and improving strategic roads so that heavy equipment could be transported. The roadwork done during the war in many ways actually improved road conditions, though most of it was fixing roads that ran North and South so heavy military equipment could be transported, resulting in an imbalance between roads running North and South and roads running East and West. The main roads and bridges were prime military targets, since they would be used for transporting supplies. If a road was not disabled, then it suffered damages, especially the paved roads used by military trucks in and around the cities during the war. This left the UN Forces having to
fight the war while making temporary or emergency repairs to the infrastructure. The total length of paved roads decreased to 580 km in 1951 from 1,066 km in 1944. During the war, a total of 1,466 bridges, running 33,894 meters in length were destroyed including main bridges such as the Han River Footbridge and the Gwangjin Bridge of the Han River, the Soyang Bridge in Chuncheon, the Waegwan Bridge, the Namji Bridge, and the Goryeong Bridge of the Nakdong River, the Geum River Bridge of the Geum River, and the Hadong Seomjin Bridge of the Seomjin River.

After the ceasefire ended the Korean War, the single most urgent task facing the country was to rebuild itself. In 1954, Korea began to receive foreign aid from the International Cooperation Administration (ICA) and US AID, some of which was to be used in the reconstruction of roads and bridges made of steel, cement, lumber, or asphalt. Government coffers funded by local and national taxes were used to fund the labor costs. Reconstruction of the Han River Footbridge was completed in May 1958. By 1962, nearly all of the bridges connecting the main highways and local roads were reconstructed. Roadwork resumed again on the Seoul-Busan highway in 1957 in Seoul, Daejeon, Daegu, and Busan. Also, the Seoul-Incheon and Busan-Masan highways were widened and paved, while several large bridges including the Naju Bridge and the Munmak Bridge were built.

Indeed, Korea slowly began to reconstruct itself with considerable financial and technical aid, which lasted for 10 years, from the ICA and other organizations. Korea was able to not only rebuild itself but also modernize its infrastructure. Aid aside, it would not have been possible if not for the hard work and dedication of the public servants.
and technical experts who despite their lack of experience and resources were able to rise to the challenge. Such were the conditions of the roads before the 5.16 Revolution in 1961.

**National Reconstruction Plan and Roads**

At the onset of the post-Korean War reconstruction in 1955, a comprehensive national reconstruction plan began to take shape, inspired by the example of the Tennessee Valley Authority (TVA) in the US. In August 1960, the first initiative of the new government led by the Democratic Party of the Second Republic was establishing the Industrial Development Committee for economic development policymaking and the National Reconstruction Headquarters. Headed by the Prime Minister, the National Reconstruction Headquarters was charged with planning, management, technology, and research. It was supported by the national reconstruction committees of the central and local governments.

The Ministry of Reconstruction supervised the project while key personnel were selected from different branches of government by the National Reconstruction Headquarters to draft a plan. Despite rushing to reconstruct the country, the projects could not commence as the approval by the National Assembly was delayed as of March 1961.

When the new military-led government took power on May 16, the policies and plans of the previous government, except for the National Reconstruction Plan, were scrapped. The new government...
began deliberating on a new policy direction. On May 18, two days after the revolution, the Military Revolution Committee issued a decree stating: “...the national reconstruction efforts being undertaken are of national priority, and thus shall not be unfairly dictated by an organization or politics...it is our desire to continue with the reconstruction plan.”

In October 1961, the leader of the cabinet was tasked by the Chairman of the National Reconstruction Supreme Council to draw up a national reconstruction plan. In November 1961, the cabinet leader delegated the relevant ministries, including the Ministry of Construction and the Economic Planning Board, and the Ulsan Development Headquarters, to prepare a comprehensive national reconstruction plan by July 1963. The Ministry of Construction drafted with the ministries, a basic preliminary national reconstruction plan for Seoul, Incheon, Taebaek Mt., Asan Bay, and Youngsan River, based on research. The improvement of public roads and main roads with pavement was highlighted.

**Increasing Transportation Demand**

During the First Five-Year Economic Development Plan from 1962 to 1966, transportation volume increased dramatically due to Korea’s rapid economic growth, which resulted in greater social and economic activity, often creating congestion and bottlenecks. Korea’s inadequate transportation capacity could not keep pace with the unexpected and rapid economic rise through 1964, and began to hinder economic growth. The supply of critical materials was...
delayed, causing repeated fluctuations in price. This became the main topic of economic discussions to stabilize prices, and sparked much debate between ministries and government agencies on the state of Korea’s network of railways and freight trucks, and its traffic volume. Upgrading Korea’s transportation infrastructure suddenly took precedence.

The issue looming ever so large, the Ministry of Transportation was tasked with approaching the IBRD for technical and financial assistance. The IBRD had not only the research expertise and technical know-how but also the funds to provide loans for the construction of Korea’s transportation infrastructure. The Ministry of Transportation entered into a service agreement with the IBRD in September 1965. The Dutch engineering consultancy NEDECO sent a team of consultants to Korea. After conducting research for seven months from November 1965 to June 1966, a report was prepared describing the conditions as of 1965: “Generally speaking, the road conditions in Korea were very bad despite the 12 years’ efforts which focused on recovering from the war damages in the beginning and on modernization from 1962. In 1966, the road networks do not look modernized, but the quality of construction projects is good in general. We have to remember that there were no plans for modernized roads until 1946 in Korea, and, since then, Korea had to commence its road construction projects from scratch.”

The major findings of the research study concluded that: “The most distinguished feature of the land transportation system in Korea is the imbalance between railways and public roads. As of the end of 1965, the railway network is 3,000 km long, but the total number of cars is only 41,000. In other words, for every 700 persons, there is
just one car in Korea. This is the lowest proportion in the world. However, such a situation has been regarded normal in Korea up to date. In the beginning, during the Second Five-Year Economic Development Plan, it was planned that 1,500 km of railways were to be constructed while about 29% of the investment for the railways were to be allocated to public roads. The most important conclusion of this report is that it is necessary to change this plan.”

The research concluded that Korea’s transportation network could be a major obstacle to economic development. It strongly recommended that the imbalance between railways and public roads be redressed by building more roads, as demand was expected to increase by 10.2% for freight and 11.5% for passengers. The report recommended the pavement of 3,300 km of roads, in addition to the 1,660 km already reflected in the Second Five-Year Economic Development Plan. This would pave the roads that connected major cities. It also concluded that the complex and inefficient transportation administration authorities should be restructured, and that the Road Division of the Ministry of Construction should be elevated to a bureau. Despite the overwhelming nature of the changes, the recommendations were willingly accepted by the government.

The IBRD was skeptical of the plans to build ten sections of toll roads running 143 km, under the Second Five-Year Economic Development Plan. Two sections of the road, linking Seoul to Incheon and Suwon, were new constructions, the rest of the sections were going to be built by repaving old roads. The IBRD believed that drivers would access older roads instead of the toll roads to save on toll fees. The toll roads linking Seoul to Incheon and Suwon were
expected to be large-scale expressways. The word “expressway” was used for the first time in Korea.

The study was conducted by leading experts and proved crucial in transportation policy planning for its very insightful and systematic analysis. But the need, or even the possibility, of building expressways in Korea never dawned on the IBRD in 1966, considering Korea’s lack of economic standing, technology, and equipment. Understandably, justifying the construction of expressways meant believing Korea would develop rapidly like no other country had before; that it was possible for a country to construct an expressway in half the time at a fraction of the cost. It was easier not to believe these things were possible, and abstain from making any policy recommendations on Korea’s plans to build the Seoul expressways to Incheon and Suwon.

The Start of Expressways in Korea

The history of Korean transportation can be demarcated by two significant events: the introduction of railways in the 1900s and the construction of expressways in 1970. Korea began its “era of expressways” on December 21, 1968, when the Seoul-Incheon and Seoul-Suwon Expressways were opened, dramatically changing Korea’s transportation system. It was a remarkable change in a sense because even some of the main roads were still unpaved at the time. An expressway could be summed as “a roadway on which three times more cars at two times the speed are expected to travel with a fifth of the accident rate compared to normal roads.” To be
considered an expressway, the following basic requirements should be met:

- Used exclusively by cars
- Multi-level crossing systems
- Interchanges for accessing and exiting expressways
- Median dividers separating right and left lanes
- Ensuring safe passing
- Ensuring safe, pleasant, and fast driving
- Paved shoulders for emergency stops
- Facilities and management system to ensure all-weather and 24 hours-a-day driving.

At the time, the world history of expressways was relatively short; Germany was the first country to build an expressway, or “autobahn.” A 20 km stretch of expressway between Cologne and Bonn constructed during 1928 to 1932. In 1933, a long expressway stretching 7,500 km was planned in 1933, but only 3,859 km of it was completed before construction was suspended in 1942 due to World War II. After World War II, West Germany resumed construction of expressways, completing 6,200 km in 1976, the second most in the world after the US.

The US was second in introducing expressways. The first expressway in the US was the 640 km long Pennsylvania Turnpike, a toll expressway, built in 1939. By 1975, nearly 64,000 km of expressways was built, ten times more than what was constructed in Germany. Korea has become one of the leading countries in the construction of expressways, 30 years after it began to build the first expressway between Seoul and Incheon in 1967.
Expressway Construction Plan

The plan to construct expressways was first announced in April 1967 during the presidential election, when President Park pledged: “I will carry out the national reconstruction plan. Under the Second Five-Year Economic Development Plan, I will seek to build expressways and ports, and to develop the basins along four major rivers: the Han River, the Nakdong River, the Geum River and the Youngsan River.” At a press conference on May 2, he said: “The national reconstruction plan is one of the basic initiatives to modernize Korea. I will seek to build major expressways, connecting Seoul to Incheon, Gangneung, Busan and Mokpo.” Thus, the plans for an expressway were announced, and the transformation of Korea’s transportation infrastructure begun.

The construction of expressways is a huge project in scale, requiring considerable labor, machinery, materials, and last but not least, funding to pay for all of it. Only after a detailed and precise plan with clear objectives is drawn guided by a vision and the necessary preconditions met, can the project be initiated. In 1967, Korea lacked the financial and technological resources, so the idea of building an expressway seemed inconceivable. To meet Korea’s immediate transportation demand, there was no alternative to repaving the old roads, which even the experts thought was more feasible than building an expressway. Not to be deterred, President Park waited quietly for the right opportunity, when the conditions were ripe, to push ahead with the construction of expressways.

After I was appointed the President’s Chief of Staff in 1969, President Park shared with me some personal experiences and stories.
about expressways whenever we talked about it or when we were discussing about the economy. He first traveled on an expressway in the US while training there during the Korean War, but it was not until his state visit to West Germany that the President learned more about expressways and realized the important functions they served.

On December 16, 1964, President Park and First Lady, Ms. Yuk Young Su, visited West Germany on an invitation of its President. During the visit, President Park traveled to historic Cologne via the Autobahn from Bonn, the first expressway built in the world, on the suggestion of the German President, who said that it was the pride of Germany and a symbol of its restoration. The expressway measured 20 km between Bonn and Cologne. During the 40 km round trip, averaging a speed of 160 km per hour, President Park made a couple of stops to study the road surface, dividing lines, and interchanges, studying the shape of the road. When the President inquired further about the expressway, the German protocol official, gave an in-depth and detailed explanation of Germany’s network of expressways, and the construction and maintenance of its expressways in terms of cost, financing means, and labor and equipment requirements. Using a map, the German official explained that West Germany’s expressway network stretched throughout the nation with West Berlin at the center of the network. So, any destination could be reached in 30 minutes. He noted that the Autobahn was a pride of Germany, saying that Germans believed that a well maintained and managed expressway was a show of their gratitude to the country.

At the time, the West German Chancellor was Ludwig Erhard, who, as the Minister of Economy, had led the post-war economic reconstruction of West Germany. It came to be called “the Miracle
on the Rheine.” During a meeting, President Park and Chancellor Erhard discussed the remarkable economic reconstruction of West Germany. Chancellor Erhard said that the only way for a divided country to overcome communism was to develop its economy; the Autobahn has made great contributions to the economy of West Germany. He said that whenever he traveled on the Autobahn, he always expressed his respect to it. It was a conversation President Park would not soon forget.

President Park believed that the Second Five-Year Economic Development Plan, which started in 1967, would exceed its targets, just as the First Plan had far exceeded all expectations. Actual transportation demand was expected to exceed the IBRD estimates based on the First and Second Plans, thus, repaving the existing roads alone would not address Korea’s transportation needs. Also, by 1967, Korea had acquired the capability to mass produce asphalt while cement production and construction technologies had also advanced. The Ulsan Oil Refinery was established on May 7, 1964 under the First Plan. In 1967, President Park made the decision to go forward with the construction of expressways to keep pace with the rapid economic growth.

**Seoul-Incheon and Seoul-Busan Expressways**

After announcing the plan to build expressways on April 29, 1967, construction of the expressway between Seoul and Incheon was to begin on May 1, 1967. An interim construction plan prepared by Zew Won, the Minister of Construction, was submitted to
President Park, during a meeting between government officials and members of the ruling party on November 7, 1967. It was supposed to be incorporated into the Second and Third Five-Year Economic Development Plans. It included a Ten-Year Plan for the construction of major expressways connecting Seoul to Incheon, Busan, and Gangneung, and connecting Daejeon and Mokpo (or Yeosu), as well as, having expressways run along the eastern and southern coasts of Korea. Also included was a funding plan for financing the construction.

After reviewing the report, President Park wanted to build the Seoul-Busan expressway first, and within the period of the Second Five-Year Economic Development Plan (1967-1971) to stimulate economic development by connecting Seoul and Busan, Korea’s top two economic centers. Despite the pessimistic, even negative, response from home and abroad to the plans to build expressways, President Park firmly believed that the cost-benefits of building up Korea’s road network were far greater than what could be achieved by building railways or ports. Expressways offered the most efficient way to remedy the transportation problems given Korea’s limited financial resources. It would have wide-ranging effects on Korea, contributing to industrialization, promoting regional development, and furthering social development. President Park felt it imperative to construct the expressways using the country’s own capital, technological, and human resources, a symbol of Korea’s modernization from within. Such was the way the construction of the expressways linking Seoul to Incheon and Busan was, launched, becoming Korea’s “greatest engineering feat.”
Traffic volume between Seoul and Incheon soared after the First Five-Year Economic Development Plan, which was expected to continue increasing under the Second Five-Year Economic Development Plan, giving rise to the need of an expressway between Incheon and Seoul. To facilitate rapid economic growth, it was imperative to not only build up the capacity of Incheon Port, Korea’s second largest port and the gateway to Seoul, to handle increased cargo volume but to construct expressways linking Incheon to Seoul.

As outlined by the Ministry of Construction, the need to build the Seoul-Busan Expressway was also evident. Nearly 63% of Korea’s population was concentrated in four regions: Seoul, Gyeonggi, Chungcheong, and Gyeongsang provinces. It also accounted for 66% of Korea’s GNP, and 81% of total industrial production, so the potential economic benefits were immense from connecting the two important regions. Furthermore, nearly 81% of Korea’s total passenger car traffic volume passed through the regions along where the Seoul-Busan Expressway would be built, with a higher rate of increase in traffic volume compared to other regions.

Indeed, the Seoul-Busan Expressway would run in parallel to the existing railway linking Seoul and Busan. It was expected that the efficiency gains reaped from the synergies of having both would be greater than the losses. By diverting some of the cargo traffic onto the expressways, it would help to alleviate congestion on the Seoul-Busan railway, which had reached full capacity. The network of expressways would also improve Korea’s logistical infrastructure by linking its two biggest ports, Busan and Incheon, which accounted for 55% of Korea’s total transportation volume.
The biggest challenge to building the expressway was financing the cost of construction. It weighed on the President’s mind considering the huge amount spent by advanced countries to construct their expressways coupled with Korea’s weak financial state. Japan spent about 800 million won per kilometer of road to build the Tomei Expressway between Tokyo and Nagoya. If the same unit of cost was applied to estimate the total cost of the Seoul-Busan Expressway stretching 430 km, Korea would need to spend 350 billion won. This was more than twice the total national budget of 164 billion won in 1967.

After the decision was made to go ahead with the expressway, President Park sought to address the construction cost first by having cost projections prepared for an expressway stretching 438 km with four lanes on each side, each 24 meters wide. Several government organizations were requested to conduct projections on the construction costs including the Ministry of Construction, the Economic Planning Board, the Ministry of Finance, the Seoul Metropolitan Government, the Military Engineering Office of the Army, as well as, Hyundai Construction, which had just built an expressway in Thailand. As seen below, the budget projections submitted varied quite a bit by organization.

- The Ministry of Construction: 65 billion won
- The Ministry of Finance: 33 billion won
- The Economic Planning Board: Could not project.
- The Seoul Metropolitan Government: 18 billion won
- The Military Engineering Office of the Army: 49 billion won
- Hyundai Construction: 28 billion won

Led by President Park, three engineers from the army and an
expert from the Ministry of Construction assessed the construction proposals, reviewing and comparing each of the proposal’s location of the intended route, construction costs, and costs related to buying the land on which the expressway would run through. The projected costs ranged from 18 billion won to 65 billion won, with the average being 31.5 billion won. It was concluded that the construction cost would be about 30 billion won, just a little more than the 28 billion won projected by Hyundai Construction.

Once construction began, it was clear that the Ministry of Construction could not manage the massive project on its own. So the National Expressway Construction Planning and Research Committee was established on December 15, 1967 to research and plan the construction. Led by Ahn Kyung Mo, the former Minister of Transportation, an expert, well established in the Korean civil engineering industry, the committee was comprised of experts from government and the private sector. At the time, the Road Bureau had not been established within the Ministry, and the National Land Conservation Bureau was responsible for the administration of roads within the Road Department, as well as, the administration of urban housing and ports. The National Expressway Construction Planning and Research Committee was tasked to prepare a plan to build the Seoul-Busan Expressway with the budget of 33 billion won. A 10% reserve was built into the initial construction cost estimate. From the committee’s perspective, they had to work within a fixed budget in drawing up a construction plan rather letting the plan dictate the construction costs.

On February 5, 1968, at the Eighth Economic Ministry Meeting, the budget and financing plan for the Seoul-Busan Expressway was
finalized. The total cost was budgeted at 33.1 billion won, which was expected to be financed with 13.9 billion won from gasoline tax revenues, 6 billion won from transportation tax revenues, 8.4 billion won from selling US AID grain, 2.7 billion won from Japanese reparations, 1.5 billion won from toll revenues, and 0.6 billion won from the existing budget.

In November 1967, plans were already underway behind the scenes to buy the land, where the expressway would be built. President Park was involved in drawing up several possible routes for the Seoul-Busan Expressway. Being an expert at map reading, a skill he had mastered while in the military, the President was able to fully appreciate the topography of an area. For the Seoul-Suwon section of the expressway, land appraisals of several possible routes were conducted by two commercial banks. Then, the President convened a meeting on November 28, 1967, attended by the Minister of Construction, the Mayor of Seoul, and the Governor of Gyeonggi-do, to outline a strategy for finalizing the route between Seoul and Shingali, and for securing the land needed for the expressway as soon as possible. After receiving the land appraisals from the banks, the President said: “For possible routes of the Seoul-Busan Expressway, the land was appraised to be between 170 and 180 won per 3.3 square meters. This should be fairly reliable. It does not mean that the land for the expressway has to be purchased at these prices. Gyeonggi-do will be allocated a budget of 300 won per 3.3 square meters to secure the land. After all the needed land has been secured, I will give discretion over any leftover budget to the local government to be used for the purposes of farmland readjustments, improving water facilities, or repairing roads.”
Since the government’s land buying would likely trigger real estate prices to go up, the plan was to secure the lands within a week, but the Mayor of Seoul and the Governor of Gyeonggi-do thought it would take more than a month. Nonetheless, the President pressed for a quicker time table, and mobilized all public officials. First of all, written consents by the government should be finalized. As the formal purchase contracts could wait, all that was needed was to secure the rights to the land by written agreement from the owner. Price negotiations and payment would come later. The local governments were instructed as follows:

- After the route has been determined, each local government shall purchase the land at market prices in step with the local government of Gyeonggi-do. Governors shall be granted discretion over any budget leftover for the development of nearby areas.

By the end of 1967, all the land needed was secured, clearing the way for the construction of the Seoul-Suwon section of the expressway. On January 12, 1968, the National Main Expressway Construction Planning and Research Committee was dissolved once the Seoul-Daejeon route was finalized. In place of it, the Seoul-Busan Expressway Construction Office was created within the Ministry of Construction. Heo Pil Eun, a former major general and an expert in civil engineering, led the new office.

On February 1, 1968 in Wonji-dong, Seoul, the groundbreaking ceremony, attended by President Park, government leaders, members of the National Assembly, and hundreds of citizens, was held. In his speech delivered at the ceremony, President Park remarked: “The construction of the Seoul-Busan Expressway is a symbol of Korea’s
modernization. It is the start of the reconstruction of our country, which has gone on for a long time. Through this, we seek to make our dreams come true.” On April 3, 1968, the construction of the Osan-Daejeon section (106.6 km) of the expressway began, followed by the Daegu-Busan section (152 km) on September 11. In the following year, construction of the Daejeon-Daegu section (152 km) of the expressway began, which proved to be the most difficult section, on January 13, 1969.

The most difficult problem second to only securing the funds, was procuring the heavy construction machinery needed to build the expressway. This caused the construction of the Seoul-Incheon Expressway, which started earlier, to progress slowly. According to the IBRD, the number of construction machinery within the domestic civil engineering and building construction industry totaled just 1,647 as of 1965. Making matters worse, most of the heavy machinery was outdated and worn, making them obsolete. As such, emergency measures were implemented to procure the necessary machinery from world-class companies in the US, the UK, France and Sweden. The equipment was funded via project loans. By February 1969, the necessary heavy machinery was procured. The construction of the expressway, which measured 430 km long in total, was divided into several sections that were going to be constructed at the same time to complete the expressway within three years. Thus, it was imperative to assemble a project management team to manage and oversee the construction, as well as, a quality management team to monitor and inspect the construction. At the time, there was a dearth of qualified technical professionals specializing in roadwork, while there were no construction workers with experience in building expressways. Meanwhile, before the
construction of the Seoul-Busan Expressway began, there were no experts who could inspect civil engineering projects in Korea.

To secure the human resources, a program was established by President Park to select and train recruits educated in civil engineering from the army and universities, as project supervisors. According to the plan, 22 graduates of the Korea Military Academy, who displayed a strong sense of responsibility and integrity, were trained as supervisors. Then, 12 ROTC officers and a few graduates from universities, all with a background in civil engineering, were recruited into the program. Also, for the very first time in Korea, 50 recruits that studied civil engineering at college or high school were trained and educated to become inspectors, a profession that has continued ever since.

The project supervisors and inspectors contributed greatly in the construction of the expressways, ensuring its successful completion and integrity. They performed their duties and responsibilities with pride and enthusiasm, never once compromising their principles. Many moved on abroad, taking with them, Korea’s know-how in construction, to wherever they went.

It should be noted that army engineers played a critical part in the construction of the expressways, often overseeing some of the most difficult sections in Suwon, Daejeon and Eonyang. The value added by the army engineers helped in increasing the efficiency of the construction, thus, reducing the cost.

When the completion of the Seoul-Busan Expressway was celebrated in July 1970, many of these young army construction
supervisors could not hold back their emotions, as President Park awarded them with a medal for their distinguished service. I felt that their tears were more than just tears of great pride but an outpouring of emotions for the hardships endured for two and a half years.

The time table for the completion of the entire expressway was pushed forward to 1971. So, the first section of the expressway between Seoul and Osan that stretched 45.5 km was completed in December 1968, only 11 months after construction began. The completion of this section was originally targeted for June 30, 1971, but President Park wanted to push the completion date a full year forward to June 30, 1970, which accelerated the pace of the construction for the entire expressway. The second section between Osan and Daejeon, and the fourth section between Daegu and Busan, were completed in December 1969. The third section between Daejeon and Daegu, the most difficult, was completed on July 7, 1970.

The Daejeon-Daegu section was 153 km long, accounting for more than a third of the expressway’s total length of 428 km. In terms of the construction effort, this section represented 47% of the total civil engineering, 50% of the total amount of ground cutting, 60% of the total bridges and 90% of the total tunnels. Thus, you could easily imagine how treacherous the construction of this section was, especially the Dangjae tunnel, which was the cause of many tragic deaths among construction workers, endless delays, and thirteen cave-ins. The biggest reason was that the tunnel was located in a valley, which was composed of sedimentary rocks. The completion of the expressway was dependent on the completion of the Dangjae tunnel. In successfully building the tunnel, Chung Ju
Yung, the CEO of Hyundai Construction, made great sacrifices in materials and labor without regard to profits. The completion of the Daejeon-Daegu section marked the completion of the Seoul-Busan Expressway with a total length of 428 km, built nearly two years and five months after construction began.

The total construction cost of the expressway was 42.9 billion won, exceeding the initial estimate of 33 billion won, largely due to several changes and increases in the cost of raw materials. However, the unit cost per kilometer was just 0.1 billion won, representing one eighth of the cost of the Tomei-Meishin Expressway in Japan. The Seoul-Busan Expressway held historical significance because it was constructed at the lowest cost and in the shortest amount of time ever in the world with Korea’s own technologies. This showed the great promise of the Korean people.

The Seoul-Busan Expressway was constructed by the efforts and sacrifices of many people: Zew Won and Lee Han Lim, the two Ministers of Construction, the public officers of the Ministry of Construction, and the directors and the employees of the 13 construction companies including Hyundai, Samwhan, Daelim, Sambu, Kukdong and Korea Development Corporation, and the military engineers of the three engineering battalions. However, President Park made the biggest contributions to the construction of the Seoul-Busan Expressway.

*The 15 Years’ History of Expressways in Korea* published by the Korea Expressway Corporation said. “If an expressway is compared to chorus or a symphony, our expressways, especially the Seoul-Busan Expressway, could be compared to immortal masterpieces.
created and conducted by President Park.” A great epic made of sweat and tears: The hidden stories behind expressway constructions also published by the Korea Expressway Corporation said: “As the incumbent President of Korea at that time, he was deeply and strongly involved in planning and managing the construction of the Seoul-Busan Expressway, and successfully led its construction, the biggest civil engineering project in the Korean history, to a great success. During the construction of the 428 km expressway between Seoul and Busan, he frequently visited sites by a helicopter or by a jeep, reviewing the construction progress and encouraging workers.”

The 15 Years’ History of Expressways in Korea included copies of many documents written by President Park such as “the conceptual plan of the expressway network,” “the fixed plan for axial line between Seoul and Busan,” “the note on the plan to purchase the construction sites,” “the order to compose a supervising team,” “the construction schedule,” and “the memo of an order for landscaping works,” showing how President Park devoted himself to the construction from the beginning to the end. Two years and Five months after the construction began, the 428 km-long Seoul-Busan Expressway was constructed with a total construction cost of 42.9 billion won, and consumed total work days of 9 million and total machines of 1,650,000. The expressway opened on July 7, 1970.

A magnificent ceremony was held at the Busan Public Stadium in celebration of the Seoul-Busan Expressway’s opening, which began a new chapter in Korea’s history: economically, socially, culturally, and militarily. It literally transformed Korea, making it possible to travel anywhere in Korea in one day, promoting balanced regional growth and changing people’s lives. It instilled a new self-confidence
that “We can do anything” among the people of Korea. It also helped Korea achieve exports of USD 10 billion and income per capita of USD 1,000 in 1978, two years earlier than originally planned.

On December 8, 1970, at the Chupungryeong located in the very middle of the Seoul-Busan Expressway, the unveiling ceremony for the Seoul-Busan Expressway Completion Monument was held. President Park together with the First Lady attended the unveiling of the Seoul-Busan Expressway Memorial, built in honor of the construction workers, who lost their lives building the expressway, on Chupungryeong, near the fourth bridge on the Geum River at the center of the expressway. The President and the First Lady paid a tribute to the 77 “industrial heroes” laying flowers at the feet of the Memorial. Their sacrifices are immortalized by the words engraved on the monument:

“The Seoul-Busan Expressway is the way to Korea’s modernization and national unification.”
July 7, 1970
Park Chung Hee, President of Korea

Expressways throughout Korea

Under President Park, construction on eight expressways including the Seoul-Incheon Expressway, the Seoul-Busan Expressway, the Honam Expressway, the Namhae Expressway, the Yeongdong Expressway, the Donghae Expressway, the Guma Expressway, and the Eonyang-Ulsan Expressway, began on May 1, 1967. By December 14, 1977, all construction work had been
completed, ten years after they began. Keeping his presidential campaign pledge made in April 1967 to build major expressways connecting Seoul, Incheon, Gangneung, Busan, and Mokpo, as the basis of Korea’s modernization, President Park established an expressway network connecting important regions, bringing the entire country within one day’s travel. In 1978, the development of the machinery industrial parks in Busan and Changwon, and the Masan Coastal Industrial Zone led to a significant increase in the container cargo traffic from these regions, exceeding Namhae Expressway’s capacity. So, a new expressway between Busan and Masan branching off Namhae Expressway was needed. The construction of this four lane Busan-Masan Expressway commenced in May 1978, and was completed in September 1981 after President Park passed away.

In the past, the regions of Jeolla (Honam) and Gyeongsang (Yeongnam) provinces were largely separated due to geography. This changed with the expansion of Korea’s network of expressways, built after the Seoul-Busan Expressway that stretched from coast to coast. The expressways brought the two regions within a day’s travel by car. It also led to the industrialization of the area along the expressways, creating an industrial belt that included: industrial complexes in Jeonju and Gwangju, Iri free export zone, the Gunsan outer port, the heavy and chemical industrial complexes in Yeosu and Gwangyang, large shipyards in Okpo and Jukdo, and the Changwon machine industrial park. They also led to the development of the basins along the Nakdong River and the Youngsan River.
Seoul-Busan Expressway
Connecting regions separated by long distances brought people closer together. The expressways were like Korea’s arteries, bringing Chungcheong-do, Jeolla-do, and Gyeongsang-do, closer together. On November 14, 1973 at the completion ceremony for the Honam and the Namhae Expressways held at the Gwangju Public Stadium, President Park remarked: “These expressways will not only transport goods but also connect our people, as arteries bring life to our bodies. As regions are brought closer together, we will also be brought closer together. The expressways will help bring harmony between different regions and unify our nation as one.” The Honam and Namhae Expressways, totaling 437 km in length and accounting for over a third of all the expressways in Korea, stretched south to Busan. It runs through four provinces and a big city, connecting four distinct provinces, isolated from each other by geography. Jeollanam-do and Jeollabuk-do sit on opposite sides of the Noryeong Mountain Range, which runs across Korea, East and West. The rough terrains of Sobaek Mountain and the Seomjin River divide Jeonnam and Yeongnam, while the Nakdong River divides Busan and Gyeongnam.

The expressways connected Jeollanam-do and Jeollabuk-do via the Sanam tunnel, the longest expressway tunnel in Korea, which cuts through the Noryeong Mountains, in less than 40 seconds. The second Nakdong River Bridge (1,336 meters) and the Seomjin River Bridge (524 meters) connect Yeongnam and Honam, two big regions in the southern area of Korea. This contributed to more balanced development of the two regions.

The construction of the Honam and Namhae Expressway began only three months before the Seoul-Busan Expressway was opened.
on April 15, 1970, and was completed in 1973. In constructing the expressway, different sections were built simultaneously. Construction of a 79.5 km long section of the expressway between Daejeon and Jeonju began first, using home grown capital and technological resources. Construction was led by the Korea Expressway Corporation. In January 1972, construction on the section of the Honam Expressway between Jeonju and Suncheon began, at the same time work on Namhae Expressway commenced. The section between Daejeon and Jeonju was first completed in December 1970 while the final leg of the expressway between Jeonju and Suncheon was completed in November 1973. The Namhae Expressway section of the leg connecting Suncheon to Busan was completed in November 1973.

After the Honam and Namhae Expressways, two expressways were built to connect the regions of Yeongdong and Donghae where the lush and bountiful Taebaek Mountains sit, the backbone of Korea, lying just 200 km from Seoul. These regions had been deprived of economic development and had one of the lowest population densities in Korea. It was also where many nomadic mountain farmers lived. The expressways were necessary to remedy the transportation inadequacies and promote economic development.

The construction of the first section of the Yeongdong Expressway that ran 104 km between Shingal and Saemal began on March 24, 1971, led by the Korea Expressway Corporation. This section was completed in November 1971. The construction of the section between Saemal and Gangneung on the Yeongdong Expressway, and the section between Gangneung and Mukho on the Donghae Expressway were both started simultaneously on March
1974. These sections were completed in September 1975. Also, the construction of the Guma Expressway between Daegu and Masan began on July 1976 and finished in December 1977. Finally, the construction of the Buma Expressway between Busan and Masan began on May 1978.

At the groundbreaking ceremony of the Yeongdong and Donghae Expressways, President Park said: “Just as water stored in a reservoir flows to faraway farms and irrigates their soil, expressways bring economic life to remote regions such as rural farming villages and mountainous areas. We can learn this through the examples from other countries.”

President Park focused on the economic development of these regions and improving the transportation infrastructure during the planning of the Yeongdong and Donghae Expressways. But the IBRD was skeptical of the proposal to build these expressways. In July 1968, the government entered into a development financing agreement with the International Development Association (IDA), an affiliate of the IBRD, for the construction of the expressways. Research on its economic feasibility began soon after. Feasibility studies were conducted to determine the best routes for all the expressways from an economic perspective. The findings of the studies were submitted to the government in March 1970. Feasibility studies were conducted on the Yeongdong route (Seoul-Gangneung), the Donghae route (Samcheok-Sokcho) and the Honam-Namhae route (Daejeon-Jeonju-Gwangju-Suncheon-Masan-Busan). A feasibility study of the routes proposed for Yeongdong and Donghae conducted by a US consulting firm recommended the following route for the Yeongdong Expressway: Cheonho (Seoul)-Yangpyeong-
Huengseong-Bangnim-Gangneung. But, the government chose another route - Seoul-Shingal-Yongin-Icheon-Yeoju-Wonju-Gangneung - proposed by the National Main Expressway Construction Committee in 1969, which was in charge of planning the national expressway network.

The IBRD concluded that the proposed expressways were economically unfeasible due to the high construction costs, and recommended that additional studies be done. Meanwhile, President Park gave the final go ahead to begin construction on the 104 km long Shingal-Saemal Expressway, which had been deemed economically feasible by the IBRD. The construction was financed domestically, and was completed eight months later on December 1, 1971. As such, a French consulting firm was retained to conduct another feasibility study in January 1971, which recommended an entirely different route, and suggested shortening certain routes. It concluded that costs could be saved by expanding and upgrading existing national highways, especially the national highway between Daegwallyeong and Gangneung, instead of building new ones.

The study by French firm also contradicted some of the findings of the US firm. It concluded that the Saemal-Gangneung section, the Gangneung-Mukho section, and Gangneung-Sokcho section were feasible, whereas the US firm concluded that the Saemal-Gangneung section and the Sokcho-Samcheok section were feasible. In the end, the IBRD concluded that only the Gangneung-Mukho section (32 km) on the Donghae Expressway was feasible.

The construction of the Shingal-Saemal section, the Saemal-Gangneung section, and Gangneung-Mukho section on the
Yeongdong Expressway began on March 1974, and were completed in September 1975. Prior to giving the go-ahead for the expressways, President Park surveyed the geography via helicopter of the proposed route. The President also made frequent visits to the expressway construction sites, always having words of support and encouragement to the workers. The Korea Expressway Corporation, led by Park Ki Seok, the CEO, constructed the second section of the Yeongdong Expressway and the Donghae Expressway. Their construction was made difficult and challenging by the rough geographical landscape characterized by tall, rugged mountains. While constructing the section of the Seoul-Busan Expressway lying on Chupungryeong with altitudes of 230 meters proved difficult, the region where the Yeongdong Expressway lies proved much more challenging, as its mountains average an altitude of 300 meters. The Donghae Expressway on the east side of the Taebaek Mountains also sits on rough terrain. A 97 km stretch of the section between the Gangneung and Saemal interchange passes three high mountains with altitudes of 680 meters, 1,260 meters, and 1,123 meters, respectively. The Yeongdong Expressway had to punch through the Taebaek Mountains from east to west. Its management and employees endured great hardship, bitter cold weather, and heavy snow high above in the mountains, which made for dangerous conditions. Their hardships were the most severe in the history of Korea’s construction industry.

The Yeongdong Expressway significantly shortened the drive time, which used to take a day and a half to go to Gangneung from Seoul, to only two and a half hours. As a result, all the regions along the Eastern coast were brought within a day’s drive closer to Seoul. The economic development of the regions along the eastern coast
(the Geojin-Ganseong-Sokcho-Gangneung route and the Samcheok-Uljin-Yeongdeok-Pohang-Ulsan-Gijang-Busan route) was always a priority of President Park, thus, he sought to improve the roads along the eastern coast until his death.

The Guma Expressway between Daegu and Masan runs north and south along the Yeongnam region. It is an important industrial route providing inland areas direct access to the Masan Coastal Industrial Zone and its harbors, and linking the regions of Daegu and Busan. The expressway measures 84.2 km, and was a toll-free road based on a condition of IBRD loan. By 1970, Seoul and Busan, and Eonyang and Ulsan were connected by expressways. In 1973, the Namhae expressway between Suncheon and Busan opened. In 1977, the expressway between Daegu and Masan opened. This connected the industrial centers in Gumi, Daegu, Ulsan, Busan, Changwon, and Masan by a network of expressways, while the industrial centers along the coastal regions were accessible, further helping to facilitate Korea’s industrial development. During its planning, connecting Daegu and Masan via expressways was considered as an alternative route to the Seoul-Busan Expressway. From Seoul, the route was to go through Chungju, Mungyoung, Seonsan, Daegu, Hyeonpung, Masan, and Jinhae, before going to Busan and the regions along the North Han River and the Nakdong River. As such, the Eonyang-Ulsan Expressway was constructed with four lanes, which started from the Eonyang IC connecting to the Seoul-Busan Expressway, 387.5 km away from Seoul, and ran for 14.3 km to Ulsan. The Eonyang-Ulsan Expressway was constructed, while the Seoul-Busan Expressway was being built, by the Hanshin Real Estate Company, an affiliate of the Korea Trust Bank, which financed the construction. The Eonyang-Ulsan Expressway became a vital part of Korea’s...
network of expressways, feeding the large cargo traffic originating from the Ulsan Petrochemical Industrial Complex, the biggest one in Korea, to the Seoul-Busan Expressway.

Transformation of Korea’s road network

The Seoul-Incheon Expressway, the Seoul-Busan Expressway, the Eonyang-Ulsan Expressway, and the Busan-Masan Expressway were built with four lanes while the Yeongdong Expressway, the Honam Expressway, the Namhae Expressway, and the Guma Expressway were built with two lanes. The expressways that were expected to produce relatively smaller economic effects were planned to be built with two lanes first, but with capacity to expand them into four lanes in the future. As such, land enough to build four lane expressways were purchased in advance. In the case of the Saemal-Gangneung section, land enough for a two lane expressway was purchased, as most of it sat on mountainous areas with altitudes of 300 to 800 meters that were public or state land. This didn't make it a place likely for future development. Pedestrian overpasses were constructed for four lane expressways. This can be further seen in the small difference in the unit cost of constructing the two lane Honam Expressway between Daejeon and Jeonju, which cost 90 million won per km, only 10 million won per km less than the cost of constructing the Seoul-Busan Expressway, which was finished three months before work on Honam Expressway started. The small difference in unit cost for the Honam Expressway despite having only two lanes is because they were built to accommodate four lanes in constructing the interchanges and bridges, and securing the land. The prudent initiatives to secure sufficient land and to build expressways that could accommodate four lanes in the future, attest to the visionary and bold decisions of President Park.
The Effects of the Expressways

The network of expressways changed Korea in many ways; the social, political, cultural, and economic effects are beyond measure. The expressways have had direct economic effects on the transportation industry, but its ripple effects have been far-reaching: improving the distribution network, promoting agricultural and industrial development, facilitating the development of the leisure and tourism industry, and the immeasurable social effects of a shorter and more convenient means of travel. Finally, the expressways brought the nation physically closer, all within a day’s travel, reducing regional disparities and accelerating economic development. Also, they made great contributions to unifying the nation by connecting different regions.

After the expressways were built, the focus of Korea’s transportation system shifted from railways to public roads. In 1967, 54.6% of the total freight traffic was transported on trains. By 1975, it fell to 29.1%. In contrast, roads were used to transport 47.5% of freight traffic in 1967, which increased to 62.5% in 1975. A similar trend is found in passenger traffic. Trains accounted for 44.4% of passenger traffic in 1967, but only 24.9% in 1975, while the proportion of passenger traffic accounted by roads increased from 54.3% in 1967 to 74% in 1975. The increased traffic on expressways, both commercial and passenger, significantly lessened the stress on regular roads, especially for freight traffic, two thirds of which were now transported on the expressways. The number of vehicles on expressways jumped to 18,990,000 in 1975 from 2,890,000 in 1969. Among the 18,990,000 vehicles, trucks accounted for 56.6% while passenger cars and buses accounted for 26.0% and 17.4% of the...
vehicles, respectively. In 1978, trucks accounted for 56% of the 40,600,000 vehicles that passed through an expressway at least once.

The expressways, like an artery, have been vital to Korea’s industries. If they had not been built as a part of the Great National Land Development Plan launched in 1967, the rapid economic growth experienced in the 1970s would have not been achieved. The benefits of the expressways on society are immeasurable. Expressways quickly became the most convenient way to travel, surpassing trains. People could benefit from the cost and time savings, comfort, convenience, and safety they provided. From central terminals in the city, traveling by express bus, which ran frequently and had direct routes to cities throughout the country, was a much more convenient way to travel compared to trains. From Seoul, there were buses to Daejeon running every 5 minutes, and buses to Busan running every 30 to 40 minutes. Before the expressways were built, small provincial cities such as Cheongju, Anseong, Gongju, Gunsan, Gimje, and Namwon, could only be reached by train via a main city hub, and then by bus to the final destination. The expressways made it possible for travelers to take an express bus directly to their final destination, or to a destination that was a short bus trip away from their final stop. In sum, express buses that went anywhere in Korea made it possible to travel more conveniently and faster.

The impact of expressways on Korea’s logistical capacity was much greater, which used to rely on moving freight via the railway network. Trucks were mostly used to transport cargo to and from train stations. So the cargo traveled most of the distance by rail, but it resulted in the cargo being loaded and unloaded numerous times, in
some cases a total of six times, before reaching its final destination. Transporting cargo by trucks on expressways drastically cut down the time and distance from start to finish. It made it possible to load and unload the cargo just once at the point of departure and arrival. Furthermore, a cargo being transported cannot start its journey until all of the train’s cargo has been loaded. However, trucks could transport cargo door-to-door. On average, shipments can be transported 10 times faster by a truck than by a train. The efficiencies in transporting cargo resulted in significant cost savings by tightening the supply chain, by shortening the inventory period, by preventing damage to freights, and by simplifying the logistics of transporting cargo. Korea’s increased distribution capacity and ability to transport at a lower cost led to more price stability and less price differentials. As a result, products cost less, more markets were made accessible, and it increased inter-regional business and reduced regional price differences.

The economic and social effects of the expressways were also felt in Korea’s agricultural sector. It helped in agricultural development thus helping to improve the living standards in rural farming villages. Traditionally, Korean farmers for the most part were regulated to growing rice and barley, and some varieties of produce during the warmer months. In the off season, farmers didn’t grow anything during the cold winter months. But the construction of expressways coupled with the production of vinyl materials by domestic petrochemical producers brought about a new commercially-driven agricultural industry based on greenhouse farming.

The farming of numerous vegetables and fruits such as tomatoes, cucumbers, lettuces, pumpkins, carrots, peppers and crown daisies,
was made possible by greenhouse farming. The combination of greenhouse farming and expressways made it possible for produce farmed in Gimhae and Suncheon, and flowers raised in Masan and Jinju, to be harvested in the evening, and then, shipped to Seoul overnight for delivery the next morning, even during cold winters. It helped develop the dairy industry by linking dairy farms and milk processing facilities, established along the expressways. The ability to sell agricultural goods farmed in greenhouses throughout the major cities of Korea, year round, significantly helped to increase the household income of farmers.

Expressways also changed the face of Korea’s fishing industry, and brought increased economic benefits to fishermen. The time it took to ship fishes to Seoul from cities along the coastal regions such as Gunsan, Mokpo, Yeosu, Sokcho, Jumunjin, Mukho, Uljin, and Pohang, was significantly shortened to one day from almost two days. The shortened shipping time resulted in fish being more fresh and tastier, which helped to keep prices up, rather than having to reduce them because they were damaged or salted to keep fresh. Fish brought into any port in Korea in the evening could be shipped overnight to arrive early the next morning to wholesale markets in major cities. The increasing use of live fish storage containers and freezer trucks allowed for shipments of fresh and even live fish. Before the Yeongdong Expressway was built, fishermen living along the east coast could not travel to Seoul to sell that day’s catch if the roads through Daegwallyeong were blocked by heavy snow, leaving them to sell their fish at reduced prices.

In addition, the expressways brought the effect of reducing production costs by decreasing transportation time and cost, and
helping factories procure materials more efficiently and secure labor in local regions at a lower cost. Accordingly, many factories were established within 30 km of expressways. The expressways encouraged the industrial development of inland cities including Cheonan, Cheongju and Gyeongju. Also, the expressways revived local industrial complexes in Daejeon, Iri, Gunsan, Jeonju, Gwangju, and Mokpo. They were also a key factor in establishing the Yeocheon Petrochemical Industrial Complex, the Second Integrated Iron and Steel Mill in Gwangyang and their related industrial parks, and dispersing the population and factories to local regions, and thereby, making contributions to the balanced development of the nation.

Also, the expressways led in the widespread use of containers when shipping exports or imports. There were considerable benefits when moving cargo in freight containers compared to traditional methods. The cost of packaging, loading or unloading and storing could be reduced, and losses from damages, theft, water leakage, and changes in temperature could be prevented. Also, intermodal transportation by land or sea became possible, dramatically reducing the transportation cost.

Expressways also contributed to Korea’s national security by strengthening its ability to defend itself. No longer would poor road conditions hamper the operations of the Korean and US military forces in the event of an attack, as it was the case during the Korean War. In fact, the expressways would aid the efforts of the Korean and US military in transporting heavy equipment, in deploying troops, and in aiding rescue and humanitarian efforts, and in being used as emergency landing strips.
Build First, then Upgrade

There was some opposition to the plan to build expressways on the eve of its announcement on April 1967. Some argued the money could be better spent repairing and paving existing roads, and investing it in other areas other than expressways. Some even argued that the expressways would only be used by people able to afford cars or by tour bus companies for leisure. Despite this, President Park saw what lay beyond the criticisms and the controversies that often were attached to it. Soon the words of criticisms changed into words of praise, once the fruits of the expressways had been reaped. The expressways brought immeasurable benefits on the country as a whole, and on people’s everyday lives. However, the problem of yearly maintenance cost still remained. Especially, the huge volume of freight traffic transported by heavy trucks was a cause for high maintenance and repair costs.

The Seoul-Busan Expressway was built at a unit construction cost of 100 million won per km, compared to the unit construction cost of 800 million won per km it took to build the Tomei Expressway between Tokyo and Nagoya. The Seoul-Busan Expressway was built with four lanes and the Tomei Expressway with six lanes. An IBRD report indicated that the cost of constructing the Seoul-Busan Expressway was one fifth of the cost of constructing an expressway in an advanced country. Based on the same unit cost of construction, Korea would not have been able to build the Seoul-Busan Expressway under the circumstances. It would have been difficult enough to build the Seoul-Busan Expressway even if construction began in 1970, let alone dream of building the other expressways.
Under a principle of building first, and then upgrading, President Park pushed ahead to build the expressways to improve Korea’s transportation infrastructure, critical to promoting rapid economic development, considering the weak state of Korea’s finance. The President remarked that: “Korea’s poor financial state will not allow it to build world-class expressways like the ones found in advanced countries. We will first build expressways, and then upgrade them with the toll revenue until they become world-class.” President Park created a blueprint for building expressways in Korea but also in other developing countries.

Initially, the IBRD was reluctant to provide loans, expressing skepticism, even criticism, to a developing country like Korea to build expressways. This point was made clear by the remarks of Eugene Black, the President of the IBRD, who criticized developing countries for seeking to build expressways and steel factories in the late 1950s by likening it to monument building.

In light of the IBRD’s reluctance to assist in the construction of expressways, Korea pressed ahead anyway with the construction of the Seoul-Busan Expressway, the Daejeon-Jeonju section of the Honam Expressway, and the Shingal-Saemal section of the Yeongdong Expressway with its own financial resources. After Korea showed it was able to build the Seoul-Busan Expressway with its own financial and technological resources at half the time and a fraction of the cost, the IBRD began to rethink the economic feasibility of expressways in Korea. Impressed by President Park’s principle of building first and upgrading later, the IBRD provided loans to build other expressways including the Jeonju-Suncheon section of the Honam Expressway, the Namhae Expressway, the Saemal-Gangneung section of the Yeongdong Expressway.
Expressway, the Donghae Expressway and the Guma Expressway. Before high oil prices, asphalt, a by-product of oil, was cheaper than concrete. So, asphalt was used for much of Korea’s paved roads in the 1970s, as it was more economical and technologically feasible.

However, after the Second Oil Shocks in 1978, cement became a cheaper alternative to asphalt. In addition, concrete was more strong and durable, especially since trucks started to become heavier, weighing as much as 15 tons or more compared to 4 or 5 ton trucks used in the 1970s. So concrete was used in the construction of Expressway 88, which began in October 1981, and finished 33 months later. (The expressway was so named to celebrate Seoul’s hosting of the 1988 Summer Olympics.) Concrete was also applied on the Honam Expressway when it was widened in 1985, and on the construction of the Jungbu Expressway. Unfortunately, Expressway 88 underwent many repairs, 347 times within one year after it was opened, earning the name of “ragged road.” The technologies and know-how needed to foster the pavement of roads with concrete, needed to be accumulated at the time.

On February 15, 1969, the government established the Korea Expressway Corporation. Its mission was to conduct and manage the construction, reconstruction or maintenance, and repair of turnpike roads. It was responsible for maintenance and management of all the expressways and construction of new expressways. Except for 1969, when it was established, the Korea Expressway Corporation has produced considerable amount of profits providing repair services necessary for expressways every year. That is, the principle of “build first, then upgrade” initiated by President Park has been well implemented and has proved to be a reasonable approach.
The construction of the four-lane Busan-Masan Expressway branching off from the Namhae Expressway began in May 1978 and completed in September 1981 after President Park passed away. The unit construction cost of this new expressway was 1,450 million won, 14.5 times more based on per km than that of the Seoul-Busan Expressway. Therefore, President Park’s foresight in securing sufficient sites appropriate for four lanes in advance at the time of constructing two-lane expressways first, including the Honam Expressway, the Namhae Expressway, the Yeongdong Expressway, the Donghae Expressway and the Guma Expressway, must be remembered and appreciated in the history of expressways in Korea.
Economic Background of the 8.3 Presidential Emergency Decree

Under the First and Second Five-Year Economic Development Plan implemented in the 1960s, Korea’s economic ascent was faster than any other country, propelled by its rapid export-based industrialization. In 1965, Chang Ki Young, the Deputy Prime Minister, led a financial reform aimed at protecting the economy from high inflation by increasing interest rates. The interest rate on the one year time deposit was raised to 30% from 15%. Money flowed back to banks from speculative markets or informal curb markets. For the next five years, Korea’s economy experienced uninterrupted growth, real GNP grew at an annual rate of more than 10%, and per capita national income increased twofold. Inflation in comparison remained abated, increasing at a rate of less than 8%.

Korea’s rapid economic growth was not without side effects. In particular, companies became too dependent on policy loans, relied too much on debt rather than equity for capital, leaving them
financially weak. At the start of the 1970s, Korea’s economy began to cool down gradually, weighed down by the global economic recession. Korea’s economic growth rate fell from 13.8% in 1969 to 7.6% in 1970, 8.8% in 1971, and 5.7% in 1972. It sent one company after another into insolvency, having huge economic, political, and social ramifications. The weak financial condition of companies, which received direct government loans or indirect government support through state controlled banks, began to drag on Korea’s rapid economic growth.

In early 1969, a series of measures were initiated as a policy response. In April 1969, six months before I became the President’s Chief of Staff, President Park created the Foreign Borrowing Management Secretariat, and appointed Chang Deok Jin, the Assistant Secretary for Finance at the Ministry of Finance, as its head. Within the new office, the Insolvent Enterprise Liquidation Team was set up to manage the orderly liquidation or rationalization of insolvent companies. From early May, the team began the process of liquidating 30 debt-laden, insolvent companies and 56 companies that were under the control of the banks. On August 14, work began on preparing liquidation plans for the insolvent companies, which could include legal recourse to properties held by the insolvent companies. The plans proceeded under the following authority:

1. To provide relief for banks that provided payment guarantees or loans to the insolvent companies.
2. To revive debt-laden companies with the government’s support.
3. To dispel the belief that entrepreneurs would not suffer consequences, even if their companies failed.
The legal process of rehabilitating, or liquidating all together, the insolvent companies under Korea’s Civil and Commercial Laws, took a considerable amount of time and effort. By the second half of 1970, 30 insolvent companies had been rehabilitated or liquidated. It became apparent that the process couldn’t function properly without the direct involvement of the Blue House. The financial institutions and government agencies involved in the process took their lead from the Blue House, impeding an expedient resolution to the process. Midway through, President Park dissolved the Blue House’s liquidation team, and the administration took over responsibility of liquidating the insolvent companies and upgraded the Company Rationalization Committee by making economic-related government Ministers members of the committee and by appointing the Minister of the Economic Planning Board as its chair.

One of the biggest issues was establishing a definition of an insolvent company, since it greatly affected other companies. Undoubtedly, many companies, which were deemed insolvent, questioned its veracity, arguing that the company was not insolvent despite suffering some financial difficulties. Thus, the EPB established a definition based on the following:

1. Loan repayments have been made by guaranteeing financial institutions on behalf of the company for more than one year;
2. The operation rate is less than 50%; or
3. The accumulated deficits exceeded the capital

Based on this definition, 26 companies met the criteria. In 1971, 26 out of 147, or 21% of private companies that had loans, were deemed insolvent while the remaining 121 companies were...
considered financially sound. Included among the 26 were some strategically vital companies. Moreover, these companies had borrowed from foreign lenders. Indeed, the President understood the significance of the issue at hand. In essence, Korea’s creditability with foreign lenders was on the line, a vital source of capital, critical to the economic development of Korea.

A company typically has short-term and long-term capital needs to fund its operations. A company’s working capital needs are usually funded by short-term bank loans; while longer term capital investments in facilities are usually funded by raising long-term capital through the issuance of equity or bonds in the capital markets. Companies are afforded more time to reap returns on their capital investments if funded by long-term bonds which carry a longer maturity date or equity which has no maturity date. However, companies that rely on short-term funding are less financially sound and are at risk of suffering financial difficulties. In a capitalist economic system, a company that requires capital for investments can raise the capital by incorporating itself and by selling shares of its company to investors through a stock issuance. It can sell or issue additional shares of the company to investors to raise more capital if the need arises. Investors or shareholders can make a return on their investment by selling their shares.

Before its liberation from Japan, Korea’s accumulated national capital was small, most of which was tied up in land. The rest came from its manufacturing industry, which produced textile, rubber, alcohol, rice, and flour. Securing the capital for companies to invest in new facilities was the most urgent task. For capital markets to be effective, and to play a vital role in an economy, the primary and
secondary issue markets need to function well. Companies seeking to raise capital can issue new shares in the primary market; while the secondary market provides investors the opportunity to buy or sell in a security by facilitating the trading of a security via the exchange. Investors will buy securities only if they are sure they can redeem their investment by selling the securities in a market. So a securities market cannot function properly without a primary and secondary market, like two wheels on a cart. However, the primary issuance market did not develop along with the secondary market early on in Korea. This led to a general distrust of the securities market in Korea.

In March 1956, the stock exchange was established while Korea was still staggering from war. At the time, 12 companies including commercial banks and KEPCO were listed but there was little trading in their shares, largely because the shares were owned by the government. The only securities actively traded on exchange were Reconstruction Bonds issued at par with an interest rate of 5% per year to fund the cost of the war and the recovery effort. After the bonds were listed with the face value of 100 hwan, they traded at 20 hwan, because loans from the curb market yielded far higher interest rates.

In May 1962, stock prices collapsed, driven by speculation, causing the “May Stock Market Crisis,” one of four scandal driven incidents that shook the markets. At the time, less than 20 securities were listed, while trading activity was concentrated on a few leading or well known names. Speculation was rampant in the shares of the Korea Stock Exchange, which made the monthly physical settlement of trades impossible, taking the entire market down, and investors along with it. Investors suffered massive losses, which reverberated...
throughout society. Afterwards, the stock market suffered several more crises until trading on the market was suspended for 73 days starting in February 1963. In April 4, 1963, the Securities and Exchange Act was amended to change the stock exchange’s management and governance structure into a publicly owned organization in hopes of averting further crises. On May 9, trading on the stock exchange resumed. But the damage was done. Many investors left the market leaving many brokerages to suffer losses and to close their businesses.

After the exchange was converted into a publicly owned organization, the stock market went quiet for a while. But the calm was short lived as another stock scandal from February to September 1964 burst the speculative bubble in the stock market. Soon after, the stock market came under intense scrutiny by the government, which tightened regulations. The stock market remained depressed for a long time until the Capital Market Act of 1968. To be sure, the inadequacies of the securities market in Korea deterred companies seeking to raise long-term capital from issuing equity or bonds.

But there were other glaring factors that contributed to the undeveloped state of Korea’s financial markets. For one, few companies were fit to list their shares in a public offering. Even if companies could list, there wasn’t sufficient savings accumulated in Korea to make long-term investments in stocks. Family-owned companies did not want to issue shares to the public so as to keep ownership and management control within the family. A public listing also brought on increased disclosure requirements, sharing of earnings via dividends, shareholder activism, and lower threshold for corporate secrecy, which all added up to more reasons for keeping the business in the family.
When a company listed, often times the shares were issued to the family owners and close relatives. A company’s additional capital needs were also funded with loans from domestic or foreign lenders. But most companies borrowed from the informal curb market. The companies borrowed short-term loans to fund capital investments and had to keep rolling over the loans. In effect, it served as a long-term loan, as long as the loan maturities were rolled over. Also, Korean companies, even in the absence of a funding requirement, sought to secure loans from foreign lenders which offered much lower interest rates than domestic lenders.

As mentioned before, in September 1965, as a measure to control inflation, the government readjusted interest rates to more realistic levels to facilitate the flow of money back to commercial banks. Thus, the annual interest rate of a one year time deposit increased to 30% from 15%. When the government raised interest rates to fight inflation in 1965, domestic banks also raised interest rates on loans, but interest rates on deposits were increased more to lessen the debt servicing burden of companies. The annual discount rate of a promissory note was increased to only 24% from 16%.

A higher interest rate policy was crucial in stabilizing prices, increasing savings, improving the balance of investments in financial and physical assets, and reducing the size of the informal curb market. However, it left debt-laden companies struggling financially to make payments on higher interest rate expenses. On top of this, the Korean won depreciated continuously against the dollar falling from 130 won per dollar in February 1961 to 370.80 won per dollar in June 1971, further burdening companies with foreign currency loans.
Indeed, the global recession that began in 1968, weighed down on Korean companies which relied too heavily on debt. The depressed business environment cut into their profits, weakening their debt servicing capacity.

Acting on the Recommendations of the Federation of Korean Industries

At the start of the 1970s, the slowdown began to spread throughout Korea’s economy. Ominous signs began to emerge in the banking and manufacturing sector; sales sagged, employment was down, and construction activity slowed. Large-sized companies failed one after another. Things took a turn for the worse in 1971, as Korea’s industrial landscape became littered with failed companies. Stories like the CEO of the largest cement company filing for court receivership, and then disappearing after the company got into trouble, were a sign of the times. At the start of the decade, a number of factors converged at the same time to create the perfect storm: a tight fiscal policy was implemented on the recommendations of the IMF, a huge amount of foreign loans were coming due, and the Korean won had depreciated considerably, a blessing for exports but a burden for companies with foreign currency loans.

From the time the first foreign investment was made in Korea in 1959 until 1970, Korean companies had borrowed nearly USD 1,350 million of foreign commercial loans. The maturity schedule of the loans coming due in the early 1970s was as follows: USD 160 million in 1970, USD 230 million in 1971, and USD 455 million in 1972.
1972. At the same time, many of Korea’s export markets like the US began to go deeper into recession. Korea’s export growth rate fell off considerably, declining from 42% in 1968 to 34% in 1969 and to 28% in 1970.

In the early 1970s, the US economy fell deeper into recession, dragging the global economy with it. By 1971, the US economy was in trouble, unemployment surged and the trade deficit grew. In the same year, US President Richard Nixon went on live television on August 15, 1971 to announce an emergency economic measure centered on a policy of isolationism and protectionism. The scope and divergent nature of the policy was unprecedented since the days of the Great Depression in the 1930s. To stimulate economic recovery and ensure price stability with the aim of job creation and narrowing the trade deficit, the US implemented a series of policy measures to freeze wages and prices, provide tax benefits, cut government spending, suspend the conversion of the dollar into gold, impose import taxes, and reduce foreign aid.

On June 11, 1971, President Park met with Kim Yong Wan, the President of the Federation of Korean Industries (FKI) to discuss the difficult economic environment and to find ways to get Korea’s economy back on a path to recovery. The meeting was also attended by Kim Jong Pil, the Prime Minister, the Deputy Prime Minister, and the Minister of Finance, as well as, Shin Deok Gyun and Chung Ju Yung, from the FKI. The meeting produced fruitful discussions, which the President followed by directing the ministries to prepare a policy response to stimulate the economy. Days later, Kim Yong Wan sought to meet the President for private discussions. The President acquiesced asking that the Minister of Finance be present.
In their meeting, Kim Yong Wan gave a candid assessment of the economic situation, and the effect it was having on Korean companies. The picture he painted was grim. High interest rates were pushing companies that had taken on considerable debt closer to insolvency. The number of companies with difficulty making interest payments was increasing. The higher tax burden faced by companies was making the situation unbearable. The remedies were clear in Kim’s mind, he thought banks should take over the loans from the informal curb market, reduce corporate taxes, and ease the monetary policy. Soon after the private meeting, the FKI, in hopes of getting the government’s attention, made a public plea for lower taxes by reducing the national budget by half.

After the export monthly meeting in July, President Park opened discussions on the troubled companies with foreign loans facing insolvency during his usual lunch meeting attended by the Prime Minister, the Ministers, and the heads of the four economic organizations. Opening the discussion, Kim Yong Wan spoke of the difficult state of the Korean economy. The Minister of Finance followed by announcing the government’s intention to offer special assistance to businesses facing insolvency. The Minister said that the assistance package would total about 10 billion won, and requested that the FKI submit a list of potential companies that may need assistance. At the time, a tight monetary policy reigned over the economy, so even considering a package of 10 billion won was a big deal. Kim Yong Wan, though appreciative of the gesture, didn’t think it was enough to avert the risk of an economic crisis.

The mood after lunch turned somber. Later, Kim Yong Wan met President Park, who wanted to get a better sense of the situation.
While speaking with the President, Kim Yong Wan’s words were more desperate, adding that a lot of companies dependent on borrowing from the curb market were suffering financially by having to pay high interest rates. The high interest expenses on these curb market loans ate into the company’s profits, which were in constant fear of the loans being called back by the lenders. He was adamant that every company in Korea would go bankrupt if something was not done to help them. He urged the government to intervene in the curb market, while assuring us that his motives were selfless, saying that his company, Gyoungsung Textile, had recently paid off its loans borrowed from the curb market by selling land that was bought to build factories. He noted the government’s willingness to intervene in the past, referring to me: “Indeed, we sit here with the man who drafted both currency reforms. The current economic situation is much more serious than the time of the government’s currency reforms.”

Undoubtedly, Kim Yong Wan’s warning of a pending economic crisis, lest the government intervene, weighed on the President’s mind. It too weighed on my mind that night. After a long, sleepless night, I submitted my recommendation early next morning to the President.

(1) Our companies were exposed to the financial crisis because their financial structures were weak and unhealthy. Due to their insufficient equity capital, they depended on external loans for about 80% of necessary funds. Compared to the companies in the US, Japan, and other western advanced countries, whose companies have an equity capital ratio of at least 50%, our companies are characterized by weak financial...
structures. Especially, the external loans of companies included a considerable amount of high-interest curb market loans in addition to bank loans and foreign loans. Thus, companies were heavily burdened by paying interest expenses, which made it difficult for them to overcome a recession. Also, the companies used short-term bank loans or high-interest curb market loans to raise funds to establish or expand their facilities. Thus, the possibility of curb market lenders calling their loans at any time kept companies at risk of bankruptcy. It was true that most companies could not produce profits due to the heavy burden of interest expense payments as explained by Kim Yong Wan. It was clear that if the government did not address the situation, a serious financial crisis or industrial crisis, would ensue. The financial or industrial crisis would create a chain reaction of bankruptcies of other companies and mass unemployment, seriously affecting the national economy. Also, the insolvency of our companies with foreign loans would harm Korea’s access to credit in the global financial market, making it difficult to induce foreign investment in the future and hindering the national economic growth.

(2) One possible solution suggested by companies was to make commercial banks pay off the curb market loans on behalf of the companies. At the time, the Ministry of Finance projected the total amount of curb market loans provided to companies at 100 billion won based on a calculation of income taxes paid on interest expense, while the FKI estimated it at 180 billion won. (The actual amount of curb market loans reported after the 8.3 Emergency Decree was implemented totaled about 345.6 billion won). At the time, despite President Park’s
special decree, the Ministry of Finance could provide only 10 billion won in government support for the companies. Thus, it was impossible to increase bank loans. Also, a tight-money policy was being implemented to control inflation. So, it was clear that an increase in bank loans would bring on considerable inflation in the economy.

(3) The only way to overcome the financial or industrial crisis and to prevent a chain reaction of bankruptcies and mass unemployment was to intervene in the curb market for a certain period. By exercising the right of the Presidential Emergency Decree as prescribed in the Constitution, all the contracts between companies and curb market lenders could be temporarily nullified and replaced by new contracts where the companies paid off the curb loans in installments over a specified period with a grace period on repayment at reasonable interest rates. By changing the high-interest short-term curb loans to low-interest long-term ones, the financial structures of the companies would be improved and their profitability would be enhanced. Accordingly, the companies could overcome the industrial or financial crisis and have the opportunity to grow again.

(4) After the companies were revived based upon the sacrifices of curb market lenders, large companies should go public to reinforce their equity capital structure first. If the shares of large companies were listed at the stock exchange, those shares would be owned by the general public. Then, the stock issuance market would be promoted. As a result, the equity capital of companies would be reinforced and their financial structures would be healthier. Second, the public listing of companies should be encouraged as a way to separate
ownership from control and leaving the management of companies to qualified managers. Third, business profits should be distributed to minority shareholders to promote income redistribution and narrow the gap between the rich and the poor. This would help to stabilize society. Also, middle-class curb market lenders, who were not professional lenders, could be compensated for their sacrifices. In addition, when a company went public, its employees should be encouraged to acquire shares in their own company’s based on a preferential treatment system for a stock-sharing plan prepared in 1968. Then, the employees could participate in the ownership and management of their companies, establishing a healthy employee-management cooperation system together with the Factory Saemaul Movement. According to the Interest Limitation Act, interests in excess of 36.5% a year should be nullified, and lenders that charged such interests should be subject to sanctions. Also, considerable amount of interest income were not reported for taxes. Even most middle-class curb market lenders did not comply with the Interest Limitation Act and knowingly evaded paying taxes. Our national economy needed an emergency measure to relieve the companies at the sacrifice of curb market lenders including good middle class lenders as well as professional lenders. To compensate for the sacrifices made by such middle-class curb market lenders, it was required to overlook their previous transgressions and induce large companies to go public. Therefore, after freezing curb market loans, public offerings of large companies should be implemented.
Despite stressing the enormous challenge, the unprecedented nature of the undertaking, of intervening in the curb market, I concluded in my briefing that success was within reach. But success hinged on proceeding in complete confidentiality. Indeed, the timing of the currency reforms could not be disclosed, but once it was disclosed, the negative impact of stopping the reforms midway would not be serious. But, the curb market was a wholly different matter. The consequences were far-reaching; companies would fall into a liquidity crunch, igniting a financial and economic crisis.

**Intervening in the Curb Market**

President Park understood what was at stake, but he also knew intervening in the curb market was the only way to remedy the problems in the corporate sector, and to stave off an economic crisis. The President also wanted to address this issue from a longer term perspective by actuating the IPO market to reap its positive economic and social effects. I immediately assembled a small but capable team, led by Kim Yong Hwan, my close aide, who oversaw the office on foreign investments. He was trustworthy, more than capable, having a deep knowledge of the banking system, thoroughly in tune with the Civil and Commercial Laws governing the liquidation of companies. President Park shared my views of Kim, and saw him fit for the job. Working in an office next to mine, Kim prepared a plan to intervene in the curb market and subsequent follow-up measures.

My instincts backed the economic rationale for taking action, but still doubt entered into my mind asking if this indeed was the right
course of action to take. Prudently, the President commissioned the Economy and Science Review Committee to conduct a study on Korea’s financial system, and separately sought the advice of Kim Young Sun, the Minister of the Board of the National Unification, an expert in economics. The two reports essentially supported intervention in the curb market. I was both relieved and encouraged to hear that I was not the only one that concluded the necessity of reforming Korea’s financial system, namely the curb market.

With all preparations in place by June 1972, the initial plan was to implement the curb market measure, effectively freezing all curb loans, in the early July, but the launch was delayed a month after the 7.4 South-North Joint Statement was announced by the South-North Coordinating Committee on July 4. This was also around the time President Park took his customary holiday in Jinhae, the Navy base, with his family as summer vacation began for middle and high schools.

Before leaving for Jinhae, President Park informed Prime Minister Kim Jong Pil of the pending presidential emergency decree, asking him to support the Office of the President if necessary. I stayed behind in Seoul to see it to its conclusion. On July 30, I went down to Jinhae to obtain the President’s approval and then returned to Seoul early the next day. I informed the Prime Minister of a meeting of cabinet members and senior officials scheduled on August 2 at 10 PM. Then, the presidential emergency decree would be issued on August 3. It was Saturday, and all the Ministers and party leaders met together at the Prime Minister’s residence before coming over to the Blue House for the meeting. President Park returned to Seoul the very same day. After I briefed the President that
all was ready, I asked that all the Ministers and presidential aides be summoned to the Blue House. That night of August 2, the presidential emergency decree on curb market reform was approved and issued publicly, announcing that it would come into effect on August 3.

8.3 Presidential Emergency Decree

On August 3, 1972, President Park issued a Presidential Emergency Decree on “Economic Growth and Stability,” under the powers vested by the Constitution thereby ordering the canceling of all loan agreements between curb market lenders and their borrowers effective August 3, 1972. Indeed, the nature of the presidential emergency decree was unprecedented; the idea of voiding a private contract was unthinkable in any economic system. Under the presidential emergency decree, all existing curb market loans were modified by extending the loan maturity to five years with a three year grace on debt repayments and by lowering the interest rate to 1.35% per month, well below the legally mandated cap of 36.5% per year. According to the Bank of Korea, the weighted average interest rate was 3.84% per month in 1971. Also, curb market lenders were given the option to convert their loans into equity shares in the company.

Obtaining accurate, reliable data on the informal curb market was difficult. Estimates had the total amount of loans somewhere between 60 billion and 100 billion won, but at 180 billion won at most based on the FKI’s estimates. But the true size of the curb market turned
out to be about 346 billion won, nearly 80% of the total money supply at the time. Debt relief was provided to curb market borrowers by lowering their interest expense burden and extending the payment schedule to five years with a three year grace period on repayments. It prevented a wave of insolvencies, averting the risk of a possible financial and economic crisis. Korea’s economic growth rate jumped to 14.1% in 1973, after it had slowed to 7.8% per year in the early 1970s. It helped lift the Korean economy out of recession and gave it the resiliency to overcome the First and Second Oil Shocks later.

The major contents of the 8.3 Presidential Emergency Decree # 15 on “Economic Growth and Stability” issued on August 2, 1972 and effected from August 3, 1972, were as follows.

First, all loans obtained by companies in the curb market as of August 2, 1972 were required to be reported by August 9. The existing terms and conditions of the curb market loans were required to be modified by amending the loan maturity to five years with a three year grace period on repayments and by applying an interest rate of 1.35% on a monthly basis (16.2% Annualized basis). Second, financial institutions were required to raise funds of 200 billion won by issuing special bonds. The new funds were required to be used to convert 30% of the short-term facilities into long-term loans. Third, a Credit Guarantee Fund was created to provide SMEs and the agricultural sector each credit guarantees of up to 1 billion won. Fourth, the Fund for Industrial Rationalization was established at the Korea Development Bank to provide companies with long-term low-interest loans according to the rationalization guidelines set by the Industrial Rationalization Review Committee. Also, the extra
depreciation rate for facility investment in designated industries was increased from 30% to at least 40% but no more than 80%, and the investment deduction rates on Corporate Income Tax and the Individual Income Tax was increased to 10% from 6%. Fifth, the statutes on local government subsidies were amended to abolish the subsidy system to enhance the fiscal flexibility of the government.

In addition, President Park pursued a comprehensive economic stabilization plan based on the following:

(1) Interest rates of financial institutions should be significantly reduced as soon as possible.
(2) The foreign exchange rate should be maintained at 400 won per dollar.
(3) Increase in public utility charges should be curbed.
(4) The price increase rate should be maintained at approximately 3% per year.
(5) The budget for the year of 1973 should be increased as little as possible.

Reform of the Curb Market

The curb market measures sought only applied to money lent to companies and not money lent to individuals. From August 3, 1972, a moratorium on all curb market repayments went into effect, and subsequent to that, all loan agreements between companies and lenders had to be disclosed to the district tax office or financial institution within seven days from August 3, 1972.
Since the measure depended on the accurate disclosure of curb market loans, incentives were provided to encourage lenders and borrowers to accurately disclose their loan information. Companies and curb market lenders that appropriately disclosed information on curb market loans were exempt from all unpaid taxes or tax investigations into the source of curb market loans up until August 2, 1973. At the same time, the non-compliance or disclosure of inaccurate or inadequate information resulted in the nullification of all curb market loans, effectively canceling all legal recourse or rights to the funds. In the case a curb market loan was not disclosed and repaid in full, the loan was deemed as a gift, and the company was subject to a 65% gift tax.

After the emergency decree was issued and the seven day deadline went into effect, there was little response in the first four or five days, only a few loans had been disclosed. It seemed that companies were hesitant, waiting to see how other companies and the curb market lenders responded. Meanwhile, the emergency decree began to receive negative media coverage, as the newspapers played up the negative societal effects like stories of a domestic helper who was at risk of losing all her hard earned money, or of a small time lender who made a living lending to flea market vendors in grief over the fear of losing his money. Soon people began to think only the worst of the measures, falling into a sense of insecurity. In some ways, the public backlash following the First and Second Currency Reforms had prepared me for this. But I could sense a feeling of unease in the President.

Not to be deterred, I paid a visit to Seoul and the Central Regional Tax Office, thinking the tax authority had to be proactive in
encouraging companies and lenders to disclose their information rather than waiting around for them to report it. Once at the office, I met the senior tax officials including the directors, and spoke of the important role they had in executing this effort in the overall scheme of things. I also went to the main tax offices to encourage them to actively search and reach out to companies in their districts. I highlighted that borrowers were only being asked to disclose their loans, the sources of which was not going to be investigated. I wanted to emphasis this point, as I knew some tax officials had also lent their own money to companies to supplement their income with the interest income, and so, would be worried about the consequences. I made sure that my message reached all the other tax offices in Korea.

From the fifth day of the deadline, the number of disclosures increased significantly thanks to the efforts of all the tax officials led by the Head of the National Tax Service. The two regional tax offices reported a large number of disclosures, which encouraged other companies in other regions to make disclosures such as in Busan, Gwangju and Daejeon. The tally of disclosed loans in the curb market had reached about 180 billion won by the fifth day. Indeed, I had concluded in my initial recommendation to the President that a disclosure of 180 billion won in loans would have been a success, 200 billion won being a greater success. By the sixth day, more and more companies disclosed their loans, which brought the total to 200 billion won. By the end of the deadline, a wave of last-minute disclosures were made, bringing the total to 346 billion won based on 40,677 reported cases. This was nearly two times larger than our initial target of 180 billion, which would have been considered a success. Indeed, I was taken aback by the overwhelming
response, but the real revelation was that the total amount of loans reported represented 80% of the money supply and 34% of all outstanding domestic credit. Nobody could have expected this large a figure, which substantiated the fear of an economic catastrophe, if the companies went bankrupt.

Indeed, the President was encouraged by the overwhelming success of the emergency decree. This led the President to exclude small curb loans of less than 3 million won, which accounted for 32% of the total amount and 90% of the total cases reported, from being subject to the measure due to the considerable amount reported. These loans were either exempted from the curb market measures or subject to less stringent requirements, as they had little effect on the overall purpose of the measure. The interest rates on these loans were modified to 1.35% per month. Loans less than 300,000 won had to be repaid in full with no grace period on repayment, while loans more than 300,000 but less than 3 million had to be repaid over four years with a one year grace period on repayment.

**Results of the Reforms**

In the end, 210,905 cases, totaling 357 billion won, were reported by curb money lenders, of which 32% of the total amount and 90% of the total cases accounted for loans less than 3 million won. In total, 40,677 cases, amounting 346 billion won, were reported by borrowing companies. Indeed, large loans of 50 million won or more represented just 0.3% of the total number of cases but 24.2% of the
total amount. Based on the cases reported by the companies, large loans exceeding 50 million won accounted for just 2.7% of the total number of cases but 64.2% of the total amount. The pattern of distribution of curb market loans by industry was similar to how bank loans were distributed, where the manufacturing industry accounted for the largest amount at 196 billion won followed by the retail industry, the service industry, and the construction industry. Within the manufacturing industry, the textile business accounted for 10.3% (35 billion won) of the loans, while the machine manufacturing industry accounted for 6.4% and the food and beverage industry accounted for 4.8%. The total amount of curb market loans borrowed by companies was 42% of total bank loans.

**Conversion of Camouflaged Curb Loans into Equity**

There were rumors that some company owners used their own money to lend to their company as a way to evade paying income tax. According to the 8.3 Emergency Decree, any such activity required that the loan amount be converted into equity. In particular, a majority shareholder was required to convert the loans into equity within 90 days of the effected date. A majority shareholder was defined as a shareholder or combination of shareholders that were related to each other as family members, relatives, and employees, who owned 50% or more of the total shares in the company in the case of one shareholder. In the case of two shareholders, it was 60% or more of the total shares in the company while 70% or more of the total shares in the company in the case of three shareholders. Non-compliance within the 90 days period resulted in the interests
received on the loans to be non-deductible tax expenses of the company.

The amount of loans subject to this provision totaled 114 billion won, nearly a third of the total amount of loans reported. This figure on its own was shocking. Most of the cases involved SMEs, but few large sized companies were also involved. But much to my dismay and the agitation of the President, some of these cases involved companies that claimed to be in financial difficulty and had applied for government support. Beside himself, but unable to pursue any action under the emergency decree, the President called for the immediate end to all government support to these companies, which included a dozen well known companies. As such, companies found to have engaged in this activity with curb market loans of at least 100 million won were not given government support, spelling the demise of many of the companies.

**Formalizing Curb Market Lenders**

While the Presidential Emergency Decree was being discussed by the Policy Review Committee, separate discussions had centered on formalizing the curb market. As such, three legislative measures for inclusion were prepared, led by Nam Duck Woo, the Minister of Finance, including the Short-term Financing Business Act, the Mutual Savings and Finance Company Act, and the Credit Unions Act, which were provisionally approved by the National Assembly. The acts were introduced as part of the presidential emergency decree.
The Short-term Financing Business Act sought to promote the creation of short-term investment finance companies that could raise funds by mobilizing large pools of curb money, and then, provide short-term financing to companies. As a corporation with a capital base of at least 500 million won, the finance company, under the regulation of the government, could issue, discount, trade, or provide guarantees on promissory notes, up to a limit of 15 times its capital.

The Mutual Savings and Finance Company Act sought to raise funds by mobilizing pools of smaller money in the curb market, and then provide loans to small companies or individuals. This would provide a better alternative to small, inefficient finance companies operating at the time. The mutual savings and finance company would fall under government regulation, and be subject to a capital requirement of at least 15 million won to 50 million depending on the region. It would provide credit term loans of up to a limit of 10 times its capital, as well as operate a promissory note discounting business for its members. In addition, existing small finance company could apply for a license to act as a mutual savings and finance company, subject to a report being filed of its operations within 30 days of the announcement. Also, they had to complete the application process subject to approval of the Ministry of Finance within 90 days of the announcement. Once approved, the finance companies would be given a year to be in full compliance of the regulations governing mutual savings including the regulatory capital requirement.

The Credit Unions Act sought to promote non-profit credit associations comprised of 30 members or more to pool funds made of investments or deposits to provide credit to its members. They would be regulated by the government. Since credit unions brought
together people with a common bond, it was thought that it could promote economic development but also bring about cultural change. A credit union was composed of 30 members or more, and should be established and operated under the control of the government. It raised funds with investment or deposits made by its members and provided financing to its members with the funds. In Korea, the first modern credit union was established by nuns of the Catholic Church in 1960. In April 1964, 55 credit unions organized the Korea Council of Credit Unions, which became part of the World Council of Credit Unions in May, 1964.

It was thought that the series of acts would formalize much of the curb market, driven by a rapid growth of short-term investment finance companies, thereby, reducing the significance of the curb market. From the outset, interest rates were regulated by the government, which allowed rates offered on promissory notes and discounts to move flexibly within a band. However, it was not long until higher interest rates of more than 30% per annum were offered in the curb market, significantly weakening the competitiveness of investment finance companies.

**Impact of the 8.3 Emergency Decree**

(1) The interest rate on curb loans of 346 billion won, which accounted for about 80% of the money supply and 42% of the loans provided by commercial banks and the Korea Development Bank, were reduced to 16.2% per year (1.35% on a monthly basis) from interest rates of more than 50% per annum.
year. And, curb loans of 3 million won or more were subject to new terms where repayment of the loan can be made in installments over a period of five years with a three year grace period on repayment.

(2) Also, within the limit of 200 billion won, the government converted a portion of the short-term high-interest bank loans provided to companies into long-term low-interest ones at an interest rate of 8% per year to be repaid in installments over a period of five years with a three year grace period on repayment.

(3) In addition, the government raised the Industrial Rationalization Fund of 50 billion won to support companies that met the rationalization conditions with facility funds payable in eight years (including a three year grace period on repayment) or operating funds payable in three years (including a one year grace period on repayment) at an interest rate of 8% per year.

While the emergency decree went into effect, interest rates on loans from financial institutions were sharply reduced to provide additional debt relief to companies and promote investments. The annual interest rate on time deposits was reduced to 12.6% from 17.4% while the interest rate on loans was reduced to 15.5% from 19%. At the time, Korean companies suffered financial difficulty largely due to the heavy burden of financial expenses. This increased the production costs and reduced net earnings. This measure drastically reduced the financial expenses of companies as well as the production costs of them. The ratio of financial expenses to sales in the manufacturing industry was as high as 9.18% in 1971. The emergency decree helped to reduce it to 7.08% in 1972, which fell
further to 5.69% in June 1973, a decrease of 3.49 percentage points from 1971. This showed that the 8.3 Emergency Decree made great contributions to decreasing the burden of interest expense payments of companies by adjusting the curb market loans, conducting special conversion of bank loans, and reducing interest rates.

With their interest payment burden significantly relieved, the international competitiveness of companies improved greatly. A realignment among the currencies of advanced countries also aided Korea’s global competitiveness. The US dollar appreciated by 7.89% in December, 1971, following a strong dollar policy, while the currencies of Japan, West Germany, the UK, France, and Italy appreciated by between 7.57% and 16.88%. From July 1972 to June 1973, exports increased by 75.6% compared to the same period from the previous year, while exports in the first half of 1973 increased by 91%. Though imports increased as well, Korea’s spectacular export performance that led to a large positive swing in the trade balance resulted in a current account surplus of USD 124 million at the end of the first half of 1973.

The 8.3 Emergency Decree began to favorably affect the whole economy from the second half of 1972. As a result, the Korean export-oriented economy rapidly recovered. With exports revitalized (an increase of 78% over the same period compared to the previous year) resulting from the enhanced international competitiveness during the first quarter of 1973, the manufacturing industry grew 30.8% (13.2% during the same quarter of 1972) and domestic fixed investment grew 16.2% (minus 7.8% during the same quarter of 1972). As a result, during the first quarter of 1973, Korea’s GNP increased by 19.0%, which was much greater than the increase of
6.4% recorded in the same quarter from the previous year.

The emergency decree helped lift Korea’s economy out of near-crisis. It also laid the foundation for Korea’s rapid economic growth in the 1970s, making the economy resilient enough to successfully recover from the First and Second Oil Shocks, which resulted from OPEC increasing oil prices by fourfold towards the end of 1973 and again by twofold in 1978. The resilience of Korea’s economy were echoed by Kim Yong Wan, the President of FKI, who wrote in his biography about a state dinner attended by President Park and heads of economic organizations, where he said to President Park, “Though Korea’s economic development has made it highly dependent on oil, the measures you implemented to prevent a financial crisis also greatly lessened the impact of the Oil Shock, allowing Korea’s industries to overcome it successfully. As a result, our country is now better off, and ready to rapidly grow again.”

The Public Offering Promotion Act (Public Corporation Inducement Law)

A fundamental cause of the industrial and financial crisis was the heavy dependence of Korean companies on debt while equity was hardly used. So it was imperative to develop the equity market. In my recommendations, which the President fully supported, I noted the necessity to promote the public listing of companies as a way to lessen their reliance on debt but also to bring about positive social effects like allowing society to benefit from the success of companies. In 1972, after the presidential emergency decree was
finalized, the Ministry of Finance drafted the Public Offering Act, which was approved by the administration in late 1972, and became effective on January 5, 1973. The objective of the act was to encourage companies to raise capital in the equity market, lessening their reliance on debt financing, thus, improving their capital structure. It was also meant to promote a more sound development of the national economy by facilitating public participation in Korean corporations.

It sought to achieve the same effects as the earlier Capital Market Promotion Act passed in 1968; however, the previous act was more passive in nature, providing tax benefits to induce public listings. The Public Offering Act was more proactive in that companies fit to list but did not were subject to additional taxes and restrictions on government support. For the companies that did not comply with the act, 20% of their corporate income were subject to additional taxes, and for their shareholders, 20% of their individual income were subject to additional taxes. Other tax disadvantages included making a portion of interest expenses not tax deductible, and that the tax limits of donations and entertainment expenses be reduced. Also, the Minister of Finance could ask financial institutions to impose credit controls on such companies. In this case, the financial activities of companies would have been significantly restricted.

It was necessary for the government to take a more proactive and firm stance in developing the IPO market, especially since companies were reluctant to go public even if they could due to the improved business climate. In early 1973, after the IPO Review Committee was created, some companies sought a public listing on their own initiative. In 1973, the amount of shares offered for public
subscription totaled 20,800 million won in 1973, an increase of 1,820% from 1972. In 1973, 41 companies listed publicly on the stock exchange in addition to the existing 41 companies listed in the last four years from 1968 to 1972. Also, the average subscription rate in 1973 for IPOs was more than 2,700%, which resulted in most shares being offered at a premium. It helped develop Korea’s capital market by expanding the primary issuances of equity.

The 5.29 Special Presidential Instruction on Public Offering

Though the “go public” act helped in increasing the issuance of equity as a means of financing, most companies were still dependent on debt financing. Indeed, business groups and large-sized companies remained private, seeking to fund growth through bank loans or export financing.

The emergency measures had an immediate impact by strengthening the financial condition of companies. It provided debt relief through the modification of existing curb loans. The loan maturities were extended and the interest rates lowered, providing immediate debt relief to companies debilitated by high interest rate payments. This helped to improve the profitability of companies. In addition, considerable tax benefits were offered to companies such as special depreciation of fixed assets, investment tax credits, and tax benefits to increased capital or R&D expenses. It was at the sacrifice of the private lenders in the curb market that allowed the government to implement the presidential emergency decree. It had to be for the
greater good of ensuring economic development, advancing the standard of living, which cannot be done without the companies producing goods, creating jobs, and adding to the national income. The success of the emergency decree rested on enlightening entrepreneurs and improving the industrial structure.

After the decree was implemented, the business community issued statements of apology to the lenders in the curb market and general public for their poor management. Businesses acknowledged their responsibility to society, and pledged their commitment to give back to society in return for having benefited from the presidential emergency decree, by enhancing productivity, reducing costs, and publicly listing their companies.

Despite this, some business groups and large-sized companies delayed their public offerings even after the government’s efforts. On May 29, 1974, the President issued a memorandum, the 5.29 Special Instruction, to the administration, directing that businesses still engaging in antiquated practices were to be actively encouraged to adopt new modes of management practice by publicly listing their companies. The President’s directive read as follows:

“The government often encouraged companies that were playing important roles in the development of our economy to enhance efficiency and to fulfill their social responsibilities. To build a highly industrialized country focusing on the heavy and chemical industries, large companies had to become globalized in every aspect. So, the capital and management of companies should be in harmony to attract all the people in the nation. It is very important to establish a business climate where management and labor are able to cooperate with each other.
Currently in the industries, certain entrepreneurs and their families have established business groups that control many companies in excessively expanding their business. As a result, some entrepreneurs are still trying to put all the properties of the companies in their own hands and in the hands of their families according to outmoded traditions, rather than trying to reap the rewards of establishing and building their companies based on sound management practices. This has prevented the healthy development of companies.

Of course, our nation’s companies were established with a weak and small equity capital base and have relatively short histories. So, they have had to depend on bank and foreign loans to grow. However, it is time to break from these unhealthy traditions and promote the public offering of companies to overcome the limitations of an individual in terms of capital and management. Thus, the government should strengthen the financial structure of companies, and prevent its financial support from being concentrated on certain companies, especially unlisted companies. Also, the government has to strongly implement the policy to encourage public offerings of companies and strengthen its tax administration on large companies and their shareholders.

On the other hand, entrepreneurs are supposed to fulfill their social responsibilities and functions of their enterprises and establish fresh management systems by opening their companies to the public so that our companies can be globalized and our economy can be reformed. This will bring a driving force to continue our economic development in the upcoming 1980s. Thus, I provide five special instructions, and ask the government to prepare comprehensive plans to implement the instructions as soon as possible.
(1) Actively encourage public offerings by using various banking, foreign capital, and tax measures. Especially, support the listed companies established and managed by budding entrepreneurs first.

(2) Conduct an assessment of the financing and tax payment profile of large unlisted companies (including the companies of a business group) that have received large amount of bank loans or foreign loans. Then, establish a system to comprehensively monitor those companies.

(3) Strengthen the control on the loans provided to large companies, especially to non-listed large companies, correcting their excessive dependence on external financing.

(4) Instruct a company excessively dependent on external financing to publicly sell a portion of the company or its shares when launching a new business.

(5) Reinforce the administration of taxes on companies and their major shareholders, and improve the external audit system to increase public confidence in companies.”

Even after efforts to induce public listings through the Public Offering Act, President Park again sought to encourage companies to voluntarily go public. Based on this, the Ministry of Finance worked on a plan to promote the capital market. It first sought to classify companies with at least five billion won in debt, which were divided into two groups. Financially weak companies were grouped, and made subject to measures to improve their financial condition such as restricting new payment guarantees on bank loans or foreign loans, restricting the purchase of real estate for non-business purposes and the selling of subsidiary companies. Financially strong companies were required to go public if they met the conditions for a public
offering and the market environment allowed it. The Ministry of Finance also prepared a plan to improve the capital markets by introducing the land trust and security deposit systems, and encouraging employee stock-sharing plans. These new measures were meant to ready the stock market for a wave of new shares being issued by large business groups going public and to facilitate financing for the heavy and chemical industry.

8.8 Complementary Measures for Public Offering

On August 8, 1975, additional measures were implemented with the goal of promoting public offerings and addressing problems that emerged since the announcement of the 5.29 measure. The measures were intended to demonstrate the government’s policy objective as well as its will to force companies, especially large companies, to go public if necessary.

A year after the 5.29 measure was implemented, the main bank creditors of companies had been working with them to improve the financial structures of their affiliate companies under a credit management agreement. The stock market also made preparations to accommodate large-scale public offerings. With further encouragement from the government, many companies went public. From the introduction of the 5.29 measure until midway through 1975, 48 companies went public. However, most of the companies that sought public listing were medium-sized, top-performing affiliate companies, while the group parent companies did not list.
To encourage large companies that were considered national champions to go public, criteria was established to define companies as a national champion including:

1. A main company in an affiliated group;
2. One of the top 100 companies in terms of sales;
3. A company with foreign loans of at least USD 5 million;
4. One of the top 100 companies in terms of export;
5. A company deemed qualified for an initial public offering based upon the evaluation by the Investment Corporation;
6. A company in the heavy and chemical industry.

With the above criteria, the order of priority should be determined every year with up-to-date data as follows:

1. A company that met at least two conditions of the criteria;
2. The main company in an affiliated group;
3. A company in the heavy and chemical industry.

After a pool of candidate companies were selected, three steps were taken to induce their public listing. First, a list of the target companies was announced. Second, the companies were encouraged to seek public listing on their own within a certain period. Third, companies that did not pursue public listing within the allotted period were pushed to list under the authority granted in the Public Offering Promotion Act.

On October 6, about two months after the measures was announced, the Ministry of Finance selected and announced 104 companies that met the criteria for public listing. In November, 1975,
President Park reiterated the importance of publicly listing companies and developing the market of public offerings at the monthly economic trend meeting. The President spoke of the way a company’s public listing will help modernize the management practices of Korea’s family managed companies, and contribute to the unification of the nation. As such, the Minister of Finance sent letters to the 104 companies selected to emphasize the importance of their public offerings and to draw their cooperation on November 7, 1975.

Adoption of Employee Stock Ownership Schemes

One of the policy issues the government strongly supported was the establishment of employee stock ownership schemes, which were widely adopted in advanced countries for social and economic reasons. Initiatives to promote employee stock plans were started by Nam Duck Woo, the Minister of Finance, on July 13, 1974. It was prepared in accordance with the 5.29 measure to further develop the capital market for expanded trading of shares. The scheme allowed employees with the help of their employer to acquire shares in their employer’s stock. As employees were shareholders of their employer’s stock, it aligned the interests of employees and employers, promoted cooperation between management and labor, and allowed employees to participate in a profit sharing scheme. This would result in employees being more loyal and dedicated to their companies, thus, enhancing cooperation between management and labor. A stock plan also increased the savings and welfare of employees. For employers, it increased the number of shareholders.

Moratorium on Curb Loans
that were employees of the company and protected management’s control of the company even after the companies went public.

President Park was fully supportive of the employee stock plan, ensuring active government support of measures to promote it, as it was one of the cornerstones together with the Factory Saemaul Movement, of Korea’s industrialization. It would bring cooperation between management and labor, and help to build the middle class by increasing the wealth of workers. To promote the employee stock plan, a portion of the contributions in the employee stock plan was made deductible from income tax for minority shareholders. Also, any capital gains were made exempt from tax. Korean Investment Corporation and Kookmin Bank offered loans at the interest rates between 12% and 15.5% to finance the purchase of new shares.

The first two employee stock plans were established on October 2, 1974. By the end of September 1975, 135 companies created their own employee stock plans, totaling approximately 48,000 members. The number of plans increased to 385 with 200,000 members in 1980, and then to 409 with 380,000 members.

Performance of Public Offering Promotion Act and Corporate Bond Issuances

Improving the weak and unhealthy capital structure of companies, which relied on mostly borrowings, was one of the fundamental reasons for the extraordinary efforts to reform the curb market under the 8.3 Presidential Emergency Decree. This effort was followed by
even more extraordinary efforts by the government to promote the public listing of companies and to develop the capital market under the Public Offering Promotion Act in 1973, the 5. 29 Special Presidential Order in 1974, and the 8. 8 Complementary Public Offering Policy in 1975, as large-sized companies were non-compliant to the earlier measure. In pursuing these measures, President Park sought to change the management practices and culture of Korean companies by improving their capital structure, enhancing their financial stability, and increasing their global competitiveness, improving the corporate governance of Korean companies, doing away with the family-owned management structure, enhancing cooperation between management and labor, allowing society as a whole to participate in the success of Korea’s industrialization, and strengthening Korea’s national security.

Since it required huge investments, the heavy and chemical and defense industries, which received considerable government support, were put in the hands of large companies. But this was expected to lead to negative social effects such as the concentration of wealth among business groups or large companies, unfair distribution of income, and discord between the public and the large companies. Since 1973, the President sought to underscore the importance of public offerings during his annual New Year visits of government economy-related ministries, where he was briefed on the government’s efforts and offered further encouragement to strongly pursue them.

As a result, the number of companies that listed on the stock exchange significantly increased. Since the establishment of the stock exchange in 1956, only 66 companies had listed their shares in
17 years. After the Public Offering Promotion Act was legislated in early 1973, followed by the government’s efforts, 309 companies went public while the number of listed companies on the stock exchanged increased to 355 by 1979.

Once the stock market developed enough and began to function properly, companies began to issue corporate bonds, a vital source of long-term capital for Korea’s industries. Until 1971, there were no corporate bonds issued on the stock exchange. After the 8.3 Decree activated the issuance of bonds, nearly 300 billion won of corporate bonds were issued in 1975; that figure doubled to 600 billion won by 1979. As corporate bonds became a major source of stable long-term capital, the corporate bond market grew to exceed 1 trillion won during the 1980s.

When President Park passed away in 1979, the parent company of major business groups as well as most large-sized companies listed publicly. However, many large companies remain private which should be publicly listed to strengthen their capital base.
Background on the Value Added Tax in Korea

One of my recommendations to President Park as his Chief of Staff was to bring a measure of stability at the leadership at the Ministry of Finance, which never had a minister that stayed longer than 11 months as far back as 1948 when the new government was established. Stability at the leadership was needed, especially for the long term when it came to tax reform. Every Finance Minister since Korea’s liberation from Japan has reformed the tax system. There were a few noteworthy reforms.

In 1948, the new Korean government established a new tax system. During the Korean War, a wartime tax system under the Temporary Land Tax Law, which allowed taxes on farm land to be paid in-kind with grains, was implemented. After the ceasefire was reached in the Korea War, tax reforms were implemented in 1954 based on the recommendations of the UN which prepared: “Report and Recommendations for the Korean Tax System.”
To support Korea’s reconstruction efforts under the Three-Year Economic Reconstruction Plan, which outlined Korea’s long-term fiscal policies, a set of sweeping reforms of the overall tax system began in 1959. A US delegation of tax experts and In Sang Song, the Minister of Finance, began work on reforming twelve tax laws. By the end of 1959, five of the tax laws were revised while another five tax laws were revised by the subsequent government of the Democratic Party at the end of 1960. The tax system underwent more changes after the 5.16 Revolution in 1967 to support the Five-Year Economic Development Plan initiated in 1962. Besides these major tax reforms, the tax laws were amended several times to address problems caused by the difficult economic environment and tax administration, as well as, to reduce the budget deficit by increasing tax revenue.

By the end of 1969, Korea’s tax system was inundated with tax laws specifically designed to increase tax revenues, resulting in an overly complex system. The tax system focused on direct taxes with high tax rates, leading to many tax issues and cases of tax evasion. This made the tax system dependent on estimated taxation, which had negative effects.

Meanwhile, Korea’s indirect tax system was inadequate, and needed to be reformed. An indirect tax could raise a considerable amount of tax revenue necessary for the development of the economy without causing tax conflicts and resistance. It could make up for decreases in revenue from individual income taxes when income tax rates are lowered, particularly, when lowering rates for low income earners.
Based on my recommendations to address the issues in Korea’s tax system and finance, President Park asked the new Finance Minister to design a sound and practical tax system for the long-term. During the decade I served as the President’s Chief of Staff, there were not many changes in the office of the Minister of Finance outside of a couple of instances.

After identifying the inadequacies of Korea’s tax system, work began on building a sound and stable tax system. In 1971, the Ministry of Finance led by Minister Nam Duck Woo set new long-term directions for the tax system. The individual income tax, a direct tax, was to be revised into a fully comprehensive individual income tax, reducing the tax burden of the low-income group. In parallel, a value added tax or sales tax, an indirect tax, was to be introduced to promote fair taxation and secure adequate tax revenues. The value added tax was a global trend in 1967, and was adopted by European countries including France in 1968. All EU member countries had to introduce a value added tax by 1971. Italy was the last member country to introduce the value added tax, which was even adopted by the UK when it joined the EU.

The value added tax is an indirect tax, a kind of a general consumption tax. In the early stages of economic development, the custom tax is the main source of indirect tax revenue. As economies develop and industries grow, the proportion of revenues from custom tax falls while the proportion of revenues from individual consumption tax rises. In the early stages of development for domestic production, individual consumption taxes can be easily applied on certain products such as alcohol, tobacco, cars, and gas on product-by-product basis. As production develops further and more
products are taxed, revenues increase but the tax system becomes more complicated and difficult to administer. Once a new product is introduced, a tax cannot be applied until the tax laws are amended.

Individual, product-by-product, consumption taxes are separately administered by the government for all different products. In the early stages of economic development, individual consumption taxes on selected products may not cause serious distortions because people’s consumption choices are limited by a narrow range of domestically produced goods. As people’s consumption choices are diversified, individual consumption taxes on selected products may no longer be appropriate. Therefore, a general consumption tax, rather than an individual consumption tax, is more desirable and equitable as the economy develops. Also, the administration of a general consumption tax is much simpler since a flat tax rate is applied. Exceptions to a general consumption tax can be applied for certain goods or services in the form of tax exemptions or a different tax rate. Thus, it can be free from discrimination based on individual preferences and can make taxation neutral to the economy. In addition, even after a general consumption tax is introduced, certain goods or services can remain subject to the existing individual consumption taxes.

The Value Added Tax (VAT) is a general consumption tax that was developed in western countries in the early 1970s. It is the most up-to-date, and probably the last, in a long line of the general consumption taxes, as concluded by the experts in Japan’s tax reform plan after World War II, which notably included the VAT. There are various types of VAT. The VAT adopted by Korea, similar to the one adopted by EU countries, is applied on the value added by businesses.
to a product or service. A VAT is applied at every stage in the production of a product or the rendering of a service whenever value is added. In other words, the tax base is the value added, or the margin left over after deducting the purchase amount from the sales amount. This is as opposed to applying a tax on the total sales amount.

As the VAT is applied at every stage, whenever value is added, for all the goods or services, except for tax-exempt goods or services, it is different from the commodity tax, which is applied at certain specified transaction stages, and from the business tax, which is applied on the sales amount at each transaction stage. Thus, the VAT is applied at each transaction stage, but the amount already taxed in the previous transaction stages is not taxed again, thus, the accumulated tax burden is not transferred to consumers. From a consumer’s viewpoint, the VAT and the one-off sales tax, which is applied at the point of sales, have the same effect.

The VAT is computed by deducting the VAT applied on the purchase amount from the VAT on the sales amount. A tax record is needed at every stage VAT is applied. For example, a product passes through a series of transactions from importing to manufacturing, and to the first and second wholesale, before reaching retail. In this case, the import taxation will be utilized as the tax data for the manufacturing, and that of the manufacturing will be utilized as the tax data for the first wholesale, and that of the first wholesale will be utilized as the tax data for the second wholesale, and that of the second wholesale will be utilized as the tax data for retail.
The tax invoice from the previous transaction is utilized as the tax data for the next transaction, making it possible to obtain tax information of all the parties through the entire transaction cycle of the product. This system has a built-in function to cross-check information, thereby, ensuring the complete taxation of all sources, promoting documentation of taxes, and deterring tax evasions. One of the reasons I was fully supportive of the EU-type VAT was that it was very important to reduce the huge inefficiencies of estimating taxes which was done frequently at the time. It also helped to promote the idea of paying taxes and to eliminate the general public’s belief that companies usually accumulated their wealth by not paying taxes. All of which would help to enhance social justice and bring about the integration and stabilization of the whole society.

Before the tax reforms were announced in 1971, I was fully supportive of Nam Duck Woo’s, the Minister of Finance, plan to introduce the fully comprehensive individual income tax and the VAT by 1976.

**Modernizing Korea’s Indirect Tax System**

The reasons for introducing the VAT were laid out in the recommendations on tax reform: “The VAT should be introduced to modernize the indirect tax system and to effectively support the Fourth Five-Year Economic Development Plan.”

The VAT was introduced to modernize the indirect tax system but also to secure an effective means to raise tax revenues, the funds
necessary to support Korea’s economic development. Korea’s tax system at the time mainly utilized direct taxes at high tax rates, causing many issues and tax evasions. It was also too dependent on estimated taxation, which resulted in many negative effects.

In 1976, before the VAT was introduced, indirect tax focused on individual consumption taxes. It was also very complicated, having 11 national indirect taxes on business, commodities, alcohol, textile, oil, electricity and gas, travel, admissions, entertainment, telephone, stamps, and one local indirect tax on horse-racing. The tax rate structure was also complex. There were different tax rates for each indirect tax. The business tax had six different tax rates, ranging from 0.5% to 3.5%; the commodity tax had 17 tax rates, ranging from 5% to 200%; and tax rates on oil varied from 5% to 300%.

The business tax was imposed on all businesses at various tax rates. The commodity tax generated the most revenue among the individual consumption taxes; however, it had several problems. The commodity tax was applied to almost anything, ranging from essential items like sugar and construction materials like cement, glass, and plywood, for which the final end consumer, either an individual or a company, was difficult to determine. Even semi-finished goods were subject to a tax such as chemical products and plastic. The rate on some commodity taxes reached as high as 200%. From this perspective, the scope of taxable goods had to be limited to luxury goods and the tax rates had to be reduced to a reasonable level.

As such, it was important to reform Korea’s indirect tax system, focusing on the VAT adopted by EU member countries. Second, the
administration of taxes needed to be improved to reinforce tax
documentation and record keeping as part of the overall objective to
minimize tax evasions. The method of administrating taxes based on
estimates was even adopted by advanced countries to mitigate tax
revenue losses due to unreported income; it caused resistance among
taxpayers, sometimes arousing political controversy. This method
was used in Korea to administer the business tax, which also caused
a big social stir, as it was applied to a large number of taxpayers,
about 900,000 individual taxpayers in early 1977. In applying the
business tax, the tax authority sought to increase documentation
requirements but it could not. The construct of the VAT, on the other
hand, ensures proper tax documentation since all the taxpayers must
rely on each other to calculate their taxes. Tax invoices from the
previous transaction are required to deduct the VAT on next
transaction from its VAT liability. The way VAT is administered not
only fundamentally reduces the need to rely on estimated taxes but
also reinforces tax documentation and record-keeping.

It is important to keep VAT neutral and non-discriminating when
administered. In Korea, the business tax was applied on sales or
revenue at every step of a good’s production cycle at varying tax
rates between 0.5% and 3.5%. In general, products were subject to a
total tax rate of 5% by the time it reached the end user; a tax of 1.5%
was applied on the manufacturer; a tax of 1.5% was applied on the
wholesaler; and a tax of 2% was applied on the retailer. To save on
taxes, manufacturers often took on the role of wholesaler and retailer,
reducing their tax burden by 3.5%. This led large companies to sell
their products directly to consumers by pursuing vertical integration,
particularly for industrial goods that could be produced with raw
materials rather than with semi-finished goods. Under the business
tax, large companies able to fully integrate all the steps in the product’s life cycle from production to retail had an advantage over SMEs that specialized in certain aspects of a product’s production. This negatively impacted SMEs and the middle-class. So, it was necessary to introduce the VAT.

A Six and a Half Year Struggle

After the Ministry of Finance announced its intention to introduce the VAT in 1971 under the “long-term strategy on the tax system,” it took almost six and half years to roll it out on July 1, 1977. The Minister of Finance, Kim Yong Hwan, sought to introduce the comprehensive individual income tax as a direct tax system, and the VAT as an indirect tax system.

Value Added Tax Research and Foreign Experiences

Foreign tax experts were invited by the Ministry of Finance to conduct a feasibility study of introducing the VAT in Korea. Mr. Duignan, an expert in finance from the IMF and former head of the Irish National Tax Service, who led the introduction of the VAT in Ireland, was invited to Korea in 1972 on the recommendation of the IMF. In July 1973, Dr. Sharp, a UN consultant, who advised Japan on the introduction of the VAT after World War II, was also invited. From 1974, preparations began on the introduction of the VAT.
The government also dispatched a Korean delegation to study the VAT system of other countries including the UK, West Germany, Belgium, EC, Japan, and Taiwan in July 1974. Their report based on a review of the VAT system in the UK, West Germany, and Belgium, recommended that a consumption VAT be introduced with a flat tax rate. It added that the VAT should be applied at every step of the product’s life cycle. The report also provided basic principles for introducing the VAT. In addition, Mr. Tait, an expert from the IMF, visited Korea in 1975 and 1976 on the request of the government to review the effects of VAT on prices and income distribution. In 1976, Mr. Duignan was invited again to advice on the drafting of the tax laws and the administration of VAT. His visits produced two reports.

The first report, a feasibility study on VAT submitted to the Ministry of Finance in October 1972, recommended the prompt introduction of the VAT, which would bring many advantages compared to the existing indirect tax system. The report concluded that Korea’s longer term economic development plans could not be sustainably supported by the business tax based on a progressive tax rate and the commodity tax with high rates. Instead, a general consumption tax was necessary. The report highlighted the underdeveloped state of Korea’s tax reporting and administration system, which was an obstacle to introducing the VAT. However, the report concluded that inspections by the tax authorities could help overcome this, and that the existing withholding tax system and the payment and sale reporting system used by many manufacturers and wholesalers would help Korea in overcoming the inadequacies found in its tax administration capacity.
The second report prepared in late 1975 concluded that the VAT should replace indirect taxes, and should be applied at a tax rate of 10%. It also recommended that a special consumption tax should be imposed on luxury goods including automobiles, televisions, and air conditioners.

Two studies conducted by Mr. Tait from the IMF were submitted to the government in 1975 and 1976, respectively. The first report concluded that a 10% VAT would be adequate to replace both the business tax and the commodity tax as long as a special consumption tax would be applied on luxury consumer goods, a large source of tax revenue. The second report recommended that prices be monitored for increases, which were expected to happen once the VAT was introduced. As such, price increases needed to be strictly controlled to keep price fluctuations within 1%. The report concluded that a 10% tax rate would be sufficient based on past tax revenues collected plus the additional tax revenue expected to be derived with the VAT. The report expected companies to increase or decrease prices more or less than expected in anticipation of the VAT. Prices must be strictly monitored and controlled.

Divergent Views on the Value Added Tax

The debates discussing the advantages and disadvantages of the VAT centered on three main issues: the timing on the introduction of the VAT, which some thought had not yet ripened in Korea; the negative impact on prices; and the regressive nature of the VAT. The Tax Review Committee was established in April 1975, and the
Minister of Finance announced the plans to introduce the VAT at a news conference. In June 1976, the Tax Review Committee submitted its recommendation on the VAT to the government, after which the Committee on VAT was created in September. On September 14, the Value Added Tax Law was drafted, and approved by the National Assembly on November 17. It was ratified on December 22, and went into effect from July 1, 1977.

**Timing of Introduction**

At the time, the VAT was adopted by 23 countries in the world; 12 European, 9 Latin American, 1 Middle Eastern, and Vietnam. But some people questioned if it was the right time to introduce the VAT in Korea, which required good bookkeeping systems and knowledge and familiarity with the tax invoice and payment system. Not to mention it was reported on a voluntary basis. Indeed, Korea’s systems and infrastructure to administer the VAT were inadequate. Japan’s case was raised, pointing out that they had abolished the VAT established in the 1950s as recommended by the US, while Taiwan had not implemented it, though they had studied it for a long time. Confucianism was even used to argue against the VAT, saying that the VAT was not appropriate for Confucian based countries like Korea, which looked upon the use of tax invoices as shameful.

In defense of the VAT, the government argued that the VAT was similar to the existing business tax that was applied on the retail and service industries. In this respect, the VAT would be introduced under the methods used to administer the business tax, while a new
special tax system would be introduced for small individual taxpayers who could not accept the purchase amount deduction method based upon tax invoices. In any case, Korea had to upgrade its tax record-keeping and documentation capacity, which the VAT would help to facilitate. Japan’s experience in the introducing the VAT was different from Korea in that the objectives of the two countries were different. The introduction of VAT in Korea was to replace the existing indirect taxes including the business tax and the commodity tax, which needed to be improved without increasing the tax burden. However, Japan wanted to use the VAT to increase tax revenue to address its huge fiscal deficit, nearly one third of its total national budget. This incited social and political opposition against the VAT, which led to the failed attempt to introduce it. When I was appointed the Korean Ambassador to Japan in early 1979, I paid a visit to Masayoshi Ohira, who was the Japanese Prime Minister at the time. He spoke of Japan’s experience in trying to introduce the VAT in Japan. As a former Minister of Finance, Ohira believed that a VAT modeled after the EU version had to be introduced to reconstruct Japan, which suffered chronic fiscal deficits.

In October of that year, Japan’s parliament was dissolved and general elections were held. Ohira intended to introduce the VAT if he won the election by an absolute majority as expected, though his plans weren’t included in this campaign pledges. But, Ohira failed to win an absolute majority, a surprise considering all indications up to the day of the election were that he would win a majority. Voter turnout was low due to a typhoon that passed Japan, affecting Tokyo and the northeastern areas, making it difficult for voters to go to the polling stations due to the heavy rain and strong winds. It kept the Liberal Democratic Party, mostly supported by middle class families
and farmers, from taking a majority; instead, the Socialist and Communist Parties were able to gain a greater share of parliament. To make up for the lost seats, Prime Minister Ohira dissolved the lower house of parliament in the next election. Unfortunately, Ohira passed away during the election campaign. But discussions continued on introducing the VAT as a way to reduce the fiscal deficit funded by issuing government bonds. After 10 years, Japan established the consumption tax in December 1988, and implemented the tax on April 1, 1989.

Taiwan’s political structure made it difficult to introduce the VAT. Local provincial governments were a traditional stronghold of indigenous Taiwanese while the central, national government was dominated by mainlanders that fled to Taiwan. To bring harmony between the mainlanders and the native Taiwanese, the local government and its subordinated local organizations were mainly appointed with native Taiwanese with a few exceptions. Thus, different from Korea, Taiwan had political difficulties in distributing financial resources between the central government and local governments. Introducing the VAT as a national tax to replace the local business tax proved far too politically difficult and socially divisive, considering the politics between the central and local governments, which sought to maintain their autonomy.

**Higher Prices due to the Value Added Tax**

The inflationary impact on prices of a VAT was a major reason against introducing it, which boiled down to the rate of the VAT.
Many argued that the psychological impact of a 13% original rate VAT would lead to higher prices. It was true to a certain extent that the VAT could lead to higher prices resulting from structural changes to the existing indirect taxes but not because the tax rate was being increased. Indeed, the objective of the VAT was to reform the existing indirect tax system not to increase tax revenue. As such, the VAT tax rate would be set at a level that resulted in the same amount of tax revenues collected as the previous system. Invariably there would be some adjustments to prices on certain goods as the existing system is changed. However, such price adjustments can be managed by providing guidelines on the changes in price structures of important items. In any case, prices would only be affected in the short-term as the VAT is being introduced, eventually stabilizing in the long term.

Regressiveness

There were also arguments that the VAT was more regressive than a direct tax since it was indiscriminately applied to all, rich or poor. This was worsened by the flat tax rate of the VAT, which made it more regressive. Thus, there were arguments opposing the increase in the proportion of indirect taxes.

The government refuted these claims by saying: “Fundamentally, an indirect tax is regressive. However, the goal of introducing the VAT is to improve the existing indirect tax system, not to increase the tax base, and not to introduce a more regressive tax rate. In fact, certain goods would be exempted from VAT such as food, fuel, public transportation, and medical services; while, a special
consumption tax will be applied on 29 luxury goods such as jewelry at a high tax rate.”

**Unexpected Delay in Introduction of the Value Added Tax**

After the VAT Law was finalized in late 1976, the National Tax Service began a campaign to raise awareness and to educate taxpayers and tax officials in preparation of its rollout in six months time. Training on the filing of the VAT was conducted on a national scale three times with 830,000 taxpayers. Retailers were given tax incentives to use cash register machines to facilitate the use of tax invoices. To address potential price adjustments on certain goods and services, the National Tax Service provided businesses guidelines on the rate of price increases and margins, showing existing prices and new prices after the VAT was introduced. As a final step, businesses were given new tax IDs over the period of May 10 to June 10, 1977.

About one month before the new VAT went into effect on July 1, 1977, a group of public officials in charge of price policy sought to delay its rollout, arguing that current economic conditions could threaten price stability. They argued that it was well within their right as granted by Article 1 of the supplementary provision to the VAT Law, which authorized delay of the VAT’s implementation, if economic conditions should warrant it. There was resistance to the VAT from the opposition party but also from businesses which lobbied to members of the ruling party to oppose its introduction. Major economic organizations argued that it was too early to
introduce the VAT. From July 1, debate raged on the introduction of the VAT. It was believed that the VAT would cause prices to jump by more than 10%, endangering economic stability. There were arguments that businesses did not have the adequate capacity to properly issue and receive tax invoices. It was also thought that the flat tax rate of 13% should be decreased to minimize the impact on prices after the VAT was introduced.

In the first half of 1977, exports consistently outpaced imports, resulting in a noticeable trade surplus, largely due to foreign earnings from the booming construction business in the Middle East. The current account surplus reached USD 950 million, which caused rapid appreciation of the currency. To address this, the reserve requirements were increased in May, while measures were introduced to suppress short-term foreign loans and to provide trade financing in August. Foreign earnings from overseas construction business were deposited in a special account.

In the first half of 1977, wholesale prices increased by 10.5% for food and 3.6% for other products, which were expected to increase more. Meat prices increased as demand grew larger as the national income grew; fish prices soared due to a shortage of fishes caused by lower numbers of fishes being caught in coastal waters and restrictions on deep-sea fishing; fruits and vegetable prices also increased due to abnormally cold weather in the winter of 1976 and in December 1977, which damaged harvests.

Indeed, there were legitimate reasons for delaying the launch of the VAT, considering its potential impact on prices, which made even some members within the cabinet reconsider the benefits of a delay.
On June 13, 1977, President Park convened a meeting attended by government officials and ruling party members at the Blue House to discuss the issue and to hear everyone’s opinion. The discussions were lively, often resulting in a heated debate. The Minister of Commerce and Industry thought it should proceed as planned while the Minister of Agriculture and Fishery disagreed. The Deputy Prime Minister and the Minister of the Economic Planning Board, who led the efforts on introducing the VAT as part of the long-term strategy of the tax system, also thought it prudent to delay it.

Considering a majority of the people thought it more prudent to delay its rollout, it did not seem like a delay could be avoided. Despite this, I expressed my opinion:

“Foremost, the VAT is expected to affect about 160,000 businesses of the some 830,000 total businesses. The small businesses with sales of less than 12 million won a year, which account for 80.9% of the total businesses that do not have the ability for bookkeeping, will be subject to a 2% tax on sales instead. Also, the small businesses will be subject to a tax using a simplified method as in the same way existing business taxes are administered. Hence, small businesses will not need to comply with the new tax requirements under the VAT. Furthermore, farmers and fishermen will not be affected by the VAT, as agricultural products considered as daily necessities are exempted. Businesses not subject to an inspection in the past will also be exempted. Finally, the 160,000 businesses that will be subject to a VAT include 20,000 corporations and 140,000 self-employed businesses that have the accounting and administrative capacity to keep records of tax invoices. To simplify the tax administration, a general receipt can be used as a tax invoice...
in some cases. So it would be unreasonable to delay this further based on the belief that some businesses would not have the tax administration capacity to comply with the VAT.

As a consumption tax, the VAT is an indirect tax included in the price of a good or service that is transferred to the consumer like the business tax or the commodity tax. Therefore, consumers, not businesses, bear the tax burden. In effect, businesses want to delay this tax because the new tax makes it more difficult to not report their income.

Under the old tax system, keeping records of tax invoices was not mandatory, making it necessary to estimate taxable income. This made it far easier to report income inaccurately between what was actually earned and what was reported. Since the business tax automatically became the base in the individual or corporate income, it made it easy to underreport actual amount of income earned when the individual or corporate tax return was filed.

Not every business is opposed to a VAT, or its early introduction. Only the 160,000 businesses subject to the new requirements under the VAT oppose its introduction, since it will be more difficult to underreport income in the individual or corporate income tax return. The VAT system will bring additional tax revenues not because it raises the tax burden but because it applies a much stricter standard of tax administration thus preventing the underreporting of income. This will bring a sense of fairness, since it would be more difficult for wealthy individuals or corporations to evade taxes.
The tax revenue of the value added tax will be increased as the economy gets bigger. With the increased value added tax revenue, sufficient financial resources can be provided to economic development, the high tax rates of the direct taxes can be alleviated and the increasing demand for social welfare expenditures of the government for the poor and the old can be met. Of course, it will take some time for the value added tax to take root in Korea. Also, after the tax is introduced, we might face some unexpected problems. Especially, prices are expected to be increased. However, the value added tax will be a core tax to improve our tax administration and reinforce our finance. Considering the importance of the value added tax, I cannot understand why some people insist that the enforcement of the tax be delayed for the reason that, due to the tax, prices may increase by more than 10%, the endurable limit of the government. Let me show the price trend for the first half of 1977. During this period, mainly the prices of agricultural and marine products, which are not related to the value added tax, were increased while the prices of industrial products were stable.

Even if the value added tax becomes a contributing factor in price increases, overall wholesale prices are expected to increase by less than 15% per year only in the year when the tax is put into effect. From the following year, prices are expected to stabilize. After a policy was suggested in 1971, the value added tax was created after six years of review and research by domestic and foreign experts. Also, the government conducted an awareness campaign and education on the tax for a long time, and held a training session three times with all the taxpayers for six months. And, the government prepared guidelines and measures to stabilize prices for each industrial product. We are about to enforce the value added tax after
having conducted the most extensive preparations in our tax reform history.

If we delay the enforcement of the value added tax this time, it may be enforced in 1980 because there will be an election of members for the National Assembly at the end of 1978. I expect a much stronger opposition from the industries after having succeeded in making the government delay its implementation.

Despite our best efforts to implement the value added tax, we expect there to be some problems and prices may increase slightly in the beginning. However, I believe that the value added tax should be enforced on July 1, 1977 as planned for the long-term national policy.

In terms of the tax rate, a basic tax rate of 13% has been decided, which could be increased or decreased by 3% depending on the circumstances. Considering price trends and the uncertainties, I believe that a 10% tax rate should be applied in the beginning.”

After I provided my personal assessment of the situation, President Park concluded that the value added tax shall be effective from July 1, 1977 as planned with a tax rate of 10%. And, he asked the cabinet members to do their best and to cooperate with each other to successfully introduce the new tax and to mitigate price increases.
Enforcement of the Value Added Tax, and its Results

After the VAT Law went into effect on July 1, 1977, the National Tax Service conducted a fourth round of education and training of taxpayers for 30 days on the administration of VAT. It also systematically monitored that the pricing guidelines for 795 products publicly announced on June 28, 1977 were being followed.

Managing price adjustments was expected to be the most difficult aspect of introducing the VAT, as several variables had to be factored in such as the money supply, the supply and demand of food, and consumer sentiment. It was to be expected that some businesses would try to increase prices to take advantage of the VAT. As it turned out, prices did not rise very much, increasing just 10% based on the wholesale price index in 1977. The use of pricing guidelines published by the National Tax Service and the cooperation of businesses lessened the impact on prices. The annual retail price increased by 10.9% including 12.3% for non-taxable food and 9.0% for taxable products. During the six month implementation of the VAT, wholesale prices increased at a rate of 4.1% and retail prices increased at a rate of 3.9%. This increase was mainly driven by increases in the price of foods not covered by the VAT. The price on fruits and vegetables increased due to bad harvests brought on by cold weather in January and February in 1977. Fish prices also increased due to a shortage of fishes. Meat prices also increased due to higher demand. Prices of industrial products and services subject to the VAT stabilized. Of course, there was some confusion in the beginning before prices stabilized, while some businesses complained about the tax authority’s price guidelines. The efforts of the National Assembly helped to quickly stabilize prices within two
months, allowing an increase of less than 10%, the limit set by the government. There were no effects of the VAT on prices in the years after.

Familiarizing businesses with the new VAT was another challenge. One of the important reasons for introducing a VAT was to mitigate cases of underreported or unreported income by improving the tax administration process through a system of tax records or tax invoices. Tax invoices offered a great way to improve the documentation of taxes. In the first quarter of 1977, tax invoices were issued for 71.3% of the taxable sales amount. The rate improved to 83.8% during the five and half years until 1982.

Finally, the VAT led to an increase in tax revenues without having to increase tax rates. In 1976 the proportion of revenue from indirect tax to total tax was 56.2%, which increased to more than 60% from 1978 after the VAT was introduced. Revenues from VAT totaled 380 billion won, which jumped to 3,130 billion won in 1986, representing 38.7% of the total internal revenue, as Korea’s economy developed. It provided a stable source of tax revenue unlike individual or corporate income taxes, and the special consumption tax, which were susceptible to economic downturns. The importance of a stable tax revenue source is magnified during economic downturn, as government expenditures must be allocated to stimulate the economy. In 1980, revenues from direct taxes decreased significantly due to the political chaos and economic recession resulting from the second Oil Shock. The revenues from individual income tax grew at a much smaller pace at only 7.6%, compared to the 30% experienced in the previous years; while the increase in revenues from corporate income tax was far worse, measuring negative 1.6% compared to 15% in previous years. During this
period, revenues from VAT increased by 35.2%, nearly 5 percentage points higher than in the previous year and accounted for 40% of the total tax revenue.

Effective from July 1, 1977, there were a few administrative amendments in 1977, 1979, 1980 and 1981. Besides these changes, there have been no changes to the VAT until 1986. Of course, the tax invoice system, the core of the VAT, still has many issues to be resolved, just as other countries with a VAT have their own issues. The main purpose of tax administration is to promote a fair and exact reporting of tax returns. As stated in its mission statement, the US Internal Revenue Service seeks to promote the voluntary and full compliance of taxpayers to its tax laws. In the same way, Korea’s National Tax Service has to do their best to constantly improve the administration of taxes.

In December 1978, I resigned as the Chief of Staff after nine years and three months of service. I thought I had been at that position for too long, and that the time had come to move on. But some had urged me to resign and take responsibility for my actions in supporting the unpopular VAT. In looking back, I believe it was the right thing to do at the time. It helped to improve Korea’s fiscal state and the social welfare of Korea’s people by securing a stable source of tax revenue to fund government expenditures and by alleviating the tax burden of direct taxes.

Ultimately, the VAT became the most important national tax, representing 26.2% on average of the total internal revenue for 27 years from 1978 to 2004, helping to secure fiscal stability.
Health is one of the most valued, of all human necessities. It falls on the nation, the government to ensure all of its citizens have access to basic healthcare regardless of wealth, age, or social status. Expanding the coverage of healthcare to rural areas and the poor in urban areas was, and continues to be an urgent policy task of the Korean government. To establish a strong healthcare system, the whole country and its government, and the people and its employers, need to grow enough to mobilize sufficient financial resources to ensure all the people can receive medical benefits to maintain their health and be protected from illness.

In 1963, a medical security system was introduced in Korea, which was one of the main policy goals of the revolutionary government. One of the figures to lead its establishment was Hee Seop Jung who was appointed as the Minister of Health and Social Affairs. The introduction of the social safety net was debated. Some thought it was too early, considering Korea’s per capita income was just USD 94.4 in 1962; while healthcare expense per capital was 66.70 won a month. After much debate, the case arguing that a social
A safety net was needed in the long-term prevailed. This led to the Health Insurance Act in December 1963, which was amended to be voluntary rather than compulsory as it was initially drafted. Consequently, a national health insurance system was introduced through a voluntary based health insurance program that limited insurance coverage to higher income families. It was thought that the national health insurance system had to be limited in scope, and offered to people able to afford health insurance considering the weak state of Korea’s economy. As such, the health insurance program as part of the social safety net was expected to have a limited impact. Including the first medical insurance association established by Honam Fertilizer Corporation located in Naju, Jeollanam-do in 1965, three employer-provided medical insurance associations were operated on a trial basis.

From the early days following the Revolution, President Park was devoted to social development, especially in healthcare. But the President believed some measure of economic development had to be achieved first, for Korea to be in any position to pursue social development policies. Because of this, he believed that the Health Insurance Act of 1963 would not have desired effects. So policy efforts were focused on achieving economic growth under the First and Second Five-Year Economic Development Plans, and then, to pursue a social policy agenda in the Third and Fourth Five-Year Economic Development Plans. But much of the social development policies planned in the third Five-Year Economic Development Plan had to be delayed in the course of successfully addressing the economic effects of the First Oil Shock.
During the first two Five-Year Economic Development Plans, Korea’s economic development made healthcare much more affordable; at the same time, the cost of healthcare measured in per capital gradually increased from 66.70 won per month in 1962 to 432 won per month in 1971. As such, many voluntary-based health insurance programs were established for self-employed and local residents of companies. By 1976, a year before Korea adopted a compulsory health insurance system, 11 government-approved health insurance programs including four for employees and seven for self-employed were established, providing health insurance to 68,000 people including 16,000 policy holders and 52,000 dependents.

The rapid economic growth achieved under the First, Second, and Third Five-Year Economic Development Plans resulted in significant economic and social imbalances. To address these imbalances for a more sustainable economic development, President Park pursued social development policies in the Fourth Five-Year Economic Development Plan, which started in 1977, implementing a health insurance program that was a basis for social development.

In December 1975, there were changes to President Park’s cabinet. Kim Jong Pil resigned as the Prime Minister, whose health was left in a fragile condition following a major surgery. President Park asked Prime Minister Kim to take a temporarily leave in light of this weak health condition and appointed Choi Kyu Ha as the new Prime Minister. On the behest of President Park, I also prepared a list of candidates for a new cabinet, putting much attention on the candidate for the next Minister of Health and Social Affairs. The new Minister had a big policy agenda ahead, including the introduction of a national health insurance system, addressing labor-management
relations, labor rights, and working conditions of employees. To handle the policy challenges, the new Minister of Health and Social Affairs had to have a good handle on economics but also had to be sensitive to the social and political aspects of policymaking while having the administrative capacity to implement the policies and find solutions should problems arise. After conducting a thorough candidate search, consulting senior presidential secretaries and cabinet members, I submitted Shin Hyun Hwak’s candidacy as the Minister of Health and Social Affairs, who President Park thought was a strong candidate and approved his appointment.

The health insurance system implemented by some countries ran a deficit, largely due to excessive healthcare services where healthcare providers try to maximize profits by over-prescribing prescription drugs or hospitalization services. The deficit in the health insurance scheme often led to a deficit in the national budget. Japan served as a good example, where the cost of funding health insurance was one of the three major factors that led to Japan’s huge budget deficit. The others were funding the state-owned railways and farming subsidies, i.e. dual grain price system. In other countries like Uruguay, economic development suffered due to the poor state of the national budget, which was caused by the high cost of funding its social welfare programs. Indeed, a national healthcare system could have detrimental effects on a country’s welfare system. The new Minister of Health and Social Affairs, Shin Hyun Hwak, was tasked with establishing a healthcare system that was in line with Korea’s economic agenda, which was reinforcing Korea’s national defense and developing its economy.
In 1976, the Medical Protection Act and Medical Insurance Act were introduced, marking an important chapter in Korea’s social development. Minister Shin amended the initial Medical Security (Medicaid) Act legislated in 1963 to establish a system appropriate for the circumstances in Korea. The system of national healthcare with universal coverage to Koreans was based on research conducted of systems found in other countries while taking into account Korea’s precarious economic situation.

Korea’s Medical Protection (Medicaid)

Korea’s Medicaid sought to provide access to free healthcare for the low income class. Before it was established in 1977, healthcare to the poor was provided by local government hospitals, local health clinics, and health organizations. Approximately 70,000 people benefited from such services. According to the Medical Aid Act of 1977, about 2,100,000 people qualified for healthcare assistance provided by the government. Under Korea’s Medicaid, two groups qualified: people with no income and people with low income. Yellow certificates were issued to the people with no income while green ones to the people with low income. For healthcare recipients with no income, all the healthcare costs for outpatient and inpatient treatments were paid by the government, while Medicaid covered 100% of the costs for outpatient treatments and 50% of the costs for inpatient treatments for low income people. The medical aid fund paid for the remaining 50% of the costs for inpatient treatments on behalf of the patients, who had to repay the fund for the costs on a one, two, or three year installment plan at no interest.
For the provision of healthcare under Medicaid, Korea was divided into 56 districts based on population, location of healthcare providers and facilities, local government districts, and transportation networks. Primary healthcare providers were designated in each district, which were local health centers and its branches, or a private hospital. For more remote regions not easily accessible like islands and mountainous regions, eight medical ships and 18 traveling clinics were designated as primary healthcare providers. In special cases, Medicaid was also extended to victims of natural disasters, “human cultural assets” (i.e., artists, artisans, and performers with recognized skills in nationally designated traditional arts, crafts, and performances) and their families, and North Korean defectors.

During this time, the Ministry of Health and Social Affairs also launched health and preventative programs to provide health services free of charge and limit the spread of disease such as sexually transmitted diseases. The program established local health clinics that provided free health services to anyone on an anonymous basis. This program led to a sharp reduction in the cases of sexually transmitted diseases.

Before Medicaid was introduced, only 370,000 people with no income were able to access healthcare services. But by 1977, when Medicaid was introduced, 2,100,000 people with no or low income could access healthcare. By the end of 1985, Medicaid recipients represented 8% of the whole population. The introduction of Medicaid led to a two-fold increase in the number of low income patients accessing outpatient clinics compared to the people who had their own medical insurance plans. So, we could say that the medical protection system produced outstanding results. The people in the
low income group who had suffered from various diseases and were unable to afford medical costs could receive healthcare under Medicaid.

**Medical Insurance**

The idea of health insurance was introduced in Germany in 1881 for the very first time in the world by Otto von Bismarck, the Prime Minister, to alleviate growing discontent from workers. A system of health insurance for addressing health issues was enacted in 1883. This system was adopted by countries throughout Europe, before being introduced in Latin America by European settlers. Massive unemployment of the Great Depression in the 1930s and economic expansion during post-war reconstruction spread the idea of health insurance. In 1948, the UN declared under its Declaration of Human Rights that: “Each individual as a member of the society shall obtain benefits from social security plans.”

Free, democratic countries addressed the ills of its nation within the confines of social security as a way to cope with rising healthcare costs, and the growing economic gap between the rich and the poor. Indeed by 1977, some sort of health insurance program was adopted by 72 countries, as part of casting a wider social safety net.

A medical insurance plan is a social system where people in the community pay an insurance premium to raise funds to cope with potential risks in their lives and any medical expenses are borne by the funds when the people suffer from designated health problems.
That is, by joining a health insurance plan with a low insurance premium, a policy holder can avoid the risk of having to shoulder huge medical costs in the event of a serious and unexpected health problem. Health insurance can be classified under two types: a social insurance and a private insurance.

A country will have its own social insurance plan, which may vary by country depending on who pays the insurance premium. In some countries, employers and employees of a company may share the cost of the premium with government support. In other countries, only employers of a company are required to pay the cost of the premium with government support. While in other countries, only employees are required to pay the cost of the premium with government support. In other countries, the government pays the whole premium.

The national health insurance system launched in July 1977 was made compulsory unlike the initial voluntary-based system. However, the new insurance plan applied to the employees of companies that had 500 or more employees. Discretion to change the minimum size requirement as conditions warranted it in the future was provisioned into the act. The cost of the premium was equally shared by employers and employees, while government support only covered operating expenses. This scheme for covering the cost of premium seemed to present the best model based on the soundness of the plan’s finances and healthcare. Also, the rate applied on premiums was set between 3% to 8% by the medical insurance association and was collected by the employers. Healthcare recipients had to bear a portion of the healthcare costs to deter insurance abuse and to promote financially sound management of the
insurance plan. Finally, self-employed workers, farmers and fishermen were allowed to establish and operate Class B medical insurance associations within their district.

In 1977, Korea’s underdeveloped system of providing healthcare and medical services, and a weak medical drug system, posed challenges in introducing the new health insurance system. Most doctors had private practices usually in the cities rather than being a member of a group of doctors, which made it less efficient and effective. Private hospitals were not regulated by the government, so the private hospitals were clustered together in cities.

The concentration of private hospitals in urban areas led to excessive competition, which bled the finances of hospitals, whose facilities were inadequate. Larger hospitals recklessly invested in expensive medical facilities and equipment, which were left idle and drained medical resources. General hospitals, specialized clinics, and general clinics were all classified private medical institutions instead of being differentiated by function or system, which led to confusion among healthcare recipients.

Also, medical education was too specialized, which created a dearth of general physicians able to provide primary healthcare, since most private medical practitioners were specialized. The system of distributing medical drugs and medicine was extremely inefficient. There was no uniformity in the distribution of medical drugs and medicine, often the same medicine was sold at different prices by different pharmacies. The situation was made worse by healthcare providers.
One of the significant initiatives of the Health Insurance Act was the classification of medical institutions as either primary, secondary, and tertiary caregivers. Also, the act set standards on health insurance fees and medicine prices for reimbursement. The Medical Insurance Act became effective on July 1, 1977. In the beginning, health insurance fees were determined at 75% of the usual, customary, and reasonable charges. Methodologies for adjustments were adopted to reflect differences in technologies. And, a uniform price system for drugs and medicine was introduced, which prohibited additional price mark-ups. After the health insurance system was introduced, hospitals blamed the very low health insurance fees for their financial difficulty. This made hospitals reluctant to take insured patients. However, a study commissioned by the Ministry of Health and Social Affairs in 1978 refuted the claims of the hospital. The study conducted by the Korea Productivity Center assessed the management performances, dating back to 1977, of six private general hospitals including four in Seoul and two in Busan and Daegu.

Though the study refuted the claims, health insurance fees have been adjusted nearly every year to better reflect various factors including price increases. Indeed, the development of a health insurance system depends on the development and cooperation of medical institutions. Also, patients suffering from minor ailments were going to large hospitals to seek primary care instead of small individual hospitals. This led to overcrowding at larger hospitals, leaving smaller hospitals in poor financial condition. To address the disproportionate number of patients seeking larger hospitals, the Health Ministry worked with the Korea Medical Association and the Korea Hospital Association to divide the hospitals into primary and secondary caregivers by function.
Korea’s health insurance system evolved over time as it took root. For one, the minimum threshold of employees based on the size of companies that required companies to participate in an insurance plan was reduced gradually from 500 employees to 300 employees in 1979, then, to 100 employees in 1981, and finally, to 16 employees in 1983. Most importantly, the Health Insurance Act was amended several times including in 1979, 1980, and 1981, to expand coverage of health insurance by including public servants, military personnel, and private school teachers. In addition, the participation of local residents in the national health insurance was made compulsory, starting in Okgu-gun, Gunwi-gun and Hongcheon-gun in 1981, and then moving to Ganghwa-gun, Boeun-gun and Mokpo city in 1982. Remarkably, every Korean was provided some form of healthcare through Medicaid or the national health insurance plan by 1989. Of course, there is much to be done in improving the healthcare system.

As Korea’s system of healthcare took shape, large private companies sought to aid its development. Chung Ju Yung, the President of Hyundai Construction, established a foundation by donating his ownership shares in Hyundai as a way to give back to society. When Chung sought the advice of the President on the foundation, President Park asked him to build hospitals in remote farming or fishing regions that were in desperate need of healthcare services. Accordingly, the Asan Foundation was established in January 1977, which built several first-rate hospitals in Inje, Youngdeok, Boseong, Boryeong, Hongcheon and Seoul (in Pungnab-dong). Kim Woo Joong, the President of Daewoo, upon the advice of President Park, established the Daewoo Culture and Welfare Foundation (currently, Daewoo Foundation) in 1978. The foundation went on to build hospitals in three islands, Shinan, Jindo and Wando, and in Muju.
Policymaking on the Front Lines 2: National Security and Industrial Policy

19. Heavy and Chemical Industry Drive
20. Technical Education and Vocational Training
21. KIST, Government Research Institutes, and Daedeok Science Park
The Nixon Doctrine and the Withdrawal of the US Army's 7th Division

It was the beginning of 1970, two months after I was appointed the Chief of Staff, that President Park held a press conference on January 9, 1970 to open the new year. At the press conference, he said: “Despite North Korea’s commando raid on the Blue House on January 21, 1968 and the seizure of the US intelligence ship, the USS Pueblo, on January 23, 1968, our national agenda has focused on Korea’s reconstruction and national security. After the North Korean guerrilla attacks in the regions of Uljin and Samcheok, we continued to maintain this national agenda. For 1970, our national vision shall be to reconstruct the country and to strengthen our national defense capabilities at the same time.” The president’s decision to maintain the national agenda of reconstruction and national security was far-sighted.
In July 1969, when the US was still reeling from the Vietnam War, US President Richard Nixon laid down in Guam “three principles as guidelines for future American policy toward Asia.” He stated:

“First, the United States will keep all of its treaty commitments. Second, we shall provide a shield if a nuclear power threatens the freedom of a nation allied with us or of a nation whose survival we consider vital to our security. Third, in cases involving other types of aggression, we shall furnish military and economic assistance when requested in accordance with our treaty commitments. But we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defense. After I announced this policy, I found that the leaders of the Philippines, Thailand, Vietnam, South Korea, and other nations which might be threatened by Communist aggression, welcomed this new direction in American foreign policy.” (Source: US President Richard Nixon Speech 1969 in Guam)

In other words, President Nixon made it clear that the US would not commit its military in the form of ground forces anymore. It also implied that the existing US ground forces stationed in Korea would be withdrawn partially or completely.

On August 22 and 23, 1969, one month after US President Nixon declared the Guam Doctrine, President Park and President Nixon held a summit in San Francisco, after which a joint statement was announced, stating that the US would continue to maintain its military presence in Korea. On September 24 of the same year, President Park spoke of the urgency facing Korea’s national security...
in an address in Daegu as if he anticipated that the US would reduce its military presence in Korea soon. He said: “The US Armed Forces in Korea will return to their country some day. To prepare for this, as a long-term policy, we have to do our best to strengthen our military capability to be amongst the strongest in the world.”

North Korea had provoked South Korea many times. On June 5, 1970, a naval ship with the mission of protecting fishing boats and broadcasting was seized by the North Koreans on the West Sea, four miles south of the ceasefire line. The size of the ship was 120 tons and could make 8 knots. At about 12:50 PM, two North Korean high speed patrol boats rapidly approached the South Korean ship. The captain of the ship and its 20 man crew valiantly fought to their death trying to defend themselves, but the North Korean vessel could make 25 knots and was armed with 75 mm canons. It was taken by the North Koreans at about 1:40 PM. This incident marked the first North Korean provocation on a South Korean naval ship. It greatly shocked the whole nation.

On June 22 of the same month, the Memorial Gate of the Seoul National Cemetery located in Dongjak-dong was rocked by an explosion. At about 3:50 AM, three specially trained North Korean commandos planted an electronic bomb on the roof of the Memorial Gate located in the front of the tribute altar. But the bomb exploded while the commandos were planting it. One of the North Korean commandos was found dead covered in blood, about 10 meters away from the gate; while the other two commandos were chased down and shot to death in Gyeyang Mountain by the military and local police. The bomb was supposed to be detonated remotely when President Park and other key figures in government were passing.
through the gate. If the plan had succeeded, it could have caused a tragedy more serious than the bomb explosion at the Aung San National Cemetery in Yangon, Burma on October 13, 1983.

In early July 1970, about two weeks after the incident at the memorial, the US government notified the Korean government that one of the two US Army divisions stationed in Korea would be withdrawn. Choi Kyu Ha, the Minister of Foreign Affairs, was informed of the plan to withdraw the 7th US Army Division stationed in Korea by US State Secretary Rogers during a meeting of foreign ministries held in Manila on July 5, 1970, which included the seven countries that participated in the Vietnam War. The US Ambassador to Korea, Porter, visited Chung Il Kwon, the Prime Minister, to notify him of the same matter. On August 24, US Vice President Spiro Agnew visited Korea for three days as a special envoy to address the political aspects of the US plans to draw down its troops in Korea.

The Korean government anticipated that the Nixon Doctrine would someday affect Korea, but not so soon, and only after the US had drawn down its military operations in Vietnam to some degree. This was also after Korea had deployed its own troops to the Vietnam War, formally at the request of the Vietnamese government, but actually at the strong request of the US. At the time, two combat infantry divisions including Maengho (Fierce Tiger) and Baekma (White Horse), one marine brigade of Cheongryong (Blue Dragon), and one support troop of Bidulgi (Dove), were deployed to Vietnam, taking the biggest role in the war together with the US. Other than the ideal of freeing Vietnam, Korea was deeply obliged to support the US, which had come to the aid of Korea during the Korean War.
It was also believed that the US troops stationed in Korea would not be redeployed to Vietnam, if Korea deployed its own troops on a large scale instead.

US Vice President Agnew explained that the Nixon Doctrine was a foreign policy in response to the US people’s opposition of US military intervention in foreign countries, and consequently, the size of the US military would be reduced. The US Vice President also added that it was necessary to decrease military expenditures because of the US’s fiscal circumstances. He also said that, as a part of the doctrine, the US established a plan to steadily reduce its military bases and troops stationed in foreign countries. He explained that as a part of the plan, the 7th US Army Division stationed in Korea would be withdrawn by the end of June 1971, when the US government’s 1970 fiscal year ended.

For two weeks before the meeting with US Vice President Agnew, President Park reflected deeply of this matter, jotting down on paper his thoughts. During this time, the President cleared this schedule, and I briefed him, and at times obtained his approval, only on pressing matters twice a day, once in the morning and once in the evening. At the meeting with US Vice President Agnew, President Park addressed the issue:

“First, the Korean peninsula has been under ceasefire since 1953. Since the ceasefire agreement, there have been constant provocations by North Korea, whose goal is to unify the peninsula through military force, keeping the Korean peninsula in a constant quasi-state of war. Second, North Korea’s hostile intentions are demonstrated by the recent provocations against South Korea and the US including the
commando raid on the Blue House in 1968, the capture of the US intelligence ship, the USS Pueblo in 1968, the raid in Uljin and Samcheok by 100 armed guerrillas in 1968, and the downing of an US Air Force EC121 plane in 1969, the seizure of a Korean naval ship in 1970, and the attempted bombing of the Memorial Gate in 1970, an assassination plot aimed at killing key figures in the Korean government. North Korea’s intentions are further demonstrated by the recent incidents in 1970 including the espionage incident in Gyeokyeolbiyeol Island, the capture of a North Korean spy boat in Gunja bay, and the sinking of another one in the East Sea. Third, reducing the US military presence in Korea might weaken military deterrence, which North Korea may interpret as a signal to invade South Korea again. Fourth, the security and peace of the Korean peninsula directly impacts the security and peace of South Korea, Japan, and even the world. As of 1970, except for Vietnam, Korea was the only country that was in a quasi-state of war and under the constant threat of influence from the Communist World. Thus, Korea should not be subject to the US plan to reduce its military presence throughout the world. Fifth, the US troops in Korea should be withdrawn after the Korean army is modernized enough to withstand the provocations and the threat of North Korea.”

President Park tried to persuade US Vice President Agnew by laying out his military strategy for ensuring security and peace on the Korean Peninsula, and in Northeast Asia and the world. President Park made a strong case based on a thoughtful and rational argument and strategy in trying to persuade Vice President Agnew.

The first meeting between President Park and Vice President Agnew was held on August 25 at 10 AM, and was attended by Choi
Kyu Ha, the Minister of Foreign Affairs, Porter, the US Ambassador to Korea, and myself. The meeting was supposed to run for about two hours, but because of the long discussion between President Park and US Vice President Agnew, it ran for nearly six hours. The meeting took such a serious and urgent tone that everyone was obliged to skip lunch and continue without a break. Instead coffee and cake were substituted for lunch towards the end of the first meeting. The second meeting was held in the following day in the morning as a breakfast meeting for an hour and half from 8:30 AM.

At the conclusion of the two meetings, it was agreed that the issue of “Korea’s national security” and the “withdrawal of US armed forces in Korea” would be addressed simultaneously. It was also agreed that detailed issues such as Korea’s military modernization, long-term military support, and the US pledge not to reduce its troops by more than 20,000 soldiers, would be discussed further in the upcoming high-level diplomatic and military talks.

President Park thus secured the pledge that the US government would not reduce its troops in Korea by more than 20,000 soldiers. But, during an interview with US news reporters en route to Taiwan, Vice President Agnew said that after Korea’s military was fully modernized, perhaps within five years, the US armed forces stationed in Korea would be completely withdrawn. After I briefed President Park of Vice President Agnew’s comments to the news reporter, he stood in silence for a while, and said: “The future of our country can only be ensured by having a self-reliant national defense capability. We must not make ourselves dependent on US policies. Our economy should be developed first since building up our national defense capabilities will require huge domestic and foreign investment. Foreign
investment should be focused on inducing only new high-performance weapons because advanced weapons are too costly. Instead, we must localize conventional arms and weapons as soon as possible.” He ended by telling me to focus policy efforts, and my attention, on this.

The high-level military talks between Korea and the US were held frequently over a few months until mid-January 1971. The Minister of Defense, and the Chairman of the Joint Chiefs of Staff, participated in the talks. At the conclusion of the talks, Choi Kyu Ha, the Minister of Foreign Affairs, strongly insisted that the matters agreed at the talks be documented for them to have a binding affect. On February 6, 1971, Choi Kyu Ha, the Minister of Foreign Affairs, and Porter, the US Ambassador to Korea, signed an agreement at the office of the Minister of Foreign Affairs. The Deputy Commander of the 8th US Army attended the signing as well. A joint statement was announced in Seoul and in Washington DC at the same time, which stated the following:

(1) The US armed forces stationed in Korea shall be withdrawn by as many as 18,000 soldiers mainly from the 7th Division by the end of June 1971. As a part of the plan to realign armed forces in Korea, the 2nd Division of the US army shall take up a secondary position while the Korean army shall have sole responsibility of ground defenses, covering the entire ceasefire line.

(2) Korea and the US have agreed on a Five-Year Plan to modernize the Korean military in the amount of USD 1.5 billion. In this regard, the US shall provide military aid and loans to Korea. And, Korea shall bear 46% of the total budget for military modernization.
(3) The US confirmed its military commitment to Korea. It was also agreed that high-ranking officials related to foreign and military affairs would participate in the annual meeting of defense ministers of both countries.

On March 27, 1971, at a ceremony marking the departure of the 7th Division of the US Army, President Park awarded the Order of National Security Merit to the division’s commander, and a presidential citation to the troops. President Park expressed his gratitude and condolences for the division’s contributions and sacrifices during the Korean War, and for 23 years and 10 months of service, after first arriving in Korea on September 9, 1945. The 7th Division returned to Fort Lewis in Washington State and then was disbanded, 54 years after it was created. Meanwhile, the responsibility of the 2nd Division was handed over to the Korean army, and moved to take up secondary defenses, where the 7th Division had been stationed.

The process of realigning the 2nd Division was completed successfully, and all the military operational responsibilities along the ceasefire line were transferred to the Korean army by the end of 1971. As a result, the Korean army took responsibility of defending the ceasefire line that covered 155 miles for the first time, nearly 18 years after the ceasefire was agreed. One US infantry company remained to guard Panmunjom and its surrounding area (500m), where the Military Armistice Commission held the meetings participated by representatives from the UN and North Korea.

After the joint statement by Korea and the US, President Park made a special address to mark the handover of the 155 mile
ceasefire line and to boost national solidarity and the morale of Korea’s military. In 1970 and 1971, President Park focused all of his energies on addressing issues related to Korea’s national security and defense such as the drawdown of US troops in Korea, the agreement on modernizing Korea’s military capability with the help of the US, and the transfer of responsibility of defending the ceasefire line to Korea. In the two years immediately after I was appointed the President’s Chief of Staff, I had to learn a lot about the issues on national defense and security that were new to me.

**Early Beginnings of the Defense Industry**

In the 1960s, it was discussed that the government should have prepared for a possible attack or invasion by North Korea in the 1970s, since the number of incidents and provocations had steadily escalated. It seemed that North Korea saw this as the right time to launch an invasion. But no concrete plans were prepared to strengthen Korea’s national defenses until North Korea’s attempted commando raid on the Blue House on January 21, 1968 and capture of the USS Pueblo on January 23, 1968.

On February 7, 1968, at the opening ceremony of the railway between Seoul and Daejeon, President Park said: “A reserve army of 2.5 million soldiers will be armed and the factories to produce the arms shall be built by the end of this year. Korea must strengthen its national defense capability to defend itself from North Korea’s one million men reserve army.”

**Heavy and Chemical Industry Drive**
On April 1, 1968, reserve armies at the local level were organized with a launching ceremony held in Daejeon under the banner “Let us work while fighting.” and “The defense of our villages are in our hands.” The local army reserves played an important role in strengthening Korea’s security and defense capabilities as it participated in military operations to defend against armed North Korean spies which previously had been the sole responsibility of the army and the police.

In the beginning, some politicians criticized the government for establishing local reserve armies for fear that the ruling party might take political advantage of the reserve army by soliciting their votes and that army recruits might be prevented from making a livelihood. The local reserve armies made huge contributions in thwarting more than one hundred North Korean guerillas that attacked the regions of Uljin and Samcheok for more than a month. Unable to fully arm themselves, they provided security surveillance, night and day, watching for possible guerilla attacks. They also acted as guides for the Korean military who were not familiar with those areas, helping to track and catch the guerillas. This also showed President Park’s foresight.

On May 27 and 28 of the same year, about one month after the local reserve armies were established, the first annual meeting of defense ministers between Korea and the US was held in Washington DC. At the meeting, national security and defense issues were discussed in light of the increasing risk of North Korea’s attack demonstrated by the recent military provocations. The US and Korea basically agreed that they would cooperate to build a weapons factory in Korea to produce small arms, M16 automatic rifles, to strengthen Korea’s military defense capabilities.
At the second meeting of defense ministers held in Seoul on June 3 and 4, 1969, the following were agreed:

(1) Korea and the US agreed on the point that the local reserve armies should be armed with small caliber automatic guns.

(2) Korea and the US agreed that a small arms factory would be established in Korea to produce M16 automatic guns.

(3) Representatives from the Department of Defense of the US and from the US manufacturing company, Colt, would visit Korea after the end of June 1969 to engage in further discussions.

However, the establishment of an M16 automatic gun factory in Korea was delayed, even after it had been discussed and confirmed at the annual meeting of Defense Ministers. M16 rifles performed so well that they were regarded as semi-automatic machine guns. Also, they were much lighter than the M1 guns that were adopted as standard-issue rifles. Thus, Colt preferred manufacturing and selling their guns to providing the patent and receiving royalties, and accordingly, was reluctant to help Korea establish a factory producing M16 automatic rifles.

On December 31, 1970, the US Senate approved a loan to Korea to be used for military purposes. It included a loan of USD 150 million for the first year necessary to build a M16 rifle factory in Korea, and a bill authorizing the sales of weapons. Then, on March 13, 1971, the Minister of Defense, and Mr. Benke, the CEO of Colt entered into an agreement to build a M16 gun factory in Korea. This agreement was composed of the following three sub-agreements:
(1) A license agreement where Colt authorized Korea to manufacture 100% of the components of M16 guns
(2) A technology support agreement where Colt would provide technology support for manufacturing in Korea
(3) A Memorandum of Agreement according to the main agreement.

This agreement was valid for ten years, and its validity could be extended twice, five years for each. Royalty was agreed at 6% of the production prices.

In sum, in early 1968, the Ministry of Defense established the Joint Korea-US Research Committee on the behest of President Park to conduct a survey of building a rifle factory in Korea. Based on this survey, it was decided to build a factory in Korea to produce Colt’s M16 rifles. It was basically agreed at the first meeting of Defense Ministers between Korea and the US in 1968. After three years, construction of the factory began in early May 1971, and was completed in 1972. Watching the negotiation process between Korea and the US regarding the M16 gun factory, I realized that it took a huge sum of funds and required long and hard negotiations to build an arms factory.

In the middle of trying to build the M16 automatic gun factory, President Park met with the Minister of the Economic Planning Board one day in July 1970. After discussing the Nixon Doctrine, the withdrawal of the 7th US Army Division, and the importance of having a self-reliant national defense capability, President Park ordered building a factory to produce weapons other than small arms.
It was decided that the reparations fund from Japan would be used to build the factory. However, Japan would likely not agree to provide such loans for the purpose of building an arms factory, considering Japan’s policy banning the export of weapons. Thus, it was determined to keep this fact from Japan; it was decided to negotiate with Japan for the loans under the pretext that the funds would be used to build a heavy industrial factory.

The Minister plan for the Economic Planning Board organized a team with staff from the Economic Planning Board and the Korea Institute of Science and Technology (KIST). The team prepared plans to build a foundry factory, a special steel factory, a heavy machinery factory, and a shipbuilding yard, and conducted loan negotiations with Japan. The Economic Planning Board called it the “four core factories,” because their establishment was imperative and strategic to promoting the heavy industries.

The construction plan for the four core factories took two months to complete and was submitted to the regular cabinet-level meeting between Korea and Japan held in September of the same year. However, only two of the factories, the special steel and the heavy machinery factories, were discussed at the meeting, which the Japanese were less than enthusiastic about due to their passive stance. In November 1971, the Economic Planning Board briefed President Park on the construction of the four core factories. After the cabinet-level meeting, negotiations with Japan continued until Japan finally declined to provide the loans. Korea also approached the US and European countries but to no avail.
In February of 1971, Korea and the US had agreed on the reduction of 20,000 US troops stationed in Korea and the Five-Year Plan to modernize Korea’s military. In March, the withdrawal of the 7th Division was completed. Thus, President Park wanted to develop the defense industry as soon as possible to strengthen Korea’s national defense capabilities. So, he seemed very disappointed with the briefing by the Economic Planning Board.

I decided to take a more active role in the efforts to develop the defense industry. At the time, I got a call from O Won-chol, an assistant secretary of the Ministry of Commerce and Industry, who had attended the briefing by the Economic Planning Board, and asked him to meet me, as he wanted to discuss an idea he had on promoting the defense industry. After my discussion with Assistant Secretary O, I arrived at the following conclusions.

First, the M16 automatic rifle factory was sufficient, and additional military defense factories, which specialized in manufacturing weapons, would not be feasible in Korea at the time considering the insufficient demand for weapons and the lack of highly specialized technicians and engineers.

Second, weapons factories in the private sector solely producing weapons would not be feasible either because of the insufficient demand, which would result in underutilization of production capacity. Third, any weapon could be disassembled into components. Each component of a gun could be separately manufactured by different factories by processing appropriate materials according to its specifications. Such components could be assembled into a weapon that had the same performance and met the specifications.
The dual use of key components in military and civilian machinery and equipment would be critical.

Fourth, the type of modern weapons that Korea sought required heavy and chemical industries as well as technologies and skills that were at the level of advanced countries. Korea’s industrialization needed to focus on the heavy and chemical industries to reinforce the defense industry as well as to develop the economy, thus, increasing exports and improving the international balance of payments. Fifth, as a part of the development of the heavy and chemical industries, the defense industry should be reinforced. In this regard, components, not the whole weapon itself, should be produced to maximize utilization of factories, thus, making the production of weapons more feasible. Sixth, in addition to weapons manufacturing facilities, relevant technicians and skilled workers were needed.

I briefed President Park on this with O Won-chol, who provided further details. After listening to our briefing, he seemed to take a deep interest and asked various questions. Our meeting lasted more than two hours. President Park basically agreed with our conclusion, but he was less than content about our expectation that it would take four or five years first of all to fully establish the heavy and chemical industries, and then the defense industry in order to produce weapons on a large scale. The President thought a two to three year timetable was needed considering the security issues faced by Korea. To this, we stressed that Korea could in two or three years build specialized arms factories for some weapons, even though it would take at least four to five years to establish the defense industry as a part of the heavy and chemical industries. This we believed would be the most desirable way from the viewpoint of Korea’s economy and defense.
We also added that weapons could be mass produced in emergencies in a few days by dedicating all of the production capacity of factories for military purposes.

After a while, President Park supported our idea that the heavy and chemical and defense industries should be developed simultaneously, thus, requiring the least amount of financial resources. In the case of emergencies, the production capacity of factories could be maximized to produce weapons by converting a factory’s production capacity for civilian goods into military goods.

After the discussion ended, President Park wanted to see me again. He said that he wanted to personally oversee the development of the heavy and chemical and defense industries. He also thought that O Won-chol should be appointed as a Presidential Secretary. With the President’s suggestion, I created the second Office of the Presidential Secretary of Economics and recommended O Won-chol as a senior presidential secretary, who was officially appointed on November 10, 1971. Accordingly, O Won-chol was put in charge of developing the heavy and chemical and defense industries.

In 1972, in his New Year’s address, President Park said: “While we have discussed national issues and learned democracy through elections, North Korea unfortunately continues to focus on making guns, bombs, and tanks. North Korea is prepared for war and is waiting for a chance to spring an invasion on South Korea again. Thus, we have to strengthen our national defense capabilities, to produce weapons on our own and to modernize our military.”
Accordingly, the Ministry of Defense designated private companies to begin producing prototypes of basic weapons such as medium caliber guns. The military and the designated private companies tried their best for almost one year, but could not produce satisfactory results. The guns manufactured by the companies worked properly only in the beginning, but failed to perform well after due to a lack of appropriate materials, manufacturing precision, and processing technologies. Specialized materials are needed to produce arms that could withstand extreme weather conditions such as cold, heat, and heavy rain, as well as the wear and tear of combat. Also, a precision of 0.01 mm was required to ensure the accuracy of the weapons and prevent accidents, as well as to produce critical interchangeable components such as a gun barrel.

In 1972, after a year-long effort, marked by trial and error, it was very apparent that the development of the heavy and chemical industries to the level of advanced countries was required to develop the defense industry, and thereby, modernize Korea’s military and to build up Korea’s national defense capabilities. In the end, the policy recommendations that I and O Won-chol made proved to be right.

Indeed, the steel industry and the nonferrous metal industry needed to be developed to produce steel, specialized steel, copper, and zinc, all of which are basic materials of the defense industry. Also, the machinery industry needed to be developed to facilitate precise high-tech processing, along with the electronic industry to produce electronic weapons and components. Also, the scale had to big enough considering the massive demand of having to arm 600,000 soldiers in the standing army and 2.5 million reserve soldiers.
Announcement of the Heavy and Chemical Industry Drive

On January 12, 1973, at a New Year’s press conference, President Park outlined a national vision, which included Korea’s industrialization centered on the development of the heavy and chemical industries. He declared that the implementation of the heavy and chemical industrialization policies would transform Korea into a developed country, helping it to achieve exports of USD 10 billion and a per capital income of USD 1,000 by the early 1980s. Of course, the development of the defense industry lay within the policy to promote the heavy and chemical industries.

A nation grows through industrialization or the improvement of its industrial base. In general, an underdeveloped country suffers from a vicious cycle of poverty caused by a lack of accumulated capital and low production and income. However, it can enter the early stages of industrialization through an industrial policy that focuses on developing light industries that produce products by processing primary goods. In the beginning, a developing country’s industrialization is based on domestic demand and import substitution. However, by establishing a mass production system of light industrial products, a country can then begin to export such light industrial products. This is a general industrial pattern for a developing country.

At the next stage, a country can pursue industrialization through the development of the heavy and chemical industries, trying to reach the level of advanced countries by accumulating capital and technologies. The heavy and chemical industries can accelerate economic development and national income growth because it
produces products with higher elasticity of demand for income and increases industrial productivity at a higher rate. Also, the heavy and chemical industries can dramatically increase exports by significantly improving a country’s industrial base, thus, enhance its international balance of payments through import substitution of semi-finished and capital goods.

In Korea, the rapid development of the light industries was driven by the textile industry in the 1960s during the First and Second Five-Year Economic Development Plans. Also, during the same period, some of the heavy and chemical industries such as steel, petrochemical, and cement were also developed.

Though the preconditions necessary to develop the heavy and chemical industries were not fully met in all the aspects (namely, capital, technologies, management expertise, and market), President Park believed that Korea could successfully develop them by properly introducing capital and technologies from advanced countries and by fully realizing Korea’s developmental potential.

In terms of the external environment, the heavy and chemical industries of advanced countries were facing challenges resulting from high wages, environmental pollution, and people’s reluctance to work in these industries. However, there were favorable conditions in Korea for developing the heavy and chemical industries including a sufficient skilled labor force. In addition, Korea did not suffer from other difficulties like environmental pollution or finding a suitable factory site, so it could induce investment and capital from advanced countries while putting in industrial polices to address these issues.
Korea began the development of the heavy and chemical industries anew, thus, high-performance, modern facilities and technologies could be introduced to avoid inefficiencies and difficulties in increasing productivity caused by mixing new and old facilities. Also, the market showed great prospects because the global demand for heavy and chemical products continued to grow, as advanced countries alone could not meet the increasing demand. Last but not least, it was believed that Korea, as a late starter, could enter the segments of the heavy and chemical industries where the required accumulation of capital and technologies was relatively low, especially in industries that were on the decline in advanced countries.

In addition to these advantages, one of the fundamental reasons for development of the heavy and chemical industries in Korea was that the prospects of the light industries were not as favorable. Indeed, as wages increased, the advantage of Korea’s relatively cheap labor force was weakened. Also, other developing countries with a cheap labor force were catching up to Korea, while advanced countries raised restrictions on the import of labor-intensive products. So, it was necessary for Korea to pursue a policy of developing the heavy and chemical industries rather than continuing to rely on its light industries to develop its export-oriented economy.

To this end, the government decided to focus policies on developing six heavy and chemical industries (steel, nonferrous metals, shipbuilding, electronics, machinery, and chemical products) that offered a multitude of forward and backward linkage effects, had significant value added effects, and had potential to be global industries. The following strategies were adopted to promote the heavy and chemical industries.
First, the heavy and chemical industries had to be developed on a scale large enough to match the level of advanced countries for it to be economically feasible and globally competitive. Second, the heavy and chemical industries had to be promoted as a strategic export-oriented industry, as there was not enough demand in the domestic market to achieve economies of scale. Third, the training and education system had to be reformed to secure and develop technical professionals and skilled workers. Also, the technical certification system and the master mechanic system were introduced to encourage specialization in at least one skill. Fourth, a technology research institute for the five strategic industries including shipbuilding, machinery, petrochemicals, electronics, and marine products had to be created to provide technical support to the development of each of the industries. Fifth, the government had to develop industrial complexes due to the huge forward and backward linkage effects and the need for large-scale infrastructure including water, electricity, and transportation network, as well as to address the industry’s serious environmental impact.

Based on this, the government began to develop and promote the heavy and chemical industries. In terms of the steel industry, the government sought to expand POSCO’s annual production capacity of 1 million tons, which was built in January 1973, to 8.5 million tons. In the specialized steel industry, it was decided to build facilities with the production capacity of 250,000 tons by the end of 1977. For the nonferrous metal industry, a zinc smelting factory with an annual production capacity of 50,000 tons and a copper smelting factory with an annual production capacity of 80,000 tons were planned to be built in the Onsan Industrial Complex by 1978 and 1979, respectively. For the petrochemical industry, the government
sought to expand the annual production capacity of 100,000 tons to 150,000 tons at the existing Ulsan Petrochemical Industrial Complex, and to build a new second Petrochemical Industrial Complex in Yeocheon with an annual production capacity of 350,000 tons.

In the shipbuilding industry, the government began to build Hyundai Ulsan Shipyards with a production capacity of 2 million tons; Daewoo Okpo Shipyards with 1.2 million tons; and Samsung Jukdo Shipyards with 0.3 million tons. Furthermore, the government sought to build a large-scale machinery industrial complex to localize the production of machineries, and to make it an export industry. The government sought to develop the machinery industry to produce globally recognized products with high quality and globally competitive prices. For the electronics industry, the government began to build three industrial complexes in Gumi to strongly promote the semi-conductor and computer businesses and to produce high-tech electronic equipment. The electronics industry too was targeted to become an export-oriented industry producing high-quality components and technology-intensive, high-end products.

**Development of the Defense Industry**

The development of Korea’s defense industry was unique. It was developed as a part of the machinery manufacturing industry under the principle of “Components are first produced through the division of labor and then assembled into finished goods by factories in the private sector.”
First, all the weapons had to be produced as disassembled components. Under the principle that components produced in various factories could be assembled into a high quality weapon, as long as the components were made with appropriate materials and specifications, the government could designate manufacturing companies for each of a weapon’s major manufacturing process (not component) to enable the mass production of weapons but also minimize the impact of a weapon’s production on the normal operating businesses of factories. Under this principle, 80% of a factory’s production capacity was dedicated for producing civilian goods while 20% of the capacity was used for military purposes during peacetime operations. In case of emergencies, the factories entire production capacity could be dedicated for military purposes.

For the production of 105 mm and 155 mm large caliber guns, key manufacturing processes such as the production of specialized steel, gun barrels, hydraulic systems, and gun carriages were each assigned to a designated manufacturer, and then the finished components were assembled to produce finished weapons. During peacetime operations, the designated companies focused on the production and export of civilian commercial products such as special steel, machine tools, hydraulic systems, and cars, to maintain their profitability even though there was insufficient demand for military products. Also, the Ministry of Defense purchased machines for military purposes only and leased them to defense-related companies to improve their profitability. For example, the government purchased the machines for rifling gun barrels that could not be used in the production of commercial goods, and leased them to the companies.
From the beginning, the government established the Changwon Machinery Industrial Complex based on these principles. First, the complex was designed to manufacture all the weapons except for certain weapons such as M16 automatic rifles, ammunition, airplanes, and guided weapons, for which factories had been constructed or were supposed to be constructed in other regions. With the goal of producing basic weapons in the complex, factories were set up to produce 37 special items including materials, components, industrial machines, precision instruments, engine parts, and transportation equipment that were necessary for or related to the manufacturing of basic machines.

Second, R&D facilities including research institutes for machinery and metallurgy and electrical equipment labs were established in the complex to support the machinery industry. Also, mechanical and technical high schools, vocational training centers, and vocational colleges were built in the complex to train technicians. As a result, the machinery industry including the defense industry could be systematically promoted and constructed. The new industrial complex, and the new manufacturing processes and facilities improved the global competitiveness of Korea’s machinery and defense industries. Also, the linkage effects among the businesses in the machinery industry could be strengthened through agglomeration.

Third, the government established a strong quality control and assurance system for the products produced by the defense industry. In 1970, the Ministry of Defense prepared and submitted to the National Assembly a bill for the establishment of the Agency for Defense Development (ADD) to promote the localization of weapons and military equipment and the development of military science and technology.
technologies and exchanges with foreign countries. After the bill was approved by the National Assembly, ADD was created. Absorbing the tri-service military science research institutes, ADD was responsible for conducting research on defense science and technologies as follows:

(1) Research of weapons and military equipment.
(2) Analysis and review of various resources, organizations, systems and operations related to weapon systems necessary for the national defense.
(3) Testing the performance of various weapons and military equipment.
(4) Manufacturing of trial products of weapons and military equipment, and technology tests.

As a world-class research institute, it was composed of graduates from the military academy, who earned a doctorate or master’s degree in engineering or science, ordnance officers, highly qualified candidates from academia or the field of technology, and outstanding overseas Korean academics. As a soldier’s life, a battle’s outcome, and ultimately, Korea’s national defense depended on the performance and quality of their military weapons and ammunitions, ADD deployed supervisors and inspectors to each of the designated defense companies to conduct quality control and assurance for all of the manufacturing processes from raw materials through finished goods according to strict and detailed inspection regulations. Accordingly, the quality control and assurance system was established for the defense industry. This system was also applied to products in the private sector to elevate the quality of Korea’s machinery products to global standards.
Fourth, the government established a principle to ensure that the weapons produced locally had the same specifications and standards as the basic weapons issued by the US army to facilitate joint military operations between Korea and the US, as well as to support the US army. As such, the quality of the locally produced weapons had to be the same or better while their price had to be less than the imported prices of the US weapons. It was necessary to obtain technical information and data, and patents from the US Pentagon to manufacture weapons that had the same specifications and standards as the basic weapons used by the US. Negotiations in this regard took a few years to address the US Pentagon’s foreign and military policies on arms trade and the commercial interests of the US manufacturing companies. On September 6, 1973, Korea’s Defense Minister Yu Jae Heung and United States Forces Korea (USFK) Commander Richard Stilwell, representing the two nations, signed the Agreement on Exchange of Technology for Military Weapons, Equipment, and Materials. This made it possible for Korea to be formally given access to technology by the Pentagon on ammunitions, weapons, military equipment, and war supplies necessary for the development of the defense industry.

Korea’s defense companies began manufacturing operations under the control and guidance of ADD. Technical experts and certified technicians, who passed the national examination, began to produce defense related products that performed the same or better than US products. Basically, the prices of weapons, ammunitions, and other military supplies were set in favor of the suppliers. The efforts made by Korea’s defense industry provided locally produced defense products at lower prices, despite the royalties included in the prices compared to the imported price of US products. This
contributed to considerable savings in Korea’s national defense expenditures, foreign exchange, and foreign military loans.

Fifth, the defense industry should also be export-oriented. Korea first sought to strengthen its national defense capabilities, before seeking to export products that were in surplus, especially locally developed weapons. Korea had the capability to manufacture enough products for exports, but the approval of the US Pentagon was required to export weapons that were manufactured under its licenses, which was very difficult to secure due to its military and foreign policies on arms trade and the objections of the US manufacturing companies. Thus, it was important to negotiate with the US to get their approval. However, from a practical perspective, it was more important to develop and export Korea’s own weapons in the long run rather than rely on US licenses. ADD already developed home-grown rifles, machine guns, and even medium caliber guns that were officially being used by the Korean army. Some of the Korean-developed weapons were even exported to foreign countries.

In the global context, the demand for cheaper weapons was significant. In particular, most developing countries were in need of such weapons. Thus, our defense industry needed to do its best to develop its own weapons and export them to enhance their profitability and to induce foreign exchange necessary to strengthen Korea’s national defense capabilities. Under these principles, Korea’s defense industry was developed and promoted as a part of the large-scale development of a global machinery industry.
Establishment of the Heavy and Chemical Industrial Complexes

After Korea’s liberation from Japanese colonial rule, the manufacturers determined the locations of the industrial sites themselves through the 1950s and until the early 1960s. Most of the factories in Korea that were demolished during the Korean War were small except for the factories that were reconstructed or newly built with aid from the UN or the US. Thus, most small-scale factories producing consumer goods were located in big cities where the consumer market existed. This kept factories near the consumer markets and made it easier to secure labor from big cities rather than from rural areas. Factories were located in the region of Seoul and Incheon with Seoul serving as the hub, and the region of Yeongnam and Daegu with Busan as the hub.

These industrial sites, which were mostly built in the early 1950s and continued until the early 1960s, did not have any negative social or economic impact in the beginning. However, as cities expanded, the industrial sites located in the outskirts of the cities soon lay in the cities themselves, causing a variety of social and economic ills that could not be easily remedied. Indeed, the industrial factories worsened the city’s population concentration, resulting in negative social effects including pollution. However, it was both very costly and a waste of resources for the companies in the private sector to relocate their factories. Once savings in production costs from economies of agglomeration could not be achieved any more, such problems finally began to hinder the development of the whole industry.
The negative social and economic effects of factories in cities could have been avoided had the sites of manufacturing factories been managed and planned well during the development of the manufacturing industry in the 1950s. Because policies on industrial sites or urban planning were not required, the development of the manufacturing industry could be accelerated leveraging on economies of agglomeration.

After the Export Industrial Complex Development and Construction Act was legislated in 1964, the government began to construct industrial complexes only for export industries including the Export Industrial Complex located in Guro-dong, Seoul, and industrial complexes for general small and medium sized companies. With the aim of moving factories from cities to rural areas and encouraging job growth and the development of local communities in rural regions, the policies sought to achieve balanced regional development and to reduce regional income disparity. The industrial complexes sought to promote export industries and small and medium sized companies through various measures including providing common facilities and guidance on management and technologies.

After the policy to develop the heavy and chemical industries was announced in 1973, the focus of industrial site policies shifted to constructing large-scale complexes for each of the industries or industrial complexes along the coast instead of industrial complexes to promote small and medium sized companies. The heavy and chemical industries were more interdependent; its production and technologies were more dependent on each other when it came to raw materials, semi-finished goods, and finished goods. Also, it was
a highly process-driven industry. Thus, it required large-scale infrastructure for water and power. And, it needed to concentrate the pollutants and build common facilities to address the emission of serious pollutions. Therefore, industrial complexes were needed to build a cluster of factories for each of the industries.

In Korea, to realize scale of economies and maximize the value added, the heavy and chemical industries were promoted with an export orientation from the outset. Also, the industry was very dependent on imported raw materials. Thus, it made sense to build the industrial complexes along coastal areas. In Korea, the basins of the Nakdong River, the Nam River, the Seomjin River, and the Youngsan River had sufficient and deep waters, and many islands and indented coastlines suitable for large ports. These regions also had well-developed railroad networks and easy access to the Seoul-Busan Expressway, the Namhae Expressway, the Guma Expressway, and the Honam Expressway. In addition, the sites were adjacent to large power plants and an abundant pool of labor. These regions had the best geographical conditions. Thus, heavy and chemical industrial sites were built along Korea’s coastline including Pohang, Ulsan, Masan, Samcheonpo, and Yeosu.

In the 1960s, an industrial complex for steel-related industries including POSCO was constructed in Pohang, and other complexes were built for the oil refining, the fertilizer, and the petrochemical industries in Ulsan. The government established the following industrial complexes to promote the heavy and chemical industries and to efficiently utilize Korea’s “geographical resources.”

Policymaking on the Front Lines 2: National Security and Industrial Policy
(1) The Second Steel Industrial Complex at the mouth of the Nakdong River, which later changed to Gwangyang Bay.
(2) The Second Comprehensive Chemical Industrial Complex in Yeocheon and Gwangyang
(3) The Nonferrous Metal Industrial Complex in Onsan
(4) The Comprehensive Machinery Industrial Complex in Changwon
(5) The Shipbuilding Industrial Complex in Goeje Island region
(6) The Electronic Industrial Complex in Gumi
(7) The Light Industrial Export Complex in Gunsan
In order to efficiently establish these industrial complexes, the government prepared the Industrial Complex Development Act on December 24, 1973, effectively reorganizing the Korea Water
Resources Corporation (K-Water) into the Industrial Complex Development Corporation, responsible for the construction of industrial complexes in Changwon, Yeocheon, and Onsan, and for the development of the complexes’ supporting infrastructure including harbors, water, roads, and housing. In addition to managing projects on the development of water resources, it played an important role in developing the land and the industries.

Before its reorganization, the Korea Water Resources Development Corporation (K-Water) was established on November 16, 1967 as a state-owned enterprise responsible for development of water resources. For seven years, it built the Soyang River Multi-purpose Dam, the Andong Multipurpose Dam in the basins of the Nakdong River, and the Jangseong Dam, the Damyang Dam, the Gwangju Dam and the Daeyoung Dam in the basins of the Youngsan River. Led by Ahn Kyung Mo, its CEO, the top civil engineering expert in Korea, who had worked as a Minister and a Vice Minister in the government, the Korea Water Resources Development Corporation (K-Water) was composed of leading civil engineers. It established a petrochemical industrial complex in Ulsan in 1968, and an export industrial complex in Gumi focused on the electronic industry in 1969.
Development of Industrial Labor Force

With the launching of the heavy and chemical industry drive in 1973, Korea placed policy focus on fostering a competent technical and skilled labor force that was needed for the heavy and chemical industries by reforming the technical education system. To this end, programs were created to support industrial high school graduates obtain a college education, and to help skilled workers with certification find jobs and exempt them from military service requirements. This helped to promote industrial development and expansion of the middle class.

Until the early 1960s, Korea’s labor market suffered from a serious imbalance caused by a huge supply of labor resulting from population growth and an industrial production capacity that was inadequate to absorb new workers entering the labor market. Also, the oversupply of labor caused by unemployment, unstable employment, and hidden unemployment, which was pervasive in rural and urban regions, as well as, in the agricultural, manufacturing, and service industries. As such, workers could only learn technical
skills through on-the-job training rather than through a training or education system.

Korea’s economy entered the early stages of development with an oversupply of labor. Inevitably, labor-intensive rather than capital-intensive production methods were selected. Korea’s abundant, low cost labor played the most important role in the initial stages of industrialization. The oversupply of labor in urban and rural regions was absorbed through industrialization and the development of social overhead capital. Such cost effective labor capital strengthened Korea’s global competitiveness and made significant contributions in increasing exports.

From the late 1960s, the textile and electronics industries had difficulties in securing enough qualified workers. Though there was still an oversupply of labor relative to the entire labor market, industries lacked qualified technicians and skilled workers. Even the light industries suffered from a lack of technicians and skilled workers. The government recognized that the development of technologies and the fostering of technicians and skilled workers, as well as, the accumulation of capital and investment in facilities, were all imperative to the development of the heavy and chemical industries.

Education Reform and Upgrading the Labor Force

To train its industrial labor force, Korea had relied on its national education system which included high schools specialized in
industry, vocational junior colleges, and engineering colleges. However, Korea’s education system was still largely underdeveloped and lacked adequate training facilities. The graduates that received training at these schools had difficulty finding jobs, and were looked down upon by society. As the reputation of the schools worsened, so did the quality of applicants, creating a vicious cycle that led to a breakdown of Korea’s education system. To develop the heavy and chemical industries to the level of advanced countries, then the technical know-how and skills of the labor force had to be raised to the same level.

To do this, the education system went through significant changes and reforms. First, new engineering colleges were established and existing ones expanded. Also, a measure to specialize the education and training of engineering colleges to a specific area of industry was initiated beginning in 1974. At the time, the only national university that had training resources and facilities comparable to advanced countries was Seoul National University. Under this measure, national universities located near heavy and chemical industrial complexes were selected to specialize in a field that was the same as the nearby industrial complex. The government provided the necessary resources and facilities. The engineering college of Pusan National University was selected to specialize in the field of machinery. Kyungpook National University was selected to specialize in electronics. Chonnam National University was selected to specialize in chemicals. Chungnam National University was selected to specialize in industrial education and training. The government also provided support to colleges that did not specialize in a particular industry to improve the education of practical skills. As a result, Korea’s engineering colleges became strong in the education of both theoretical and practical knowledge.
While engineering colleges mainly graduated scientists and highly skilled technicians, improving the standard of education and training at vocational schools was just as important since these workers formed the backbone of an advanced country’s industrial sector. For example, the skills needed in the key areas of textile manufacturing including design, print, and dyeing were taught at vocational schools in foreign countries. In Korea, people who chose to attend vocational schools instead of university had difficulty securing a job after graduation. This led to a decline in the quality of vocational schools. To reform vocational schools, government support was given to improve training resources and facilities, and to provide financial support through scholarship programs and opportunities for higher education or certifications. In particular, students were incentivized to obtain a Grade B engineering certification, as companies sought employees with specific certifications.

Establishment of Kumoh Technical High School

Early in the development of the heavy and chemical industries, there was strong demand for highly skilled technicians. O Won-chul, the assistant secretary of the Ministry of Commerce and Industry, prepared a plan to establish an industry-based high school which was funded using a government technology development fund and reparations from Japan. President Park was advised of the plan by the Minister of Commerce and Industry. The President was fully supportive of the plan, wanting the school to be the best in Asia, and a model for other industrial high schools. Accordingly, the plan was
submitted during the 4th Korea-Japan economic ministers meeting held on July 21, 1970. The ministers of the two countries agreed on the plan and decided to create a research team to conduct further studies on the proposal. In November 1970, a research team comprised of eight members and led by an assistant director general at Japan’s Ministry of Education visited Korea for a period of 10 days. The research team was advised of the Korean government’s goal of fostering highly skilled technicians specializing in the heavy and chemical industries by establishing an industrial high school. The students upon graduating from the school would immediately work in the heavy and chemical industries. After assessing possible locations of the school, the Gumi Electronics Industrial Complex in Gyeongbuk was chosen. The site of the school totaling 200,000 m² was finalized in March 1971. Construction began on April 20, 1971, and the Ministry of Education approved the establishment of the high school in August 1971. The school was named Kumoh Technical High School.

The newly built school had classrooms, labs, dormitories, and 40 training facilities. The reparation funds from Japan were used to finance the training of the school’s instructors in Japan and the recruitment of Japanese instructors. The total cost was 1,187 million yen for a period of three years from 1971. The Japanese instructors provided training in specific areas including casting, welding, operating machinery, and other industrial related skills. For three years straight until the graduation of the school’s first class, a total of eight Japanese instructors taught and trained the students on the technical skills and knowledge required to operate highly advanced industrial machinery and equipment, which were being introduced in Korea for the first time.
While attending school, all the students were housed in dormitories. Besides class instructions, the students were taught the driving principles of the school: sincerity, precision, and integrity. The school’s criteria for selecting students were driven more by a student’s character and will than academic scores. Students were first recommended to a selection committee by their middle school principal. Then, student candidates were selected based on aptitude test scores, a medical exam, and interviews. The students selected were exempt from paying tuition, and were given textbooks, meals, and housing at no cost. As such, the school was able to attract talented students throughout the nation. Among the school’s first class of 400 students, 126 graduated from middle school as valedictorians, 256 were in the top 5%, and 23 were in the top 10%.

The teachers did their best and the students studied hard, enduring the hard practical training. Two years after entering the school, some of the students became certified precision machinery technicians. And, all the students became certified precision machinery technicians by the time of their graduation. That was a remarkable accomplishment. It proved that young people of Korea could be excellent technicians when appropriately trained and educated.

Gaining confidence, the government further established 11 more schools similar to the Kumoh Technical High School. The graduates from the schools elevated Korea’s underdeveloped machinery industry to the level of advanced countries. They were called the “Flag-bearers of Korea’s modernization.” Without their contributions, the machinery industry today could not have existed and Korea could not have developed its heavy and chemical industries.
Model Vocational Schools for Training Technicians to Work in the Middle East

Under the Vocational Training Act in 1967, Korea had reformed its vocational training system and instituted a national certification system for training technicians, as a way to meet the immediate labor demand. However, with development of the heavy and chemical industries, a more rigorous and specialized system of vocational schools was needed to meet the expected labor demand for qualified workers with specialized skill sets. There were vocational training centers managed by the military, the Ministry of Justice, and various industries, but the quality of the training and the capacity of the training centers were inadequate. Recognizing the importance of vocational training, the President and the First Lady personally established the Chung-Soo Vocational Training Center in February 1973. President Park was fully engaged, down to every detail, in the construction of the training centers including the center’s curriculum and campus facilities. President Park directly appointed the headmasters of the training centers, who were army reserve generals with a lot of experience in military education and training. President Park made every effort to take time from his busy schedule to visit the vocational training centers, to boost the students’ morale and spirit. Students were given on-the-job training and wore a badge that said: “Flag-bearers of Korea’s modernization.” The President would often give struggling students a firm pat on their shoulders. I could see from the expression on his face that it was a bond only found between a father and a son. All the student trainees were enthusiastic, capable, and motivated.
The International Vocational Training Competition (renamed as the World Skills Competition), or "the Skills Olympics," had been held almost every year since its inception in Spain in 1950 until 1971, before switching to the current biennial format. The competition invites technicians aged 21 or less, and showcases a country's technological prowess. The top rankings of the competition were usually dominated by advanced countries such as Japan and West Germany. Despite Korea's relatively short history of technical education and training, which had started in 1973, Korea managed to do very well in the competition. Korea won the championship for nine consecutive times from 1977 through 1991. President Park was pleased to hear of Korea's success in the competition, which reflected the tireless efforts of the instructors and students as well as the coming of Korea's industrial development. The students were greeted as national heroes upon arriving in Gimpo Airport and given a car parade from the airport to the Blue House where the champions were given awards by President Park. The President took great pleasure when seeing the Busan National Mechanical Technical High School from the window of his room at the Haewundae Tourist Hotel, atop a mountain.
In October 1973, war had broken out in the Middle East. Soon after, the first Oil Shock buffeted the Korean economy. In 1972, oil had represented more than 50% of Korea’s energy consumption, ever since coal was replaced by oil as Korea’s main source of energy in 1968. By 1974, oil prices had spiked to USD 11.25 per barrel from USD 2.5 per barrel at the end of 1972. The second Oil Shock in July 1979, nearly tripled oil prices to USD 32 per barrel. As oil prices increased significantly, prices of products dependent on oil such as petrochemical products also increased significantly, badly affecting exports. The prices of imported goods increased, led by soaring oil prices, which adversely affected Korea’s international balance of payments. Korea’s foreign exchange reserve had dwindled, putting it at risk of a liquidity crunch.

By this time, Korean companies such as Samwhan, Hyundai, and
Daelim had achieved success expanding their construction business in the Middle East, a bright spot for Korea’s industry. Korean construction companies specialized in civil engineering and the construction of oil refineries and chemical plants. By 1975, total construction orders had reached USD 850 million, increasing from USD 260 million from the year before. As their order backlogs increased, the companies could not take on any more orders largely due to a shortage of qualified and trained workers. For instance, civil engineering required highly skilled operators of heavy machinery such as excavators and skilled welders and plumbers. In fact, the construction companies were supposed to establish their own vocational training centers to train qualified workers. As it was, nearly 1,600 more skilled workers were needed to address the labor shortage at the time.

As Middle East countries were making huge investments in oil refineries and transportation facilities as well as in social overhead capital such as roads and harbors, Korea could not afford to squander this potential source of foreign exchange.

Construction companies were in urgent need of qualified workers with specialized skill sets but they did not have the resources to address the labor shortage within a very short time-frame. Thus, O Won-chul, the second Senior Presidential Secretary for Economic Affairs, proposed designating 11 schools as industrial high schools under the following plan:

(1) 11 schools, one per local province, each equipped with technical training facilities shall be selected.
(2) The schools shall graduate 1,500 skilled workers to meet the...
labor demand for the construction projects in the Middle East.

(3) Training courses shall focus on machine assembly, tin plate welding, plumbing, and electrical.

(4) The candidates shall be selected from a pool of qualified high school seniors with theoretical knowledge and basic technical skills, and then undergo six months of intensive technical training.

In a period of six months, students selected to attend the 11 schools were subjected to intensive training and education. Every selected student passed the necessary exams and obtained their Grade B technical certification in August 1976.
Support for Graduates of Vocational Schools

I believed the poor state of industrial high schools was hurting Korea’s education system. The students trained at the industrial high schools had difficulty finding job opportunities. At the same time, every high school graduate seemed to want to enter college without any thought to the decision, resulting in many college graduates being unemployed. It seemed Korea’s educational resources were going to waste while doing nothing to address the social ills of youth unemployment. Moreover, the dearth of skilled workers stood to jeopardize Korea’s industrial development.

I believe everyone should have an opportunity to obtain a college education but I didn’t necessarily believe everyone needed to take the same path to college. In some circumstances, financial or other, some students could actually benefit more by going to an industrial high school first, and then, work towards obtaining a higher degree. Students of vocational schools could get the necessary training and qualifications, secure a good paying job and be in a better position to pursue a college education. But to do this, the deep-rooted stigma associated with not going to college or the pre-conceived idea of going to college straight from high school had to be discredited. One way was to provide graduates of junior colleges the opportunity and means to transfer to colleges as juniors.

The excessive tuition fees of colleges had hindered farmers or the urban poor from reaching the middle class. I only had to look to my own experiences to know that going to an industrial school before moving on to college was a path to success. I attended a commercial high school and a college of commerce, before having the
opportunity via an employer sponsored program to obtain a higher degree. My experiences afforded me an opportunity to work and study abroad. In Japan’s education system, students of industrial high schools that sought to go to college were able to do so through the same course entrance system. As such, students from middle class families did not have any reason not to go to an industrial school, and did so without hesitating if it suited them. It goes without saying that it was more challenging for students of an industrial school to apply to a junior college or a university. Some western countries including the UK, Netherlands, and West Germany instituted numerous vocational courses within the curriculum in their education system. I recommended to President Park that students graduating from vocational schools should be given an opportunity to pursue a higher education. This would contribute to improving the quality of Korea’s education and labor force while helping to expand access to higher education for students of the middle class. Having gone to teacher training school earlier in his own life, President Park understood the importance of vocational schools.

In October 10, 1976, the Ministry of Education instituted a program based on the same course entrance system. Specifically, the program allowed graduates of vocational schools in the areas of manufacturing, agricultural, commercial or marine and ocean, to apply to colleges to study the same course. The student admissions criteria were based on exams, past academic performance, and interviews. The Ministry of Education determined the majors and the scope of study that a student was permitted to apply for. In addition, the program allowed graduates from junior college to transfer to a four-year college.
At first, the quality of students transferring to a college within the same major fell, largely due to their lack of English and math proficiency. To address this, colleges offered supplemental courses to allow students to catch up. In time, Koreans began to see the benefits and advantages of pursing an education by going to a vocational school. This allowed vocational schools to attract some of the best and the brightest.

After the death of President Park, the changes in Korea’s education system abandoned the same course entrance system for industrial high school students and did not permit college students to be private tutors. This has led to low income families being financially over burdened by high tuition fees, making it more difficult for these families to lift themselves up to a higher income.
class. In the 1980s after President Park passed away, the same course entrance system to promote industrial education was abolished when reforming the entrance examination system. Also, the government got less interested in vocational training. Thus, the high unemployment of college graduates and youths has become a social problem and a cause for many social ills in Korea: such a pity.

**National Technical Certification System**

Traditionally, scholars have been respected while craftsmen were looked down upon in Korean society. Artists such as musicians and painters were admired and revered, while craftsmen or tradesmen with specialized skills were not appreciated for their work. Choi Hyung Sup, the Minister of Science and Technology, sought to change this mentality through the National Technical Qualification Act.

The basic purpose of this initiative was to establish a program that allowed qualified technicians to climb the corporate ladder, all the way up to the position of CEO of a company. This helped to raise the prominence of technical/vocational trades to a national level. In academia it is the professor, in technical trades it is a certified technician, in skilled trades it is the master tradesman. It was an accelerated fast-track program with incentives for becoming a master tradesman. The program exempted Grade B certified technicians from compulsory military service and permitted Grade A certified technicians to enter a two-year technical school to study in managerial and academic programs. Candidates became master
tradesmen after graduating from technical school and gaining seven years work experience. Master tradesmen were considered important skilled resources, similar to the Meisters which Germany took pride in.

The National Technical Qualification Act was legislated in December 1973, and the program was initiated in 1975. The program was comprised of 19 areas including machinery, metal, chemical, electricity, electronics, telecommunication, shipbuilding, aviation, civil engineering, construction, textile, mining, information management, energy, national development, marine technology, security management and industrial application. The program offered support and incentives for qualified candidates such as financial support, government grants, exemption from compulsory military service, job recruitment, and opportunities for overseas assignments. For instance, candidates were given preference for government jobs at the central and local governments, state-owned enterprises, and other government-affiliated companies or organizations.

President Park supported programs that helped to improve technical skills such as the national technical qualification system. The President personally selected and appointed a former senior presidential secretary and a former minster as the President of the Korea Technical Qualification Agency (Human Resources Development Service of Korea). President Park believed that building up Korea’s labor force of technicians and tradesmen was needed for industrial development. This would contribute to expanding the middle class and enhancing social stability, while stamping out any communism in Korea.
In 1964, the deployment of Korean troops to the Vietnam War was finalized, despite strong objections of the opposition party. Korea’s Bidulgi troops were deployed to Vietnam on February 1965; the Cheongryong marine brigade in July 1965; and the Maengho infantry division in October 1965.

In May 1965, a Korea-US summit was held in Washington D.C. where US President Lyndon Johnson pledged to help Korea modernize its military and to offer financial assistance, for sending Korean troops to Vietnam. The pledge was announced in a joint statement following the summit. It also included a statement about cooperation in establishing a research institute for science and technology in Korea; it was something that had not been discussed nor confirmed by officials of the two countries but was included in the statement at the last minute.

The last paragraph of the statement said that President Park welcomed US President Johnson’s suggestion that he would dispatch his presidential aide on science and technology to Korea in order to
review the feasibility of establishing a research institute focused on industrial technologies and applied sciences together with Korean leaders from industry, science, and academia. According to the accounts of the Korean Ambassador to the US at that time, who attended the summit, Dr. Donald Hornig, the presidential aide for science and technology, recommended providing special assistance in establishing an engineering college after being consulted by US President Johnson. But President Park expressed his strong desire to establish a science and technology institute. A month after the summit, Dr. Hornig led a delegation of leading researchers and experts from Bell Laboratories, Battelle Memorial Institute, and the Rockefeller Foundation, to Korea to assess the feasibility of establishing a science and technology research institute in Korea. The delegation visited several research institutes in Korea including the National Central Industrial Research Institute of the Ministry of Commerce and Industry, and the Atomic Energy Research Institute and the Mining and Metallurgy Research Institute.

While guiding the delegation around the National Central Industrial Research Institute, I was candid about the institute, which was more of an industrial lab than a research institute because it was controlled by the state and managed by government officials. The institute had difficulty recruiting research talent.

The Mining and Metallurgy Research Institute was founded in 1961 by Dr. Choi Hyung Sup, who had studied science and engineering at a top university in Japan and earned a master’s degree in the US before obtaining a doctorate in Canada. He was in his own right an accomplished scientist in metallurgy, publishing dozens of papers in international academic journals. The institute was
established as a foundation with contributions from four state-owned mining corporations including the Korea Tungsten Corporation, the Korea Coal Corporation, the Korea Iron Ore Corporation and the Korea Smelting Corporation. (Later, Incheon Heavy Industries also participated). The institute had a staff of 50, of which 15 had studied overseas and obtained doctoral degrees. They were all dedicated to conducting research on the development and production of natural resources. The findings were then supposed to be shared with the mining companies.

After observing the Korean scientists and researchers at work in small offices, Dr. Hornig and his delegation were impressed with what they saw, convinced that Korea had the necessary talent and work ethic, the foundations for establishing a science and technology institute. In February 1966, KIST was established with contributions of USD 10 million from Korea and the US, respectively. The government appointed Dr. Choi Hyung Sup as the first head of the institute.
Finding a site to break ground for the construction of the institute proved to be very difficult. It took a Presidential intervention to get construction started. Standing with the Seoul Mayor and Minister of Agriculture, on a large plot of land, which was the site of a forest experiment station, President Park said: “This forest experiment station is important; but building KIST is more important.” So about 500,000 m² out of 1,000,000 m² of land was allocated for the construction of KIST. Construction began in October of the same year, and lasted for three years. President Park made visits to the construction site once or twice every month to grant funding or to offer words of encouragement. Once KIST opened its doors, the President continued his visits to the institute to have discussions with the researchers, while trying to boost morale among staff and to raise the institute’s profile.

With construction of the institute completed, discussions began on establishing a pay scale that would be good enough to attract talented scientists and researchers, particularly Korean nationals residing overseas. KIST formulated a remuneration package reflective of middle income wages which included benefits such as housing, medical insurance, and tuition for the employees’ children. The pay was a third less than compared to US standards, but three times more than the average pay of Korean public university professors, which were critical of the high salaries. After reviewing the pay scale submitted by head of the KIST, President Park commented: “Many of them get paid more than I do. However, I do not object.”
Then, KIST made a strong push to recruit scientists and researchers from major research institutes and universities in the US and Europe. With the help of the Battelle Memorial Institute, it prepared and distributed recruitment brochures all over the world. As a result, KIST received about 500 applications every quarter, from mostly candidates with degrees in basic science and a few with degrees in engineering. Among the pool of applicants, only 10 had studied in the field of metallurgy and industrial engineering while 400 had studied in physics, nuclear physics, and theoretical physics. At the time, there was a big push in science toward the fields of theoretical and nuclear physics in the US, so many Korean students pursued these fields to be eligible for grants and scholarships.

Among the pool of applicants, 78 candidates were selected and interviewed three times by Dr. Choi Hyung Sup in the US. Three experts from the Battelle Memorial Institute also interviewed the candidates, each asking questions in their respective fields of study. Among the candidates, 18 candidates with graduate degrees and at least 5 years of experience were chosen. When President Park gave appointment credentials to Dr. Choi, he asked Dr. Choi not to go see budget officials at the Economic Planning Board to make budget requests. President Park also asked Dr. Choi to select researchers on merit and not to accept requests for special consideration for a job position.

A year into the construction of KIST, President Park carefully reviewed KIST’s budget proposal and asked that it not be reduced during a budget review meeting. Not once was KIST’s budget reduced during his presidency. President Park took personal interest in the success of KIST, and was highly supportive of the institute and
its work. After six years of being founded, the research contract revenue reached USD 10 million, before increasing to USD 20 million in the 1970s. As a result, KIST firmly established the contract research system and became financially independent, making great contributions to the promotion of science and technology, the development of industries, and Korea’s export-led development.

As Korea grew economically, so did its thirst for more, specialized technology as development of the heavy and chemical industries began to take off. KIST’s research capabilities could not meet this growing demand. As such, the government created more specialized research institutes that matched the needs of the industrial sector such as the Ship and Maritime Research Institute (Korea Ocean Research and Development Institute), the Standards Research Institute, the Chemical Research Institute (Korea Research Institute of Chemical Technology), the Nuclear Materials Research Institute (Korea Atomic Energy Research Institute), the Machinery and Metal Experiment and Research Institute (Korea Institute of Machinery and Materials), the Electricity Equipment Experiment and Research Institute (Korea Electrotechnology Research Institute), the Electronic Technology Research Institute and the Telecommunication Technology Research Institute (Electronics and Telecommunication Research Institute) in the Daedeok Science Park (Daedeok Innopolis) and in the Changwon and Gumi Industrial Complexes. After successfully establishing research institutes in Seoul including KIST, the government sought to establish a science park in Daedeok, Chungcheongnam-do in 1974 to create a research cluster bringing together government, and public and private research organizations into one location to maximize investment and R&D resources. The
research cluster created an environment that fostered knowledge and resource sharing and collaboration. Daedeok Science Park (Daedeok Innopolis) attracted many private-led research organizations. It played a pivotal role in the development of technology in Korea, significantly contributing to the advancement of science and technology and industrialization.
The Fall of Cambodia and Vietnam

On March 30, 1975, the strategic Vietnamese cities, Danang and Qui Nhon fell into the hands of the communists. And on April 1, Cambodia's Prime Minister Lon Nol sought refuge in another country. On April 21, Vietnam's President Thieu stepped down, and on April 23, US President Gerald Ford declared an end to the Vietnam War. By April 30, Vietnam was completely under the rule of the communists.

Taking the unraveling events of Indochina as a favorable sign to North Korea, Kim Il Sung left Pyongyang on April 18 for China and Eastern European countries. He was thought to have made his mission to court support: secure military supplies and fuel, and sound the idea of an invasion of South Korea to China.

The collapse of Vietnam and Cambodia reverberated across South Korea, both shocking its people and putting them in a state of unease. In a special address on April 29, President Park sounded the words,
“We shall defend Seoul to the end,” proclaiming “to protect Korea’s national security and to preserve public order,” and appealing to the people of Korea, “let us unite and stand strong to overcome this challenge.” President Park also reached out to the leader of the opposition party, Kim Young Sam, to have in-depth discussions on national politics at the Blue House on May 21. The meeting was followed by a brief statement made by the Presidential Press Secretary: “President Park and Kim Young Sam had frank discussions, and expressed their views openly. They agreed that both parties should come together in this time of crisis to overcome the challenge facing the nation.”

Attended by US Defense Secretary James Schlesinger, the 8th Annual Korea-US Security Talks were held in Seoul on August 26 and 27, 1975. It was the first time the US Secretary of Defense participated in the talks since 1971. The talks focused on the geopolitical situation in the Asia Pacific region taking into account the fall of Vietnam and Cambodia into communist hands, and the security risks faced by Korea. The military capabilities of the Korea-US armed forces were discussed in-depth, focusing on the preparations and ability to mount a defense against possible military aggression.

US Defense Secretary Schlesinger reiterated the US government’s commitments under the Mutual Defense Agreement signed in 1954 to aid Korea in the event of a military attack. At the conclusion of the talks, a joint statement was issued, pledging continued solidarity between the two countries by strengthening cooperation and supporting Korea’s development of its defense industry.
US Lieutenant General James Hollingsworth, the commander of the Korea-US Armed Forces, submitted a scenario called “Operation Nine Days” to US Defense Secretary Schlesinger, outlining the military response to a North Korean attack. In the event of an attack by North Korea, under the general’s scenario, all the available heavy bombers and B-29s had to be scrambled at the onset of an attack to quickly neutralize the short range capabilities of North Korea near the DMZ because Seoul, with a quarter of South Korea’s total population, stood within easy striking distance of FROG (Free-Rocket-Over-Ground) missiles or SAMs (Surface-to-Air Missiles), which would have devastating effects. North Korea’s attack would be first blunted by the air capabilities of Korea-US armed forces in the first four or five days of an attack. Once sufficiently suppressed, ground forces would move in. President Park supported and approved the US general’s plan.

In an interview with the Chicago Daily News on January 1, 1976, US General Hollingsworth gave a briefing that a North Korean invasion could be defeated within seven days. US General Hollingsworth was a gifted strategist and brave soldier, well-regarded in military circles in the US and aboard. A veteran of the Vietnam War, he had seen extensive combat, having been involved in the battle of Anrok, a strategic site in the defense of Saigon, the capital of Vietnam. President Park had come to trust US General Hollingsworth and Commander Stilwell of the UN Forces, developing a good rapport with both generals.

It was the intention of the US to disclose the US General’s plan to defend Korea, a top military secret, wanting to assure the people of Korea that the US was fully behind them. It supported President
Park’s call to “defend Seoul to the end,” and helped to ease the tension among Korean people.

In 1975, concerns on Korea’s national security reached a fever pitch. In no other year had the threat of a North Korean invasion been so real. The actions of North Korea following the unsettling events in Indochina made an invasion seem imminent. Only two weeks after the end of the Vietnam War, North Korea constructed underground tunnels running under the DMZ and deployed two armored divisions near the DMZ. There was intelligence from credible sources that North Korea planned an invasion of South Korea on October 10, the 30th anniversary of the Workers Party in North Korea.

At the time, the “Domino Theory” hypothesized that one country falling into communism could start a chain reaction, causing other countries to fall to communism like the falling blocks of a domino line. The fall of Vietnam and Cambodia to communism threatened to consume the other countries. It was a cause for alarm for Koreans, and President Park made Korea’s national security a top policy agenda, having daily military briefings and supporting the development of Korea’s defense industries.

**Introduction of the Defense Tax**

The risk of North Korea exploiting the geopolitical changes brought on by the events in Indochina for its invasion of South Korea heightened concerns at the Blue House. Nearly every day, President Park convened a meeting on national security issues, one of which
was finding a way to fund the expansion of Korea’s military capabilities. There were two ways: issuing national bonds or increasing taxes. But issuing national bonds to pay for the expenditures risked inflation if the bonds were not fully absorbed by the market due to low interest rates. Raising taxes offered a better alternative economically, but it would face public resistance.

In May 1975, President Park held a meeting with the Minister of Defense, the Chairman of the Joint Chiefs of Staff, and the Army Chief of Staff, that went into the late afternoon and into the evening over dinner. Before dinner began, I went to my office to finish for the day, when I found a memo from Shin Byong Hyun, the presidential aide for economic affairs. The memo recommended that a surtax be introduced as part of the corporate and individual income tax and the special luxury consumption tax to raise the necessary funds for national defense. I thought that it was a great idea, because the surtax would meet less resistance than a new special-purpose tax on a stand-alone basis. At dinner, I suggested this idea to President Park, who endorsed it right away, much to the relief of the military leaders dining with the President.

In the following morning, I asked the Minister of Finance, Shin Byong Hyun, the special assistant, the first senior presidential secretary for economic affairs, and the head of the Korea Development Institute, who had discussed the idea of the surtax, to meet with President Park. At the meeting, President Park endorsed the legislation of a new tax. The Defense Tax Act was submitted to the National Assembly, together with the Civil Defense Act, and unanimously approved on July 16, 1975.
First, the Defense Tax Act was an object tax, thus, all revenues had to be used for the purpose of national defense spending only. Second, the tax was applied to all Koreans based on their income, most of the tax burden falling on higher income groups or on consumption of luxury goods or services. Even income exempted from taxation according to the Regulation Law on Tax Reduction and Exemption was subject to the defense tax. Furthermore, the defense tax was applied on all imported goods except for export-related materials and foreign capital per the Foreign Investment Inducement Law. The defense tax was also applied on farmland and forests, which were exempt from the property tax, at a rate of 0.1%.

Third, the tax rates applied included: a 2.5% tax on imported goods based on their import prices; a 20% consumption tax on luxury goods or services such as liquor, admission fees, entertainment, and horse racing; a 20% tax on property, inheritance, and registration; a 30% tax on owners of automobiles; a 10% or 20% tax on individual income; a 10 to 25% tax on per capital resident; a 10% tax on telephone calls; a 15% tax on advertising expenses. The defense tax was introduced as a national tax as its aim was to secure Korea’s national security, effective until 1980. (This was extended later.) The defense tax increased the tax burden from 13.8% of GNP in 1975 to 17.6% in 1976.

The Fate of US Troops in Korea

On November 11, 1975, US President Gerald Ford arrived in Hawaii, en route to the US, after a trip to Asia where he visited...
China, Indonesia, and the Philippines. At the East-West Center in Hawaii, President Ford outlined the main pillars of a new doctrine for US policy in Asia as subscribed under the “Pacific Doctrine.”

“The first premise of a new Pacific Doctrine is that American strength is basic to any stable balance of power in the Pacific. We must reach beyond our concern for security. But without security, there can be neither peace nor progress. The preservation of the sovereignty and the independence of our Asian friends and allies remain a paramount objective of American policy.

The second basic premise of a new Pacific Doctrine is that partnership with Japan is a pillar of our strategy. There is no relationship to which I have devoted more attention, nor is there any greater success story in the history of American efforts to relate to distant cultures and to people. The Japanese-American relationship can be a source of great, great pride to every American and to every Japanese. Our bilateral relations have never been better. The recent exchange of visits symbolized a basic political partnership. We have begun to develop with the Japanese and other advanced industrial democracies better means of harmonizing our economic policy. We are joining with Japan, our European friends, and representatives of the developing nations this month to begin shaping a more efficient and more equitable pattern of North-South economic relations.

The third premise of a new Pacific Doctrine is the normalization of relations with the People’s Republic of China, the strengthening of our new ties with this great nation representing nearly one-quarter of mankind. This is another recent achievement of American foreign policy. It transcends 25 years of hostility.
A fourth principle of our Pacific policy is our continuing stake in stability and security in Southeast Asia.

A fifth tenet of our new Pacific policy is our belief that peace in Asia depends upon a resolution of outstanding political conflicts.

In Korea, tension persists. We have close ties with the Republic of Korea. And we remain committed to peace and security on the Korean Peninsula, as the presence of our forces there attests. Responding to the heightened tension last spring, we reaffirmed our support of the Republic of Korea. Today, the United States is ready to consider constructive ways of easing tensions on the peninsula. But we will continue to resist any moves which attempt to exclude the Republic of Korea from discussion of its own future.

The sixth point of our new policy in the Pacific is that peace in Asia requires a structure of economic cooperation reflecting the aspiration of all the peoples in the region.”

(Source: Address by US President Gerald R. Ford at the University of Hawaii.)

On January 27, 1976, Donald Rumsfeld, who succeeded Schlesinger as the new US Secretary of Defense, questioned the wisdom of the plan to withdraw US ground forces stationed in Korea in his first white paper as Defense Secretary. He wrote that US military capabilities should be aligned with the countries of NATO, and Northeast Asia, especially Korea and Japan. Secretary Rumsfeld believed withdrawing US troops from the Korean peninsula would have a destabilizing effect on Northeast Asia after 25 years of stability.
The fall of Vietnam in April 1975 had dealt a serious blow to the US and damaged the credibility of its foreign policy. The commitment to maintaining US troops in Korea and its vital importance to maintaining stability in the region, indoctrinated in US President Ford’s speech on US foreign policy in Asia and supported in US Defense Secretary Rumsfeld’s white paper, showed the US commitment to South Korea’s national security and peace on the Korean peninsula. However, there was much criticism of the failure of the US in Vietnam and an anti-war movement had taken hold especially among the youth in America. There were calls for limiting the US military commitments in Asia and for a new direction in US foreign policy.

Even until the early spring of 1976, at the peak of the presidential primaries, not many American voters were familiar with the Democratic presidential candidate Jimmy Carter, the former governor of Georgia. As one of his campaign pledges, the presidential candidate promised to withdraw US troops from Korea within a short time period. He spoke of his military service during the Korean War in a submarine in the Pacific Ocean, which had taken place more than 20 years before, and he noted that still more than 40,000 US troops were in Korea. Rejecting old doctrines, Jimmy Carter was a sensation and secured the Democratic Party’s nomination at the national convention, riding a wave of support calling for a fresh start.
The Panmunjom Incident

On August 18, 1976, North Korean soldiers made an unprovoked attack on US soldiers in the Joint Security Area in Panmunjom. At 10:45 AM of August 18, 1976, a security detachment of 11 soldiers from the UN Forces and five Korean workers were cutting down trees near a UN guard post, south of the “Bridge of No Return.” They were approached by 20 North Korean soldiers led by a first lieutenant, who ordered them to stop what they were doing. A US military officer responded that the work being conducted was within their legal rights. Then, one of the North Korean soldiers slapped the US military officer, and warned that everyone would be killed if work didn’t stop. When the US military officer protested against the actions of the North Korean soldier, the North Korean military officer ordered his men to kill them. The North Korean soldiers attacked the UN soldiers with clubs and sharp metal rods, and were joined by 50 more North Korean soldiers who were in two trucks up the road at a North Korean guard post. A North Korean soldier took an axe to the head of a US captain, delivering several blows before killing him. A first lieutenant of the US army was also severely mutilated with an axe at the hands of a North Korean soldier. The other members of the detachment suffered serious to minor injuries. The North Koreans also destroyed three US trucks and the UN guard post.

There was nothing accidental about this unprovoked attack. It was planned and premeditated by North Korea, I thought. At the time, North Korea was in the midst of a power succession. As Kim Jong Il succeeded Kim Il Sung, North Korea sought to exploit this incident to its own political end and rally its people with the specter of war.
They also apparently believed that the incident that left two US soldiers dead would sway US public sentiment in favor of a withdrawal of US troops in Korea ahead of the US presidential elections. In playing both sides, North Korea hoped the US would stop supporting South Korea.

At the Conference of Non-aligned Countries in Colombo, and at the UN General Assembly, North Korea defended its actions, which they insisted were provoked by the US and South Korea. North Korea also tried to enter into peace talks with the US under a so-called “Peace Agreement between the US and North Korea.”

The behavior of North Korea leading up to the day of the incident pointed to something more than political attention grabbing; it was a provocation for war. North Korea made preparations for war, readying its troops along the front lines for combat in case of a retaliatory response from South Korea and the US. Effective at five AM of August 19, North Korea mobilized all its troops, both from the regular and reserve army: a call to arms.

The timing of North Korea’s provocations was even more insinuating, as it took place during times of political uncertainty and social turmoil in the US, China, and Japan. In the US, the presidential election race was reaching a high pitch while Japan’s politics were embroiled in the Lockheed bribery scandal. China was in chaos following a great earthquake. As these countries were preoccupied with domestic difficulties, it seemed that North Korea wanted to strike while the iron was hot, taking advantage of the situation by committing such an act of brutality, to possibly instigate a limited war.
Immediately after the incident, US Ambassador to Korea, Richard Sneider, and US General Stilwell, Commander of the UN Armed Forces, were dispatched by US President Ford to meet with President Park to discuss the situation. Well aware of the incident, President Park expressed his condolences to the ambassador and the general over the two fallen US officers and asked his words of condolences be passed on to their loved ones.

In calling for a firm response to North Korea’s unprovoked actions, President Park talked of the countless provocations including the commando raid on the Blue House, the capture of the US intelligence ship, the Pueblo, the raid in Uljin and Samcheok by 100 armed soldiers, and the downing of US Air Force EC121 plane, that went without a firm response despite his calls for action. The President remarked that North Korea had come to see the US as nothing more than a paper tiger, and saw no reason why they should stop absent of a firm response. The ambassador and the general only agreed, saying that the US shared President Park’s view. They agreed to brief US President Ford on the situation, and hoped firm action would be taken to deter any more provocations from North Korea.

US President Ford and US State Secretary Kissinger issued an announcement, strongly denouncing the actions of North Korea, which was responsible for the incident. Korea-US Armed Forces were put on DEFCON (Defense Readiness Condition) III while military personnel on leave were called in to duty. In Washington DC, a special task force composed of senior members of the White House, the State Department, the Pentagon and CIA, was organized to address the situation on the Korean peninsula.
On the night of August 18, a squadron of F-4 fighter bombers based in Okinawa, Japan, and a squadron of F-111 fighter bombers based in Idaho were deployed to Korea. Also, the US Navy’s Seventh Fleet was put on alert, deploying two US aircraft carriers, the USS Ranger and the USS Midway, to waters off of Korea. A total of 1,800 US marines stationed in Okinawa were also deployed to Korea.

Meanwhile, North Korea was asked to stand down from its war posture, and rescind orders to the military to be ready for war. President Park attended the graduation ceremony of the Third Military Academy on August 19. In an address, the President stood resolute, determined to use military force should North Korea provoke South Korea again. The president addressed the crowd by remarking, “We are at the limit of our patience. There is no reason why we should have to endure North Korea’s belligerence. If provoked again in any form, we shall respond accordingly, and they must live with the consequences of their action. … A club must be used to tame a mad dog.”

On August 20, Commander Stilwell briefed President Park of a military operation to resume cutting down the poplar trees in the JSA as was originally planned. The operation called for a military response if North Korea engaged in any military act of aggression while the tree cutting resumed. The Korea-US Armed Forces would respond in force, crossing over the DMZ, recapturing Gaeseong and advancing deep inside the Yeonbaek plain to mitigate the risk of endangering Seoul to military attack. At 7 AM, work would resume on cutting the trees down led by the US military, which was to provide security, taking action if necessary. Hearing this, I felt a
sense of unease take hold of me. We had arrived to a point where North Korean acts of aggression would no longer be tolerated without a military response, though not a response for total war, as it was not planned to advance farther than Yeonbaek.

After reviewing the operation, President Park agreed to the plan, and offered to send Korean troops to provide security in place of US troops, saying “Your country has sacrificed enough with the lives of two officers. Though the JSA falls under your command, I would like to send our troops under your command as the primary escort providing security. I understand that the primary responsibility of defending our nation rests in your hands, but I would like Korea to take the primary role in this operation.” Commander Stilwell appreciated the President’s gesture, and concurred with his suggestion.

On the behest of the President, the Minister of Defense and the Chairman of the Joint Chiefs of Staff sent an elite unit of Korea’s Special Forces to provide security in the operation. Later that evening, President Park met with the Minister of Defense, the Chairman of the Joint Chiefs of Staff, and the Army Chief of Staff at the Blue House, to be briefed on preparations being made for the operation and to go over the contingency plan that called for an advance toward North Korea. They reported that our troops were ready to go and morale among the men was high.

When I returned home, my thoughts were with my wife, and with one of our sons, who was a second lieutenant assigned to an artillery unit of the Mechanized Infantry Division, after having just completed ROTC training. I knew there was a good chance his unit would be
called to duty. I informed my wife of the operation planned tomorrow, and asked her to plan for any event.

At 6 AM the following day, on August 21, I arrived at the Blue House with Choi Kwang Soo (later to serve as the Minister of Foreign Affairs), a senior presidential secretary. I called Yoo Byong Hyon, a Director of the Joint Chiefs of Staff, who was at the operations room of the UN Command headquarters. The operation was planned and prepared in cooperation between Korea and the US with the go ahead from US President Ford. Under DEFCON II, the operation commenced at 7 AM with a convoy of 16 workers that were escorted by 64 elite troops led by a US commander under the cover of 20 gunship helicopters and air support including F-4 Phantom fighter-bombers, F-111 fighter-bombers and B-52 heavy bombers. The operation was orchestrated by the Commander of the Second Division of the US Army from a helicopter. In the waters off the coast of Korea, the US aircraft carrier Midway lay in waiting, the hand that could deal the fatal blow, sending fighter jets and holding the marines on stand-by, ready to be deployed by air or sea at a moment’s notice.

General Yoo Byong Hyon gave me a minute by minute report of the operation over the phone from the operations room, which I relayed to Choi Kwang Soo, the senior presidential secretary, briefing the President on this matter. As planned, the operation proceeded on schedule, but the communication line went silent for more than 10 minutes without any word. As I sat anxiously waiting, a report came in at 7:20 AM of North Korean troop movements. 200 North Korean soldiers had been reported seen on the other side of the Bridge of No Return. Receiving this report, I was gripped by an intense anxiety of not knowing what would happen next.
At 7:55 AM, the operation was completed; the team had finished work on cutting down the trees and even taking down a North Korean guard post that breached the DMZ, and then returned to base safely. The operation lasted one hour without a single incident in which cutting the trees took no more than 5 minutes with a power saw. No planes were reported taking off from the Pyongyang-Wonsan line. The early reports of North Korean troop movements were confirmed but no incidents were reported. They had only gathered and observed the Korea-US operations while taking photos.

Indeed, any act of aggression by North Korea would have been met with a strong military response by the Korea-US Armed Forces, the retaking of Gaeseong, and an advance deep inside Yeonbaek. The show of force re-established the military might of the US and ROK-US willingness to use force against North Korea if necessary. In the afternoon of August 21, Kim Il Sung sent a message to Commander Stilwell, writing, “I regret such an incident. Both of our countries have to make an effort to prevent such incidents.” It was a moment of losing face for Kim Il Sung. For the first time in 23 years since the ceasefire, North Korea was forced to stand down. As an outcome of this incident, it was agreed that JSA would be divided between the UN and North Korea for security purposes.
President Park’s Response to US President Carter’s Plan for Withdrawal of US Troops

After winning the US presidential election in November 1976, the President-elect Jimmy Carter confirmed his intentions to uphold his campaign pledge to withdraw US troops from Korea even before the inauguration. The Carter Administration had not approached Korea about the plans to withdraw its troops at any time leading up to its public announcement. Without any agreement or even discussion, the US President had unilaterally made the decision. A decision was made, and Korea was informed of the decision. Soon after being inaugurated on January 20, 1977, US President Carter wanted a plan for a gradual withdrawal of US troops in Korea over a period of four to five years. The Minister of Foreign Affairs was informed of the withdraw plan during a diplomatic trip to the US. It was announced at a press conference on the same day.

The withdrawal of US troops from Korea was a political decision, absent of any understanding of the situation or input from the military branch of the US government. On May 19, 1977, a story in the Washington Post reported that the US commanding generals in Korea were severely critical of President Carter’s policy, reporting: “the withdrawal of the US troops from Korea might trigger a war.” Major General John Singlaub of the Eighth US Army, the third highest ranking officer in Korea, criticized the policy warning that it may cause a war. In fact, many other generals in the army opposed President Carter’s plan to withdraw the US Army’s Second Division, which would weaken the military capabilities in Korea and increase the possibility of a North Korean invasion. The US Major General concluded: “According to the information accumulated for the last 12
months, the military power of North Korea has been reinforced so much. What I am worried about is that our policy-makers are buried in the old information obtained three years ago.”

Major General Singlaub was the first US military official to publicly criticize US President Carter, causing quite a stir in Washington DC. The Major General was immediately summoned to the White House after his words were made public. After a meeting with him on May 21, President Carter relieved the general of his duties in Korea, confirming President’s authority over policymaking, and as the supreme commander of the US Military.

At a US congressional hearing, US Major General testified before the US Congressional House Military Committee, confirming his view that withdrawal of US troops could lead to war. He also testified that he had not been consulted by the Carter Administration of the possible effects of withdrawing the troops and that his requests for further information from the Pentagon in regards to pulling out the troops were not forthcoming. In addition, the House committee heard testimonies from Rogers, the US Army Chief of Staff and Stilwell, the former UN Forces Commander, who opposed the withdrawal as well. John Vessey, the UN Forces Commander, also expressed doubts about the wisdom of pulling out US ground forces from South Korea at a press conference with the New York Times.

On May 24, Philip Habib, the US Deputy Secretary of State, and George Brown, the Chairman of the Joint Chiefs of Staff, came to Korea to discuss the US President’s withdrawal policy with President Park and other senior government officials. During the two days of talks, the US delegates officially informed President Park of the US
government’s plan to withdraw the US troops from Korea over a period of four to five years, noting the following:

(1) The US troops stationed in Korea shall be gradually and prudently drawn down so as not to undermine the military balance on the Korean peninsula and to cause North Korea to misinterpret the situation.

(2) The US shall be committed to supporting the Korean government’s plans to strengthen its defense capabilities to a level of self-reliance.

(3) The US Air Force shall remain in Korea.

(4) The US’s commitment to the defense of South Korea shall not be changed.

In a frank but rational tone President Park expressed his views on this matter. He acknowledged that no country could undermine the will of the US to withdraw its own troops from a foreign country but questioned the wisdom of the decision of completely pulling out US troops within four to five years, since their presence in Korea was a great deterrent to a North Korean invasion and a stabilizing force for peace in Northeast Asia. America’s presence in the East, and NATO in the West, helped to check the Soviet expansion.

During the Cold War, the USSR maintained two thirds of its troops on the western part of Europe to counter NATO while keeping a third of its troops on the eastern part of Asia to counter US military presence in Asia. Indeed, there were 40,000 US troops based in Korea including 30,000 ground forces and thousands of Navy and Marine personnel. From a global perspective, US President Carter’s plan to completely withdraw US troops in Korea did not seem reasonable.
During the Korean War, command of the Korean Army was handed over to US Army General Douglas McArthur, the UN Forces Commander, according to an official letter exchanged between the General and South Korea’s President Syngman Rhee dated July 18, 1950. Thus, the US Army was in command of 40,000 US troops and 600,000 Korean troops. In addition to the 600,000 active servicemen, Korea had three million highly trained and experienced soldiers in its reserve army.

Not mentioning the exact nature of the command structure between Korea and the US, since anyone with any knowledge on diplomatic or military matters would know that this would be an issue, President Park carefully raised the issue of transferring command over the military back to Korea once the US had withdrawn completely.

President Park stipulated that US troops could not be completely withdrawn until Korea had secured the military strength to defend itself and maintained the balance of power on the peninsula. Under a basic plan of achieving security first and then drawing down troops, Korea had to become militarily self-reliant before any withdrawal could proceed. However, the position of President Carter as conveyed by the US officials gave little thought to this sequential approach. After the talks, a Korea-US working committee was established to address the practical issues of a withdrawal from mid-June until late July, to coincide with the 10th Annual Korea-US Security Talks. At the two-day security talks held on July 25 and 26, attended by the Minister of Defense of Korea, and Harold Brown, the US Secretary of Defense, the withdrawal plans were negotiated and finalized. The following joint statement was announced at the closing of the meeting:
(1) 6,000 ground forces of the US will be withdrawn by 1978.
(2) The remaining forces will be withdrawn gradually and carefully.
(3) The headquarters of the 2nd Division of the US Army and two brigades will remain until the last stage of the withdrawal.
(4) The US will promptly and effectively provide support to Korea if it is under military attack.
(5) Before the withdrawal of the first group of the US ground forces is completed, the Korea-US Combined Forces Command will be established to efficiently defend Korea.
(6) Various supplementary measures necessary for the withdrawal shall be conducted before the withdrawal or at the same time of the withdrawal.
(7) The US Navy, the US Air Force, and back-up forces for information, military supplies and other supports will remain in Korea.
(8) The following supplementary measures will be conducted.
   A. The US troops stationed in Korea will transfer their appropriate equipment to the Korean army, which will not bear the cost, when the US troops are withdrawn from Korea.
   B. The US will provide additional loans to Korea to reinforce the defense potential of the Korean army.
   C. The US will constantly provide support to enhance the overall military strength of the Korean army.
   D. The US will preferentially provide appropriate weapons to Korea to completely prevent North Korea’s invasion.
   E. The US will do its best to improve the defense industry of Korea.
F. The Korean army and the US army will perform joint military exercises.

(9) The US will reinforce its Navy and Air Force in Korea.

The statement did not indicate a date for when the first 6,000 troops would be withdrawn, but a timetable for the second phase of withdrawing 9,000 troops was set to commence by the end of 1980. The rest of the troops were planned to be withdrawn by the end of 1982. Under the plan, only about 10,000 US troops would remain in Korea after 1982, a contingent of personnel from the Air Force and Navy and non-combatant troops. US Defense Secretary Brown also announced that the US would ask Congress to approve loans and financial support of USD 1,900 million, including military loans of USD 1,400 million to be provided over the next four years from 1978 and USD 500 million to fund the transfer of the Second Division’s equipment to Korea.

On November 7, 1978, the Korea-US Combined Forces Command was established. The launching ceremony was attended by President Park and Harold Brown, the US Defense Secretary, John Vessey, Commander of the Combined Forces, and other senior government officials from Korea and the US. In a message during the ceremony, the US Defense Secretary Brown said that the mission of the Combined Forces Command was to maintain a strong defense capability to deter any act of war on the Korean peninsula. The US recognized its responsibility to maintaining security in the region, thus, would remain on the Korean peninsula alongside South Korea, he added. President Park replied: “Korea and the US stand resolute to protect Korea from war despite the withdrawal of some US troops from Korea. I would like to ask the Combined Forces Command to
continuously maintain today’s cooperation system and to maintain an airtight defense posture showing no weak points to the invaders.”

The Combined Forces Command was aimed at giving Korea and the US joint command of the Korean army and the US army stationed in Korea. As mentioned above, the 10th Annual Korea-US Security Talks held in Seoul in 1977 reached a conclusion that this Command should be established by the end of 1978. Previously, the US assumed sole operational command of the Korean army and the US troops stationed in Korea, where military orders came down the chain-of-command, from the US President, the US Chairman of the Joint Chiefs of Staff, the US Commander of the Pacific Region to the Commander of the UN Forces. However, after the Combined Forces Command was established, Korea and the US assumed joint operational control of the combined forces, in which military orders came down from the Presidents of both countries to a Military Committee composed of the Chairmen of the Joint Chiefs of Staff of the two countries to the Commander of the Combined Forces.

A four-star general of the US was supposed to be the Commander of the Combined Forces (also holding the position of the Commander of the UN Forces) while a four-star general of Korea was to be the Vice-Commander. A principle of equal distribution of responsibilities was also applied in other areas as well.

Under the Korea-US Combined Forces Command, Korea assumed joint command of the Korean army which had been transferred to the Commander of the UN Forces by President Syngman Rhee. From the perspective of Korea, it was groundbreaking, because Korea also assumed command of the US
troops stationed in Korea. From the perspective of the US, it could retain command of the 600,000 Korean active-duty troops and three million reserve forces even after its ground forces were completely withdrawn from Korea.

**Accelerated Development of Korea’s Defense Industry**

President Park had the following concepts in mind in preparation of another attempted invasion by North Korea:

1) South Korea would take primary responsibility of ground operations considering that the US would not commit military forces in a ground battle.

2) In initiating a war limited in the region, a primary objective of a North Korean invasion would be to quickly take siege of Seoul, before US reinforcements could be deployed, allowing it to dictate the terms of a ceasefire, and take full control of Seoul.

3) A North Korean frontal assault on South Korea would be led by its mechanized division with tanks, followed by a 100,000 strong army of Special Forces. Underground tunnels would also be used.

4) South Korea would defend Seoul without giving an inch and drive the enemy back without delay in a short time, during an attack.
In August 1970, President Park while discussing the reduction of the US Army 7th Division with US Vice President Spiro Agnew said: “In the event of a North Korean invasion, South Korea should be in charge of ground operations while the US Air Force and Navy provide support. The 2nd and 7th Division of the US army should bring up the rear and reinforce our rear defenses.”

President Park conveyed his belief in discussions with the military brass or in setting policy that Korea should be on the frontlines of ground battles, reducing the role and thus casualties of the US military. His decision to put the responsibility of conducting ground battles on Korea’s shoulder while lessening the burden of the US military was wise, especially as anti-war sentiment raged in the US, fanned by the strong images from the Vietnam War broadcasted on TV.

With a quarter of South Korea’s population, Seoul is at the center of politics, economy, culture, and military, making its capture a key objective in a North Korean invasion strategy, and the unification of the Korean peninsula. By seizing Seoul quickly, North Korea could dictate terms of a ceasefire before US reinforcements were mobilized and limit their losses.

A defense against an invasion required that North Korea be blunted and driven back without giving an inch of ground. This would result in some of the fiercest battles. South Korea’s military would need to be well trained to defend Seoul and repel any invasion. In preparation, a great deal of weapons, ammunitions, and machinery had to be accumulated during peace time, and a reserve army had to be mobilized.
President Carter publicly announced his campaign pledge for a complete withdrawal of US ground troops in Korea in March 1977. The troop drawdown would be conducted gradually over four or five years.

K1 Tank produced by Hyundai Heavy Industries

First ROK ground-to-ground missile launched on September 26, 1978
years. The complete withdrawal of troops would be finished by the end of 1982. As such, President Park sought to accelerate the development of Korea’s military capabilities by improving Korea’s capability to mass produce weapons, all weaponry except for fighter jets, advanced electronic weapons, and nuclear weapons. To this end, Defense Industry Promotion Meetings were held at the Blue House.

The focus of the Fourth Five-Year Economic Development Plan (1977-1981) was shifted to the development of the heavy and chemical industries in the last two years to promote the economy and the defense industry. On May 25, 1977, Philip Habib, US Deputy Secretary of State, and George Brown, the Chairman of the Joint Chiefs of Staff, visited Korea to discuss the withdrawal plan. The following day on May 26, US President Carter discussed the plan to withdraw US troops in Korea at a press conference, remarking that Korea had become one of the strongest economic countries in the world through its hard work, achieving an economic growth rate of 15% the previous year. Korea had developed a large heavy and chemical industry that included steel making, shipbuilding, electronics and chemicals, allowing for the withdrawal of US troops without causing serious problems, he added.

As a US envoy, former Vice President Agnew made a visit to Korea to attend President Park’s presidential inauguration ceremony. Agnew had developed somewhat of a rapport with President Park over the years, making many visits to Korea even after his days as the US Vice President, having many frank discussions with President Park. He addressed President Park’s concerns regarding the shift in US policy and the effects of the withdrawal of US troops on the security pact between Korea and the US, saying that the Mutual
Defense Treaty between Korea and US ensures American commitment to Korea’s security. He also added that under the War Powers Act, the US President had limited authority to commit US troops to a foreign conflict for 60 days only, after which the US President needed the approval of the Congress to extend the engagement for more than 30 days. As Korea is of vital strategic importance in the region, the US will ensure its security in any circumstance. Korea’s situation is not like the situation in Vietnam, and so US policy toward Korea would be different from Vietnam. Agnew also spoke of other considerations that factored into US policy on Korea. He said that the US would be willing to come to the aid of a free country under the attack of communism as much as it could. Its willingness is much greater if the country is an industrialized economy, as opposed to an agrarian economy like Vietnam, because a communist takeover of an industrialized free country would tip the balance on the scales of military power toward communism. After World War II, several industrialized eastern European countries such as Hungary, Romania and the Czech Republic, were taken over by communism. If these countries had stayed as free democratic countries, the balance of power could have favored the West. The former vice president said that the idea of defending free industrialized nations from totalitarian governments remained strong in the US, and would not likely change at any time. In sum, the US would support Korea against the invasion of North Korea, as long as Korea’s people were willing to fight with determination. Korea’s development of the heavy and chemical industries was as important as strengthening its military defense capabilities.
With the last of the US troops to be withdrawn by the end of 1982, Korea accelerated its efforts to develop its defense industry by localizing and upgrading its manufacturing capacity for mass production, bringing forward the target date to the end of 1980. At the same time, the target date for Fourth Five-Year Economic Development Plan that focused on development of the heavy and chemical industry was set for 1981. Despite many difficulties, Korea developed its own defense industry, being able to locally produce basic weapons such as the 155 mm howitzer by mid-1977. Later, Korea produced M16 automatic rifles with the help of the US. Korea developed its own high-performance sniper rifle, mortars, and recoilless rifles.

It was a challenge to obtain the technology to develop large caliber artillery guns, like the 105 mm, 155 m, and Vulcan guns for air defense. To develop Korea’s defense industry and to facilitate the transfer of weapons technologies from the US to Korea, an agreement was signed on September 6, 1973 between Korea’s Minister of Defense and the Commander of the UN Forces. But it was not implemented until 1975.

In light of the heightened geopolitical risk in the region, the 8th Korea-US Security Talks on August 26 and 27, 1975, was attended by US Secretary of Defense James Schlesinger along with the Deputy Defense Secretary Charles Duncan. The talks focused on the progress of developing Korea’s defense industry. After the talks, the Deputy Defense Secretary, an expert in defense manufacturing and responsible for military contracts with US defense manufacturers, visited the Changwon Industrial Complex with US Ambassador Sneider and UN Forces Commander Stilwell. The industrial complex
was the site of several defense manufacturing companies in operation or under construction. The US delegation carefully inspected the site, taking note of the internal layout, performance of the machines, equipment and test facilities, quality control systems and working conditions of the employees.

Despite the urgent need in Korea to obtain weapons technologies to develop its military capabilities, there was no transfer of technologies between Korea and US other than for the 105 mm howitzer. NATO member countries were able to secure their own military capabilities through technological cooperation with US or joint-development programs with other NATO countries. These nations developed weapons that rivaled or surpassed what the US produced, like the French Mirage fighter jet and mid range Exocet cruise missiles, the British Harrier jump jets, and the 105 mm howitzers, the Israeli Gabriel missiles, the Swiss Oricon anti-aircraft guns, West German Leopard tanks, and Italian armored vehicles.

Unable to wait for the US, Korea sought technological cooperation with other countries, namely, the UK for the development of the 105 mm caliber guns, Italy for their armored vehicles, the Swiss for their anti-aircraft technology, and France for their missiles.

After being appointed the President’s Chief of Staff, I had frequent lunch meetings with the US ambassadors to Korea, especially US Ambassador Sneider, whom I met at least once or twice a month for candid discussions. US Ambassador Sneider often expressed his misgivings over Korea’s decision to seek help from NATO countries in developing its military capabilities. In response, I
laid out Korea’s case for pursuing these weapons by saying it had no alternative since the US was not willing or has not, up to this point, provided such technologies. I also added it was Korea’s policy to rely on US help as agreed in the Korea-US Mutual Defense Treaty, standardizing all weapon systems to be identical for Korea and US with both armies using the same ammunition. Indeed, my discussions with the Ambassador were often serious and critical.

I suppose there could have been many reasons why the US had not cooperated with Korea in this matter. It may have been that US manufacturers did not think Korea had the manufacturing capability to produce high tech weapons; or it may have been that the US did not want to arm South Korea with the military capability to unify the peninsula. Whatever the reasons were, US Ambassador Sneider requested that the negotiations with the NATO countries be delayed until the 8th Korea-US Security Talks, which I acquiesced. So it would seem that US Deputy Secretary Duncan’s tour of Korea’s industrial complex was made after hearing from US Ambassador Sneider about Korea’s plan to pursue the transfer of weapons technologies with NATO countries if the US was not willing to cooperate with Korea, which could harm the national interests of the US. It was not hard to believe that the US Deputy Secretary visited Korea on the advice of US Ambassador Sneider to determine what the US should do.

After the talks and after the US Deputy Secretary’s tour of the industrial site, cooperation on weapons technology progressed rapidly between Korea and US while negotiations ceased on technology cooperation with the UK on the 105 mm and 155 mm caliber guns, and with West Germany on Leopard tanks. Instead,
Korea acquired technology for guns from the US and upgraded its fleet of American made M47 tanks. Korea did apply Swiss technology for the production of Oricon guns in an agreement with the US, as it was widely used by NATO countries and the US did not possess similar technologies.

At the time, the firepower of Korea’s naval ships needed to be upgraded with long range missiles to counter North Korean ships that were equipped with Soviet made missiles. North Korean ships often conducted naval maneuvers off the Five West Sea Islands, which kept tensions high. Korea strongly sought the help of the US in obtaining Harpoon missiles that were far superior to the USSR made missiles, but the US was reluctant to furnish them until it had finished arming their own fleet, which was expected to take two or three years to complete. Not wanting to wait, Korea sought to import the French made Exocet missile, the power of which was displayed during the Falkland War, and showcased during a military exercise attended by President Park on the Straits of Korea.

After Korea was set to import the French Exocet missile, the US made an abrupt turn, deciding to offer the Harpoon missiles to Korea, which bought Harpoon missiles instead of the Exocet missile. The armament of Korean ships with state-of-the-art Harpoons gave South Korea naval superiority in the Korean seas, acting as a great deterrent to North Korean sea provocations.

After months of back and forth, by the start of 1977, Korea was ready to produce various weapons to arm its ground forces including 155 mm howitzers, 20 mm anti-aircraft Vulcan guns, 105 mm high-angle guns, 81 mm, 60 mm and 4.2 inch mortars, 3.5 inch
rocket launchers, M79 grenade launchers, 90 mm and 106 mm recoilless rifles, 500 MD Multi-purpose helicopters, light armored vehicles for mountain warfare, and smart bombs that were first used in the Vietnam War. Korea also began to produce patrol boats, and maintenance depots for aircrafts and missiles. By April 1978, Korea was ready to produce tanks. Korea’s mountainous and narrow terrains were better suited for mid-sized, more mobile tanks compared to the heavier tanks that were better suited for the expansive terrains of Europe and North Africa. But what it gained in size and mobility, the mid-sized tanks lost in firepower. So a tank that measured and weighed as much as a mid-sized tank but had the firepower of a heavy tank needed to be built to suit the Korean military.

While a tank suitable for Korea was being built, it was thought that the newly developed US M60 tanks could be deployed. Unable to get the US to agree to this, Korea sought to import West German Leopard tanks, which were similar to the M60 tanks in performance. After much discussion, Korea and the US reached an agreement to upgrade the existing fleet of US built M48 mid-sized tanks, with large-scale production starting in April 1978. The upgraded M48 tanks, known as M48A3 or M48A5 tanks, performed as well as the M60s, providing the same firepower without sacrificing the mobility of a smaller tank. Because a lot more ingenuity went into retrofitting the tanks than what would have gone into to producing a tank from scratch, the tanks were not only built to suit Korea’s terrain but also to equal the firepower of a larger tank, giving Korea one of the most powerful tank divisions in the world. This led to further technological cooperation with the US, resulting in the development of a Korean made tank in the
early 1980s, allowing Korea to become the 9th country in the free world to build tanks.

At the time, North Korea possessed the ability to fire long range missiles, giving it a major advantage over South Korea, which did not have a similar military capability. The USSR made Frog 5 and Frog 7 missiles with the range of 50 km and 60 to 100 km, respectively, were well within striking distance of Seoul and even Osan. Unable to obtain long range guided missiles from the US, Korea sought to develop its own missiles. The Korean National Defense and Science Institute sought but failed to obtain cooperation of US companies in the propulsion and satellite industries. Finally, Korea entered into a technological partnership with France to develop long range guided missiles. At a luncheon with US Ambassador Sneider, I informed him of this matter. He seemed to be taken back as if he were hearing this for the first time. Korea succeeded in introducing technologies of propellants.

On the face of it, the development of a medium to long range missile seemed simple enough when considering the parts needed; a warhead, a method of delivery, a jet propulsion system, and an electronic guidance system. It was thought that long range guided missiles could be developed by applying R&D in the fields of electronics, steel, mechanics, and aviation. Dr. Shim Moon Taek, the head of the National Defense and Science Institute, concluded that the development of long range guided missiles had to involve all the basic sciences including physics, chemistry, and mathematics, from which the flower of integrated sciences could bloom. In the few opportunities I had to observe the institute in the design, production, and testing of missiles, I was quite impressed with their work and effort.
With the missile propulsion system developed, the National Defense and Science Institute led by the Deputy Director, Dr. Lee Gyeong Seo, succeeded in building the missile delivery system. On September 26, 1978, the new long range guided missile was test fired in a demonstration attended by President Park, senior government officials, and UN Forces Commander Vessey, displaying its full capabilities as a medium to long range surface-to-surface missile. As I observed the test fire, I saw an arrow-shaped object dart into the sky shooting out red flames, soon after the countdown to launch. After watching the first and second stages of flight, the missile disappeared into the earth’s atmosphere. The missile successfully hit its target located in the coastal waters of Gunsan, making Korea the 7th country to develop a long range surface-to-surface guided missile on its own. The distance traveled by the test missile was well within the range of Pyongyang from South Korea. This was truly the moment when South Korea managed to surpass North Korea in military strength, a most reassuring moment for President Park. Korea’s success in developing a long range missile caught the attention of the US, which decided to deploy its own long range missiles to Korea. At the same time, Korea delayed further production of missiles upon the request of the US.
Discontinuation of US Troop Withdrawal

From June 29 to July 1, 1979, Korea and the US held a summit in Seoul. It marked an extraordinary time, considering the circumstances. As my wife and I saw the US President and the First Lady off from Haneda Airport, as I was the Korean Ambassador to Japan at the time, I hoped the talks in Korea would be constructive. President Carter had been in the region for a G7 summit, and made his first official visit to Korea.

But before the talks even started, the presidents seemed to have started on the wrong foot. Preferring to land in Korea on a US military base in Osan, President Carter’s plane instead landed in Gimpo Airport in Seoul on the insistence of the Korean government, which saw this visit as an official one. On landing, President Carter was greeted by President Park. After shaking hands, the US President was immediately whisked off by helicopter to a US base in Dongducheon without giving a statement to mark his visit.

US Secretary of State Cyrus Vance described in his memoir, *Hard Choices*, President Carter as being apprehensive about the issue of withdrawing US troops, and telling his aides that he did not want it to be raised during the talks, since he was already aware of President Park’s views on this. To President Park, it was the only issue to discuss; there was no other issue to discuss. As the leader of Korea, I believed President Park saw it his duty and responsibility to express his views directly to the US President; that Korea could ill afford to have the US withdraw its troops, which by doing so would threaten the security of Korea but also the region, and put at risk the interests of the US. Based on the accounts of the talks, President Park had
delivered a statement, prepared a week before, laying out his views, as he had done with Habib and Brown, in a firm and rational tone, in essence questioning the wisdom of the policy to withdraw US troops. During the talks, President Carter remained silent on this issue, preferring not to comment, without making a counterargument. Indeed, the US President’s silence was one of anger as described by Vance in his memoirs.

After the first round of meetings, US President Carter left for the US Embassy. US State Secretary Vance, Defense Secretary Brown, and Ambassador William Gleysteen advised President Carter that the withdrawal could be a cause for problems while the US stood to benefit by postponing it. They presented new CIA intelligence on North Korea’s military strength, which had been underestimated by 30% in previous reports, leaving US President Carter less sure of his decision to withdraw the US troops in Korea.

Kim Yong Sik, the Korean Ambassador to the US, was informed by US Secretary Vance that the issue of US withdrawal was off the table and should not be raised again during the summit. In the next round of meetings, President Park did not raise the issue again, satisfied that he had adequately expressed his views on the matter. Instead the two presidents spoke of the close alliance between the two countries and President Carter’s human rights policy. After staying little less than 45 hours in Korea, US President Carter left for the US after meeting a few Korean dissidents.

Almost 20 days after the summit, US President Carter announced a fundamental change to the US plan to withdrawal ground forces in Korea:
(1) Except for the first group of 3,400 troops (Originally, the first group was planned for 6,000 troops. However, it was reduced to 3,400 troops on April 21, 1978) who were already withdrawn by the end of 1978, all the remaining troops will not be withdrawn until 1981.

(2) In 1981, the withdrawal plan will be reassessed to make a decision if it should proceed.

The US withdrawal was in effect abandoned, except for about 3,400 troops that returned to the US in 1978. It was announced that the change in policy was due to reports that North Korea had significantly increased its military strength, after the plan was first conceived. It came to be known later that US Secretaries Vance and Brown, Combined Forces Commander Vessey, and US Ambassador Gleysteen, opposed the withdrawal plan from the beginning. US National Security Advisor Zbigniew Brzezinski was in favor of the plan, but he had kept his real views close to his vest. The Joongang Newspaper reported on October 20, 1986 that Brzezinski in his book *Power and Principle* advised that the US should keep its troops in Korea at the current level. In an interview by a US journalist, he was asked if his book did not contradict his earlier position of favoring the withdrawal of troops. Brzezinski replied that President Carter had pledged to withdraw the US troops from Korea during the presidential campaign in 1976, and that the president tried to fulfill the election pledge, and that he did not raise any objection to that. Brzezinski added that Carter made the decision as the President of the US. He said that there were discussions on the withdrawal within the government, and that no one was in favor of the withdrawal except for President Carter. Brzezinski believed that the US troops stationed in Korea should continue to remain in Korea from an
overall political perspective. I believe that President Park’s challenge of President Carter’s policy to withdraw US troops in Korea, questioning the wisdom of the policy which stood to threaten the security of Korea and the region but also to take apart the strong counterbalance to the Soviet sphere of influence in Asia, were invaluable in changing the mind of the US President.

**Overinvestment in Heavy and Chemical Industries?**

In October 1979, President Park Chung Hee was assassinated. After his death, many of his policies and achievement’s fell under criticism; much of the disapproval was laid on the overdevelopment of the heavy and chemical and defense industries. The charge of overdevelopment in this area cannot be ignored. As the President’s Chief of Staff for nine years, the burden of having to take responsibility for the consequences of President Park’s policies falls squarely on my shoulders.

In the 1970s, Korea faced the stark reality of having to fill the security vacuum that would be left by the eventual withdrawal of all US ground forces from Korea. The US withdrawal plan was only abandoned in 1979 after 3,400 troops had left Korea. Policy action was dictated by the circumstances. Had this not been the case, then there would not have been an overinvestment in the heavy and chemical and defense industries.

Typically, newly built plants do not operate at full capacity. Plants are usually built to operate at a capacity sufficient enough to
match expected demand, which leaves some excess capacity unutilized for a while. In foreign countries, new plants commonly outlive their usefulness when a new technology, raw material or substitute good is introduced. A nation’s industry is continuously affected by political, economic, and military circumstances both domestic and abroad. As such, a nation’s industrial structure should undergo continuous changes or adjustments.

Korea successfully achieved economic development first by promoting the labor-intensive light industries as its main export growth engine, then by developing the capital-intensive heavy and chemical industries through import substitution, and finally, by transforming the heavy and chemical industries into an export-oriented industry. As advanced countries seek to protect their own labor-intensive industries while other Asian countries with abundant labor catch up to Korea in export-oriented light industries, economic policy needs to focus on promoting the heavy and chemical industries and the development of innovative technologies.

Besides major advanced countries like the US, USSR, UK and France, many countries sought to develop a military defense industry as a way to earn foreign currency through exports and to acquire advanced weapons or technologies, often through licensing arrangements, from other countries thus strengthening their own military capabilities and military industrial base. The export-oriented military defense industry is a key source of foreign currency for countries like Brazil, Argentina, and Israel. In 1985, Brazil exported 95% of the military defense goods they produced, achieving USD 3 billion in exports, making it one of the top three export goods together with steel and automobiles. There were more than 400
military defense related manufacturing companies with more than 100,000 employees. In Israel, military defense goods accounted for about 20% of total industrial goods exported, bringing the country USD 1 billion a year in foreign currency. Its industry had more than 150 military defense manufacturing companies with more than 60,000 employees.

It was difficult to get the US to sanction the export of military defense goods produced in Korea under licensing agreements with US manufacturers due to various government restrictions or conflict of interests with the US manufacturers. To export military defense goods, Korea had to develop its own products based on homegrown technologies, thereby creating new markets for companies, further developing the machinery industry and improving the international balance of payments. A nation able to adapt to constant changes in the political, military, economic, resource, and technological conditions is a nation able to grow strong and prosperous.

Hearing criticisms of overinvestment in Korea’s heavy and chemical and defense industries always made me want to visit the manufacturing plants to see if indeed it was the case. For I believed that these industries could operate at full capacity only if technologies were improved and foreign markets were developed. In 1987, I became the head of Sangwoohoe, an association of former employees of the Ministry of Commerce and Industry, and had the opportunity to tour the plants in Masan, Changwon, Gwangyang and Yeocheon.
During my tour, I found the chemical fiber industry to be bustling; more than 150 plants in the Changwon Industrial Complex were operating at full capacity with the construction of about 50 more factories planned. Much of the demand was driven by the private sector, accounting for 90% of total production. All the defense manufacturing companies performed well in terms of production, export, and profitability. I was most impressed by my visit to the factory where a joint Korea-US developed tank was produced, a pillar of Korea’s defense industry. I was able to see a drive test of the tanks, which were expected to be sold in the US and other countries through the US counterpart’s sales network.

The criticism that Hanjung (Korea Heavy Industry and Construction) embodied the overinvestment of Korea’s industries could not be farther from the truth. All of its plants were operating at full capacity in producing power generation facilities for various projects including two generators for a nuclear power plant in Korea, a thermoelectric power plant in the Middle East, the Hapcheon hydroelectric power plant, and the Banwol cogeneration plant. They were also producing facilities for a cement plant in Egypt, for phase II of the Gwangyang Integrated Iron and Steel Mill expansion project, and for a saltwater desalination plant in Saudi Arabia. In addition, it was manufacturing a 54,000-horsepower diesel engine, the biggest in the world, for a ship and a heavy mining machine for a company in Latin America.

The Changwon Integrated Plant of Korea Heavy Industry and Construction manufactured power generators that were required in all sort of industries for power plants for producing hydroelectricity, thermoelectricity, and nuclear and cogeneration power plants, but
also for industrial manufacturers producing steel, iron, cement, water, and for powering cranes and large diesel engines. Construction on the plant began in August 1976, but was delayed due to political unrest, before being finalized in June 1982. For five years after its incorporation, Korea Heavy Industry and Construction has contributed to the construction of four hydroelectric and thermoelectric power plants and several units of nuclear power plants. For two units of a nuclear power plant, it succeeded in producing a reactor vessel, a core component of a nuclear power plant, as well as a steam generator and a pressurizer. Korea became one of the first countries, second only to Japan in Asia, to successfully develop its own nuclear power generation capability. Korea Heavy Industry and Construction also went on to build industrial plants for cement and chemical factories and oil refineries, for domestic industries and for foreign countries in the Middle East and Southeast Asia.

Korea Heavy Industry and Construction’s contributions to Korea’s steel industry cannot be emphasized enough. It worked on the expansion of major facilities at POSCO, and also participated in the construction of the Gwangyang Integrated Iron and Steel Mill from the beginning, building the first shaft furnace and the first hot coil mill. And, it was manufacturing the second shaft furnace for the expansion of the second unit and preparing for the expansion of the first hot coil mill. Its CEO said that the company was breaking even, securing financial independence.

On the second day of the tour, we visited the Gwangyang Integrated Iron and Steel Mill, for which 70% of the total construction materials used to build the plant were domestically
produced, accounting for 50% of the total value of the construction materials. I was glad to hear that Korea Heavy Industry and Construction had contributed greatly to its construction.

The final tour took us to Yeocheon Petrochemical Complex, home to the biggest fertilizer plant in Asia, the biggest oil refinery in Korea, and a petrochemical plant with an annual production of 350,000 tons (ethylene base), all of which operated at full capacity. Also, a second complex, consisting of a naphtha-cracking plant with an annual production of 250,000 tons and its affiliated plants were under construction. Indeed, the complex was a great sight to behold. As agreed by all the managers at the plants, the rapid growth experienced in 1986 and 1987 could not have been achieved if not for the investments to develop the heavy and chemical industries through the late 1970s; that Korea could not have been able to take full advantage of the three favorable economic conditions of low oil prices, low international interest rates, and a strong Japanese yen against the US dollar. At a social gathering after the tour of the complex, much was said about how the recent criticisms of overinvestment in the heavy and chemical industries were hampering the construction of the second plant. I would end up spending the night at the industrial complex.

I was also interested in knowing if Namhae Chemical, the biggest fertilizer company in Asia, also a target of the backlash, was operating at full capacity or not. Indeed, the plant was operating at normal capacity or more, producing urea fertilizer and compound fertilizer to meet domestic consumption first before it was exported at competitive prices. As an integrated chemical company, it was a main provider of ammonia, nitric acid, sulfuric acid and phosphoric
acid, of which their production contributed to considerable profits every year.

Seeing the healthy and vibrant state of Korea’s industries, left me feeling proud, and somewhat vindicated, of the policies that led to the development of the heavy and chemical industries during the 1970s, the pillars on which Korea’s economy would continue to grow. I journeyed back home with a sense of peace and optimism.
23. Organizational Decisions and Political Lessons

24. Flexible Management of the Presidential Secretariat
Restructuring the Office of the Presidential Secretariat

On October 21, 1969, I was appointed as the President’s Chief of Staff. After getting a handle of the organizational structure of the Office of the Presidential Secretariat, I sought to downsize it; this was something I thought was needed when I worked with the office during my time as the Minister and Vice-Minister at the Ministry of Finance and the Ministry of Commerce and Industry. After raising the issue with the President, I obtained his approval. In the past, the Office of the Senior Presidential Secretary of Economic Affairs had three different offices, two of which I combined, and one of which I reorganized as the office of foreign exchange management, for the interim. (It was later dissolved on December 10, 1970.) This reduced the number of presidential secretaries by 10. I also took the effort to remind the senior presidential secretaries of the office’s main mandate: identifying and understanding the national agenda, supporting the government ministries address policy issues, and
acting as a go-between among the government ministries. I also urged the presidential secretaries to take care in presenting policy recommendations to the President.

During the 1970s, Korea’s national security policy took center stage. I sensed that the President’s office needed help in foreign policymaking. President Park struggled to cope with the rapid changes in international relations. Geopolitics on the Korean peninsula was greatly affected by the foreign policies of the US, USSR, and China. The President needed an advisor with acumen for international politics, a scholar with a deep knowledge of foreign policymaking, like US National Security Advisor Henry Kissinger. Soon after US Vice President Spiro Agnew’s visit in August 1970 to discuss the withdrawal of the US 7th Infantry Division from Korea, I recommended that a presidential advisor on foreign affairs be appointed at the Blue House. Concurring with this, President Park wanted someone morally astute, with a high-level understanding of international affairs and Korean politics, culture, education, economics, and society, someone able to incorporate ideas taken from all walks of life into government policies. The President wanted a scholar, preferably someone that was younger, who had fulfilled the obligation of military service. The search for a candidate was time-consuming work, made harder by the need to conduct it discreetly. After about two months of searching and vetting, I recommended Dr. Hahm Pyong Choon from Yonsei University as an advisor on foreign affairs.

For education and culture, another priority area for President Park, I recommended Dr. Park Chong Hong, though he was older. In fact, President Park had met Dr. Park a few times when drafting the
National Education Charter. I described the presidential advisor’s role to Dr. Park at his residence telling him that President Park sought his counsel on education and culture. He appreciated the offer but declined for reasons that he was too old, making it difficult for him to carry on the life of a public servant. After a life’s time of working into the early morning, the idea of getting up early to go to work was not appealing. Dr. Park and his wife were worried that his health would suffer if his lifestyle was changed suddenly. Determined that he was the right man for the job, President Park gave him the option to start work in the afternoon. Dr. Park accepted the offer. From his first day on the job, he began his work day early in the morning.

In addition, I recommended Dr. Chang Wee Don from Seoul National University as a political advisor; and Dr. Park Jin Hwan from Seoul National University as agricultural advisor. From a long-term perspective, I knew we needed to conduct research on tax systems, so I recommended Kim Myung Yoon, a finance professor from Korea University as an advisor. To gauge public opinion for policymaking and election campaign planning, I recommended Dr. Chang Dong Hwan, a psychology professor from Sungkyunkwan University. The President also handpicked a number of advisors including Yu Jae Heung, a former defense minister, Kim Yong Shik, Korean Ambassador to the UN, and Lim Bang Hyon, an editorial writer at the Hankook Ilbo. Thus, the team of presidential advisors was assembled and launched on December 10, 1970, to advise the President Park on areas outside of my purview, allowing me to devote my energies as the President’s Chief of Staff and the responsibilities of the Presidential Secretary’s Office.
From that day onward, many have served as presidential advisors. The Office of the Presidential Secretariat provided administrative support to advisors. They functioned independently, free to advise the President on all policy matters individual or in concert with advisors. For advisors, candid discussions with President over dinner were standard.

I felt somewhat bad for my role in getting Dr. Park Chong Hong and Dr. Hahm Pyong Choon appointed as advisors. Soon after Dr. Park Chong Hong began work, he prepared a plan to establish a National Cultural Research Institute for the study of Korea’s heritage and culture to promote and educate the Korean people. After seeking my support, Dr. Park submitted the plan to President Park, a plan he tried to implement to his best ability but could not carry to its completion due to the poor fiscal state of the government. He passed away in 1976. But in June 1978, President Park completed what Dr. Park had started, by establishing the Korean Cultural Center as envisioned by Dr. Park. After its completion, I felt that I had repaid a portion of my debt to Dr. Park.

The appointment of Dr. Park Chong Hong as a presidential advisor took many by surprise in the world of academia and education. On the day of Dr. Park’s appointment, he wrote in his journal: “There are many different opinions. I do not have to answer for my decision. I just did what I thought was right. It is a very important time. We have the responsibility to promote the spirit of the National Education Charter. Education and culture are far-sighted national policies. Both the ruling party and the opposition party should agree on that. We have to fulfill our responsibilities anytime, anywhere. The purpose of study is not just spiritual peace and
enlightenment. Bringing my philosophy alive is like helping my people survive.”

Dr. Park’s vision of a national culture and the President’s economic policies seemed to be based on a mutual understanding, each fulfilling his lot in history. As a demonstration of how much President Park admired Dr. Park, he made sure the government awarded the Order of Civil Merit, the Mugunghwa medal, to Dr. Park, even though Dr. Park had passed away earlier on March 17, 1976.

When I approached Dr. Hahm Pyong Choon for the role of presidential advisor, he was at the Brookings Institution as a research fellow. He was supposed to work and live in the US for two years. At the time, Dr Hahm was in the middle of renovating his home with a loan from a bank. Initially, Dr. Hahm declined my offer, which I fully understood considering his situation. But I kept trying to change his mind, as the President felt Dr. Hahm had keen insights and a profound knowledge of foreign affairs. In the end, Dr. Hahm accepted the job and gave up his research plans in the US. He brought energy and enthusiasm as an advisor, proving very valuable and helpful in counseling the President.

Dr. Hahm went on to be appointed by President Park as the Korean Ambassador to the US. After serving as an ambassador-at-large for the Ministry of Foreign Affairs, he returned to the Presidential Office as a presidential advisor for political affairs in 1978. After the death of President Park, he returned to Yonsei University. Dr. Hahm later returned to public service, becoming a Chief of Staff to the President during the Fifth Republic. He died
tragically in the Aung San explosion in Burma in 1983. I could not help but feel a sense of sorrow and regret. If I had not turned him toward a life of public service, then he might still be alive.

**Human Resource Management and Personnel Decisions**

People often say that human capital is everything; that success or failure rests on human capital. The axiom also holds true for presidents, whose success depends on the abilities of the public servants, according to the book *Chief of Staff* published by the University of California. A human resource policy is paramount in ensuring the appointment of capable and qualified people in government, and that the appointed ministers and public servants dutifully execute the policies of the president.

For cabinet appointments, I was tasked to find candidates for ministers for all areas of government but law, defense, and at-large, for which the President handpicked personally. I also had discretion in recruiting candidates for all the offices of the senior presidential secretary, except for the office of information.
Delegating Personnel and Human Resource Management to Ministers

It was standard for all the presidential secretaries to accompany the President on visits to the government ministries at the beginning of the year, attend and chair regular meetings, and make visits to project sites of the ministries. It gave us plenty of opportunity to learn more about the ministers, vice-ministers and other senior officials, get to know them on a professional and personal basis. I personally got to know many of the political figures in the ruling party, familiarizing myself with their platform within the National Assembly and the party. I also tried to be knowledgeable of some of the other figures outside the administration or ruling party through news clippings and editorials, periodicals, and books. After exchanging notes and views with some of the other presidential secretaries, I prepared a short list of candidates for ministers.

When new cabinet appointments were planned, the President consulted the Prime Minister on how to make the cabinet; cabinet appointments were at times made on the recommendations of the Prime Minister, who sometimes suggested a candidate not on the short list. But, most of the time the cabinet was appointed with candidates recommended by the Presidential Secretary. One of the important considerations was regional balance. The birthplace of the candidates was clearly noted, something that President Park also took care to note when the candidate list was finalized.

In principle, President Park left the appointment of vice-ministers to the ministers themselves, fully entrusting them to make appropriate personnel decisions at the ministry. If a minister did not
have a candidate in mind for the role of vice-minister, the President often worked with the minister to find a suitable candidate.

Under the National Public Service Law, the President had to make appointments for government posts Grade Four or higher. In practice, the Prime Minister ended up giving final approval in filling these posts since there were so many of them. The promotion of a government official to grade three was not based on seniority. A promotion to grade five was based on seniority and the “three times principle,” in which only a third of the candidates from a pool of candidates that were three times the size of the actual number of grade five appointments, were promoted to grade five on the basis of seniority. When ministers wanted to promote a grade five official who was ranked low in seniority but was very capable, the promotion was delayed until there were enough vacancies. When there were three openings for the post of a Grade Five official, three people could be easily promoted by the minister from a pool of nine Grade Four candidates which ranked nine or higher on the basis of seniority.

Since ministers had authority to make senior appointments from Grade Four officials all the way up to the vice-minister, they wielded considerable control over government personnel decisions, incentivizing employees to work hard for promotions. The director-generals of ministries had important roles in government administration, while directors and Grade Four officials drafted public policies. President Park’s policy of leaving human resource and personnel decisions, especially senior appointments, in the hands of the ministers incentivized the employees of the ministries.
Military Appointments outside the Purview of the Presidential Secretariat

President Park directly appointed commissioners for the National Tax Service, Korea Customs Service, National Railroad Administration, Korea Maritime and Port Administration, and the Labor Management Office. There were some exceptions in the human resource management of the government. As for the military branch of the government, the Defense Minister led the appointment process for senior ranking military officials, and submitted a list of candidates to President Park for approval. The Office of the Presidential Secretariat was not involved in the process, which was also the case for senior appointments at the Justice Ministry, where the minister consulted with the Public Prosecutor General for approval from the President.

The Minister of Home Affairs made personnel decisions on provincial governors and the Police Commissioner, with the President’s approval. As I had little to add to the process, it was left to the appropriate presidential secretary, who accompanied the President when meeting the minister. President Park handpicked the Korean Ambassadors to the US, Japan and the UN, consulting the Minister of Foreign Affairs on ambassadorships to key countries, while the appointment of ambassadors for the most part was left to the ministry. In special cases, when someone from the military was appointed as an ambassador, President Park preferred to appoint a retired general with three-stars or more, as a way to promote professional development and to raise morale.
Kim Chung-yum’s Boys

The appointment of CEOs at state-owned financial institutions should have been approved by the Ministry of Finance. I asked the Finance Minister to consult with the Governor of the Bank of Korea, who knew a lot about financial institutions, when making personnel recommendations to the President. Somehow the team of executives at the financial institutions came to be known as “Kim Chung-yum Team,” whom were thought to have been appointed through my influence.

But nothing could be further from the truth. As I said, the ministry was in charge of approving the appointment of the CEO at state-owned financial institutions, taking into consideration the Bank of Korea’s Governor’s view. At times of a scandal or a financial meltdown at one of the financial institutions, President Park was briefed of the situation by the Ministry of Finance and the Bank of Korea, and consulted me at times when deliberating on the appointment of a new CEO of the financial institution. With no one but myself to answer to, I knew the responsibility of any recommendation I made fell on my shoulders. Naturally, the people I recommended were people I knew and trusted, and could do the job; the same people I worked with at the Bank of Korea. As the President took my recommendation, many of the people from the Bank of Korea became the CEOs of the financial institutions.

For the CEOs of state-owned corporations, in most cases, the minister provided a blank recommendation to President Park. When President Park had a candidate in mind, he consulted the minister when making the appointment. He also submitted a blank
recommendation for one of the executives at the corporation, who was a reserve general, selected from a list of candidates prepared by the President’s Chief of Staff, as an official request of the Ministry of Defense. The appointment of retired generals was due to the unique circumstances faced by Korea. At the conclusion of a war, the military is typically downsized from its war time peak to a smaller size mainly composed of military officers from academies, professional non-commissioned officers, and soldiers made up of enlistees and draftees. But even after the ceasefire in 1953, South Korea had to maintain its 600,000 man military due to the constant threat of attack from North Korea, which sought to invade South Korea. This led to the retirement of many high-ranking generals every year, who after a life’s time of service in the military had no pension to retire on. President Park offered such benefits to keep morale high in the military and to provide a livelihood to career soldiers who had fought for their country.

In conclusion, President Park’s basic policy was to delegate human resource and personnel decisions to the ministers, except when appointing a few of the commissioners whom President Park handpicked. The President’s policy gave ministers a free hand in making decisions while promoting accountability; it also kept other government institutions including the Office of the Presidential Secretariat, from influencing any human resource and personnel decisions.
The Right People in the Right Place, for the Long Run

The successes of President Park’s key national policies, which took years to bear fruit, could not have been achieved had care not been taken in putting in the right people, in the right place, for the long run. To promote science and technology which suffered for years in Korea, President Park appointed Choi Hyung Sup as the Minister of Science and Technology. He implemented the policy to develop Korea’s capabilities in science and technology for nearly eight years since the establishment of the Ministry of Science and Technology until 1978. For rapid development of the heavy and chemical and defense industries, President Park appointed O Won-chol, an Assistant Minister of Commerce and Industry, as the Second Senior Presidential Secretary for Economic Affairs. He carried out the policy of developing the heavy and chemical and defense industries, for eight years from November 1971, developing it to the standard of advanced countries.

Dr. Kim In Hwan was appointed as the head of the Rural Development Administration in May 1968, where he worked for 11 years until President Park passed away, leading the development of new rice varieties. By 1975, Korea became self-sufficient in the production of rice. Sohn Soo Ik, Governor of Gyeonggi-do, was appointed as the Commissioner of the Korea Forestry Service in January 1973, working there until President Park passed away. He achieved the policy goals of the Ten-Year Mountain Reclamation and Reforestation Plan in just seven years.

President Park valued the services of talented and capable people. The President kept Nam Duck Woo for nine years and three month as
the Minister of Finance, and then the Minister of the EPB, to ensure economic stability and to implement economic development policies.

Kim Yong Hwan went on to serve the President for eight years in multiple roles including Presidential Secretary for Foreign Exchange, the Vice-Minister of Commerce and Industry, the Vice-Minister of Finance, the First Senior Presidential Secretary for Economic Affairs and the Minister of Finance. Kim Yong Hwan was instrumental in managing several important projects including the normalization of interest rates, the reform of the curb market, the promotion of Korea’s IPO market, and the introduction of the value added tax.

**Checking the Powers of the Office of the Presidential Secretariat**

I made sure to carefully handle requests for face-to-face meetings with President Park but always wary of not turning the Office of the Presidential Secretariat into a human barrier. Every day before the day began, there was a 30 minute briefing among the senior presidential secretaries. Soon after the President arrived to his office, I briefed him on the major issues and administrative matters of the day. Then, the President was briefed by the presidential secretary on the day’s itinerary and requests for a face-to-face meeting, for everyone of which the purpose of the meeting was written down on a memo that was laid on the President’s desk. By this time, unless the President had an issue he wanted to discuss or call a meeting, or speak with a minister, the day’s itinerary and the face-to-face meetings were determined.
For one-on-one meetings, the President gave priority to the Speaker of the National Assembly, the Chief Justice of the Supreme Court, and the Prime Minister, while the Director of the Korea Central Intelligence Agency and Director of the Office of Presidential Security could request a meeting with the President at anytime without prior approval. During my time as his Chief of Staff, the Director of the Office of the Presidential Security seldom, if ever, made a briefing to the President. In general, briefings by the Defense Minister or Prosecutor General or the Commander of the Defense Security Command were made on the same day when they requested a meeting. Briefings by the Republican Party, the ruling party, were also placed high on the list. For ministers requesting to see the President, meetings were scheduled depending on the purpose and priority of the issues needed to be discussed.

For leaders of society or other figures, the President met with them directly himself, or had one of the presidential secretaries vet anyone seeking to meet him first before scheduling a meeting. The presidential secretariat directly vetted requests to meet the President. They reviewed the purpose or reasons for requesting a meeting, but ultimately, the President made the decision. Requests for a meeting that did not clearly state its purpose or reason were declined by the President.

President Park often had consultations with the Speaker of the National Assembly, the Chief Justice of the Supreme Court, or the Prime Minister in private, without the Chief of Staff being present. This was also the case when the President had briefings with Director of the Korea Central Intelligence Agency, Public Prosecutor General or Commander of the Defense Security Command, all of whom
could request ad hoc meetings with the President but only after the Chief of Staff briefed the president. Only a few times did they brief the President before I did, when I was his Chief of Staff. I as the Chief of Staff often attended the meetings between the President and Prime Minister, at the request of the Prime Minister.

For urgent ministerial matters, I had the minister come to the Blue House first and then brief the President as soon as possible. During the nine years and three months I served as the President’s Chief of Staff, a lot of people that were declined a meeting with the President because their purpose or reason for a meeting was unclear, may have misinterpreted it as the Office of the Presidential Secretariat acting as a human barrier, blocking their attempts to meet the President. The truth of the matter was that the President ultimately decided whether or not to take a meeting while my office did its best to follow strict procedures in vetting and scheduling meeting requests with the President.

In managing the Office of the Presidential Secretariat, I was always mindful of not letting the presidential secretaries overstep their authority. As I said earlier, I made every effort to focus the senior presidential secretaries on fulfilling the basic mandate of the office, and made sure they had filtered this message down to everyone that worked for them including presidential secretaries and administrative staff.

As a way to check possible abuse of authority by members of the office, I instituted a personnel rotation system with the different government ministries. Under the system, personnel from government ministries or agencies were placed in one of the...
Presidential Secretary Offices for a two- to three-year assignment. They could not be promoted to other positions until they returned to their home ministries or agencies. This system injected new blood into the Office of the Presidential Secretariat while broadening the skills and experiences of government professionals. Because of the temporary nature of the rotation, many of them remained reserved during the assignment but went back to their old positions more motivated to advance their professional careers. Candidates from government ministries were often recruited for openings left by a senior presidential secretary who went on to the National Assembly or was transferred to a government ministry. When I was appointed the Chief of Staff, the position of presidential secretary was filled by ministers, vice-ministers, and Grade One government officials. After I started, I lowered the stature of the presidential office by limiting the position to vice-ministers and below.

Inter-Korean Reunification Talks

During the period 1971 to 1972, the relationship between South Korea and North Korea was at a turning point; reunification of the Korean peninsula seemed possible. On August 12, 1971, North Korea agreed to cooperate in a program to reunite separated families on the suggestion of Choi Doo Sun, President of South Korea’s Red Cross. Preliminary talks between the two sides were held, and the 7.4 Joint Communiqué between South Korea and North Korea was announced on July 4, 1972. Then, the South-North Coordinating Committee was organized, led by Lee Hu Rak, the KCIA Director, from South Korea, and Kim Young Ju, younger brother of Kim Il-
Sung and Director of Cadre Organization, from North Korea. From 1971, South and North Korea embarked on a process to ease tensions, and to facilitate exchange and cooperation for unification.

**West Germany’s Ostpolitik**

Before the turn of events on the Korean peninsula, the world entered a period of détente in late 1969, which began in Europe. First, West Germany and the USSR forged a treaty, agreeing to military ceasefire and economic and technical cooperation, thereby ending 25 years of tension after World War II. West Germany also made a treaty with Poland, agreeing not to use military force, acknowledging the Oder-Neisse Line, and promoting economic cooperation.

West Germany and East Germany, which were divided against their will after the World War II, held two meetings attended by their prime ministers and agreed to the following:

1. West Germany and East Germany have a unique relationship and are not considered different countries under the international laws, thus, leaving the door open to the possibility of reunification. West Germany and East Germany shall pursue membership to the UN together under the principle of “One nation, two states,” acknowledging the sovereignty of East Germany as strongly requested by East Germany.
2. West Germany and East Germany shall promote social and
economic exchange and improve transportation and telecommunication networks connecting the two sides to alleviate the humane anguish of the German people.

(3) A permanent organization shall be established to normalize relations between the two sides.

West German Chancellor Willy Brandt went to East Germany to hold the first talks with the Prime Minister of East Germany. Throughout the year, Chancellor Brandt had conducted negotiations to improve relations with the USSR, Poland and East Germany.

Berlin lay within the borders of East Germany, while all roads from West Germany were closed off by the USSR and East Germany, isolating West Berlin like an island alone in the sea. Airlifts conducted by the US to West Berlin were the biggest ever in the history of the world. Berlin marked the coldest point in the cold war. For 26 years after World War II, the city lay at the center of tensions between the East and West; for 22 of those years, Germany was divided into two countries; for 10 of those years, Berlin was divided into East and West by a wall built by East Germany.

Chancellor Willy Brandt tied the ratification of a treaty between West Germany and the USSR as well as Poland to Berlin. At the time, the USSR was eager to consummate a treaty for economic reasons, while the US, the UK, and France applied pressure on the USSR to address the issue of Berlin as soon as possible. Finally, in September 1971, after 17 months of diplomacy, the US, the UK, France, and the USSR reached an agreement on Berlin, opening the flow of traffic to West Berlin from West Germany, and loosening travel restrictions of West Germans into East Germany.
On September 17, two weeks after the Berlin agreement, Chancellor Brandt met with Soviet leader Leonid Brezhnev in the Crimea, near the Black Sea, and announced a joint statement. The two leaders declared that the two countries would cooperate to bring UN membership to West Germany and East Germany at the same time, and to hold European Security Talks to negotiate a basis for pursuing military disarmament and for promoting scientific, technical, and cultural exchanges. It was a show of continued cooperation between the two countries. West Germany took the initiative to start the process of normalizing relations with East Germany a year earlier.

Taking great interest, President Park closely watched West Germany’s bold policy of *ostpolitik*, especially the negotiations with East Germany, which could serve as a model for improving relations with North Korea and for reunifying the Korean peninsula. Asked by the President to gather as much information on this as possible, our office collected and translated foreign press news and diplomatic records for the President.

At the time, discussion groups, “Wednesday Meetings,” were held twice a month by the office, composed of experts from top universities in Seoul and editorial writers of major media outlets, to freely and candidly discuss political, foreign, and social issues. The President was also briefed of the conclusions of the meetings. One of the main issues discussed at the Wednesday Meeting was Chancellor Brandt’s *ostpolitik*, especially in relation to West Germany’s negotiations with East Germany. Some suggested that South Korea should seize the initiative, in the midst of détente, to ease tensions on the peninsula or move toward reunification by improving relations
with North Korea through economic and humane cooperation. It was concluded that the program for reuniting separated families would be supported by the world from a humanitarian point of view and North Korea would be willing to cooperate.

**Normalization of US-China Relations**

In 1971, the Cold War began to thaw while the world fell under the veil of détente; US President Richard Nixon planned to visit the People’s Republic of China, which had recently joined the UN; the US, the UK, the USSR, and France came to an agreement on Berlin; the countries of the ASEAN declared neutrality in Southeast Asia. A 15-member US National Team was invited to the world table tennis championships held in Nagoya in April 1971, which was attended by the Chinese National Team. For the first time in 25 years, a contingent of American ping pong players were allowed to enter China for five days of friendly matches with the Chinese. A few American news reporters also were allowed to enter China to cover the sporting event. It was part of US President Nixon’s “Ping-Pong Diplomacy.”

After the ping-pong exhibition between China and the US, on April 29, President Nixon expressed his hope to visit China. Behind the scenes, US National Security Advisor Henry Kissinger visited China via Pakistan in July, and met Zhou Enlai, the Prime Minister of China. They reached an agreement, and the following announcement was made by Washington and Beijing at the same time: “Prime Minister Zhou Enlai and Dr. Henry Kissinger had a
meeting in Beijing between July 8 and July 11, 1971. Understanding the US President Nixon’s hope to visit China, Prime Minister Zhou Enlai, representing China, has officially asked President Nixon to visit China anytime before May 1972. The talk between the leaders of China and the US will be made to normalize relations between the two countries and to exchange opinions on matters of interest to both sides.

Three months later, President Nixon surprised the world with his announcement to visit China before May 1972. Two hours before it was announced, the US Ambassador to Korea, Habib, asked me to arrange a meeting with President Park to inform the President of the pending announcement. President Nixon’s announcement had taken President Park by surprise. During the Korean War, South Korea’s army advanced to the Aprok (Yalu) River, nearly reunifying the Korean peninsula, but China entered the war and dealt a serious blow to the Korea-US allied forces, forcing them to retreat. After intense fighting, a ceasefire was agreed between the allied forces and the Chinese army. Even after the war ended, China and the allied forces had ceasefire talks. Across the world in Europe, the West and East were engaged in intense negotiations to bed an agreement on Berlin. The international mood of détente had turned the world upside down. I thought about what this meant for Korea, and how we should respond.

As relations between China and the US drew closer, marked by China’s membership in the UN (China joined the UN as a permanent member of the Security Council on October 15.), it sent a shiver across Japan and Southeast Asian countries. In Japan, strong public opinion favored better relations with China, especially since Japan
had lost the initiative to the US. Most of the countries in Southeast Asia, dependent on the US for aid and security, were apprehensive of the warmer ties between the US and China, and President Nixon’s new doctrine. This was especially the case for countries that neighbored China, whose security was threatened by China. The shift in the geopolitical landscape forced countries to either improve relations with China or risk being marginalized now that the balance of power no longer rested between the US and USSR, but between the US, USSR, and China.

All the Southeast Asian countries engaged China directly, except for Thailand, which was one of the countries with the strongest anti-communist sentiment. Thailand approached China indirectly through a third country, but its government fell to a military coup. Malaysia entered into a trade agreement with China, while the Philippines and Singapore began non-governmental interchange; and even Indonesia tried to improve its relations with China, after abruptly cutting off ties due to a pro-communist uprising.

As several of the Southeast Asian countries attempted to forge closer relations with China, an ASEAN Meeting of Foreign Ministers was held in November, represented by Indonesia, Malaysia, the Philippines, Thailand and Singapore, to have constructive discussions on the future of the region. The meeting concluded with a “declaration of neutrality” from the countries, which agreed to pursue peace, freedom, and neutrality in the region excluding any outside intervention.
Korea’s Response to Changing Geopolitics

At the outset of 1971, President Park contemplated what Korea should do to effectively handle the dramatic developments in the world of international politics. Indeed, the President anticipated that the geopolitics of the Korean peninsula would be discussed during US President Nixon’s upcoming visit to China in 1972. Against this background, the President spurred the government including the KCIA, the Ministry of Foreign Affairs, and National Reunification Board to make preparations, determined to have Korea control its own destiny.

For the USSR, 25 years after World War II, the economic benefits that would result from forging a treaty to bring about normal relations with an economic and technological powerhouse such as West Germany, were as much a motive as preventing an armed military conflict. Just as soon as ties warmed, the USSR entered into a trade agreement to exchange their natural gas for West German steel pipes. In terms of East and West German relations, East Germany, from the beginning, wanted West Germany to acknowledge its sovereignty as a state under international laws as a prerequisite to their memberships to the UN, worried it would fall under the power of an economically stronger West Germany.

By 1971, South Korea had just surpassed North Korea in economic power, but North Korea’s military power was much stronger. Unlike West Germany, South Korea did not have a dominant position against North Korea. To improve relations with North Korea, President Park sought to entice further cooperation and ease tensions by finding a small project or cause that would ensure dialogue.
The initiative to reunite lost and separated families was such a cause—a cause President Park wholeheartedly supported. It was a tragedy, the President lamented, for families to be separated from their loved ones, some of whom were impoverished by living in the communist state of North Korea. The thought of separated families was always on the President’s mind when he spoke of Korea taking hold of its own destiny, something it did not do when liberated from Japan, and not allowing fate to dictate terms, as it did when every country but Korea had a hand in dividing the Korean peninsula.

With US and international support, the President of the Korea National Red Cross, on the behest of President Park, proposed the project to North Korea through its National Red Cross. North Korea accepted, and preliminary talks between the representatives were launched in Panmunjom in September. While the preliminary talks were held, US President Nixon made his visit to China from February 21 to February 28, 1972, meeting Prime Minister Zhou Enlai five times and making the “Shanghai Communiqué.” The joint statement was unique in that it stated points of agreement and disagreement. It focused on Taiwan and mutual exchange between the two countries. China insisted that there was only one China, and that Taiwan was just a province of China. It considered the issue of Taiwan as being a domestic one that the Chinese people should resolve themselves in their own peaceful way. The US did not object. The two countries agreed on promoting mutual exchange in science, culture, technology, sports, and mass media, and would gradually develop and encourage trade.
However, no agreement was reached regarding issues around Korea. The US stated that it would continue to maintain close ties with South Korea and that it supported the efforts to ease tensions, and increase dialogue, on the Korean peninsula. China stated that it firmly supported North Korea’s reunification plan including holding talks between representatives of political parties and public organizations at Panmunjom or in another country as well as North Korea’s demand to dissolve the UN Commission on the Unification and Rehabilitation of Korea.

Leading up to US President Nixon’s visit to China on February 21, 1972, the Red Cross from South and North Korea had 19 meetings during the preliminary talks from September 1971 to February 17, 1972. However, the talks reached a stalemate, unable to agree on the conditions for holding full talks. South Korea sought to discuss only matters pertaining to uniting separated families while North Korea wanted to discuss abolishing the Anti-Communism Act and the Security Act as a precondition to holding full talks.

Breaking the stalemate was essential to reuniting separated families but also to paving the way for high-level talks with North Korea, all the more important as warmer relations between the US and China were expected to lead to more discussions about the Korean peninsula. A delegate of Red Cross sounded the proposal of high-level talks to the North Korean counterpart at the talks, who was a member of the Workers Party, and gave a favorable response. Then, South Korea suggested holding talks between Lee Hu Rak, the KCIA Director, and Kim Young Ju from North Korea, who was the brother of Kim Il Sung. In response, North Korea agreed to holding talks in Pyongyang or Hamheung. On March 28, a month after US
President Nixon’s visit to China, a South Korean delegation made a visit to Pyongyang, discussing amongst other things, having high-level talk and a direct line of communication between the two countries.

On May 2, KCIA Director Lee made the decision to visit Pyongyang to meet with Kim Young Ju as well as with Kim Il Sung, and discuss reunification. At the time, Kim Young Ju had fallen seriously ill, unbeknownst to us. Cognizant that this trip could endanger his life, President Park was hesitant of sending such a high-level senior member of the government to Pyongyang. As the KCIA Director, Lee oversaw all aspects of intelligence gathering and political strategy making for North Korea. It was not beyond the realm of possibilities that he could be drugged, tortured, abused, and taken hostage by the communist regime. I am sure it was something the President and the KCIA Director considered at one point.

Kissinger’s first visit to China was mediated behind the scenes through Pakistan, which acted as an agent for the US and China; Kissinger had flown to China on Pakistan’s presidential plane under the cover of secrecy. But Korea had to go about it alone; no country stood in the middle of the two Koreas. The decision was made to send KCIA Director Lee to North Korea, who was to keep in constant communication with a US CIA agent in Korea during his trip in Pyongyang for any eventualities. As a last, desperate measure, Director Lee was to commit suicide by cyanide if anything should happen.

At 10 AM on May 2, Director Lee made a quick stop at the Blue House to brief President Park en route to Pyongyang. I was at the
briefing along with Prime Minister Kim, and Presidential Advisor Choi, in which President Park said: “Be in constant contact with the US CIA, and be safe.” Director Lee confirmed that he had contacted the US CIA, and gestured to his trouser pocket which held a cyanide tablet, saying: “I am ready for anything.” I saw him off to the door as he left the Blue House, holding back tears as I wished him well, worried that this could be the last time I would see him.

While in Pyongyang, Director Lee was in constant communication with the Blue House twice a day, in the morning and in the afternoon, through a direct line at Panmunjom. An assistant director at the KCIA directly briefed the President on the situation. Director Lee met Kim Il Sung late at midnight on May 4, making a report in the morning on May 5, and then, safely making his way back to Seoul in the afternoon as scheduled.

Then, on May 29, Pak Sung Chul, the Second Vice-Prime Minister of North Korea, made a secret five day trip to Seoul with a delegate. At 11:30 AM on May 31, President Park met with Vice-Prime Minister Pak at the Blue House for a 30 minute meeting and had lunch with him. They were joined by Yu Jang Sik (Deputy Director of the Cadre Organization Bureau and Director of the External Project Bureau of the Workers Party) and Kim Duk Hyun (Chief Instructor of the Workers Party Political Committee). They looked anxious, as I greeted them at the Blue House, saying: “Welcome. I am the President’s Chief of Staff. I am so glad to see you.” They stood silent, not saying a word, as I shook their hands. I walked them over to the President’s office, where President Park welcomed them. They still seemed nervous. President Park asked them to sit and inquired about Kim Il Sung. After a few words about
the trip and some of the earlier meetings, Pak Sung Chul suddenly straightened up his posture, pulled a pocket book out of his jacket pocket, and began to read out loud, Kim Il Sung’s message. In the message, he delivered North Korea’s basic position on South and North Korean relations, which underlined North Korea’s desire to focus on political reunification. He kept only to what was written in the pocket book, finishing by delivering closing remarks.

In a rational tone, President Park talked about South Korea’s position, which sought cooperation on small and simple exchanges between the two countries such as uniting separated families and increasing dialogue, to establish mutual trust and to work towards eventual political reunification. The President’s words were met with silence, as the North Koreans listened carefully and took notes. Then, the meeting broke for lunch, during which Prime Minister Kim and Presidential Advisor Choi echoed the President’s words about cooperating on small and simple initiatives. Still, Pak Sung Chul kept silent, while Yu Jang Sik repeated what was written in the pocket book read by Pak Sung Chul.

The manner in which Pak Sung Chul acted in the meetings took me by surprise. Pak Sung Chul was an important figure in North Korea’s government, holding a ranking no lower than 10. He was a relative and close confidant of Kim Il Sung, who he had served for many years as the foreign minister before becoming the second Vice-Prime Minister, a key position in the North Korean government. After seeing the way he only read out loud what was written in his book, not once uttering a single word outside of what was written, I realized the absolute nature of Kim Il Sung’s power and authoritarian regime of North Korea.
Finally, at 7 AM on July 4, the 7.4 Joint Communiqué between South and North Korea was announced in Seoul and in Pyongyang at the same time. It stated:

“The parties have agreed upon the following principles for the reunification.

- First, the reunification must be achieved with no reliance on external forces or interference. It must be achieved internally.
- Second, the reunification must be achieved peaceably without the use of military forces against the other side.
- Third, both parties must promote national unity as a united people over any differences of our ideological and political systems.

1. The parties agree to implement appropriate measures to stop military provocation which may lead to unintended armed conflicts, to cultivate an atmosphere of mutual trust between South and North by refraining from vilifying the other side.
2. The parties agree to restore the severed national lineage and promote mutual understanding by implementing multi-faceted South-North exchange of information.
3. The parties agree to expedite the South-North Red Cross meetings, currently under negotiation, ardently longed for by the Korean people.
4. The parties agree to establish direct phone contacts between Seoul and Pyongyang in order to prevent accidental military clashes by prompt and accurate resolution of any urgent potential problems.
5. The parties agree to establish the South-North Coordinating Commission, co-chaired by Director Lee Hu Rak and Director Kim Young Ju, in order to implement the items agreed upon above, to resolve South-North issues, and to promote the reunification of our fatherland.

The parties solemnly swear to faithfully abide by the agreement, as desired by all of our countrymen.”

Then, a series of three meetings were held on establishing the Coordinating Committee, first in the Panmunjom, then in Pyongyang, and finally in Seoul. At third the meeting, the basis of the South-North Coordinating Committee was agreed. On November 30, 1972, the committee was established and the first meeting was held. The committee members from South Korea included Lee Hu Rak, as the Co-Chair, Chang Ki Young, as a Vice-Chairman, a former Deputy Prime Minister, and Choi Kyu Ha, a Presidential Advisor.

A day before the meeting ended on December 1, President Park met Pak Sung Chul, who was accompanied by the five-member North Korean delegation including Yu Jang Sik and Kim Duk Hyun, at the Blue House at 6 PM. As in the previous meeting, Pak Sung Chul delivered a written message by reading it out loud while silently writing down every word spoken by President Park. After 35 minutes, the meeting ended, the delegation was taken to a social gathering and dinner attended by South Korean representatives. While we tried to keep it lively and sociable, it was clear that the North Korean delegation was uncomfortable. Pak Sung Chul kept only saying what he had read out loud, hardly uttering a word,
leaving Yu Jang Sik to answer most of our questions. Pak Sung Chul was known to have fought the Japanese alongside Kim Il Sung, as a North Korean partisan. Beyond that the only other thing we found out was that he grew up as a child somewhere around Gyeongju and studied at a private university in Kansai, Japan, after asking him a lot of questions.

At the third meeting of the South-North Coordinating Committee, South Korea suggested the following:

(1) The 7.4 Joint Communique should be fulfilled as a national charter.
(2) The reunification talks between the Red Cross delegations shall commence as soon as possible to address the issue of uniting separated families.
(3) An Economic Subcommittee and the Social and Cultural Subcommittee shall be created as soon as possible. The Economic Subcommittee shall seek to promote the exchange of commerce, investment, and science & technology. The Social and Cultural Subcommittee shall seek to promote exchange in academics, culture, and sports. The two parties shall seek to create a single South-North Korean sports team for international competitions, and to exchange cultural and performing arts. Furthermore, the two parties shall seek joint research initiatives on archeology and the nation’s history and the preservation and study of the Korean language, as well as, the exchange of journalists, greater communications through letters and phone calls and tourism between the two countries.
But, North Korea wanted to put priority on pursuing military armament reduction, the withdrawal of US troops from Korea, and a peace agreement, all of which were very difficult issues. Thus, no further progress was made. Meanwhile, there was a breakthrough in the talks on uniting separated families, where a framework was agreed upon at the 20th preliminary talk. It was agreed that:

1. The status and location of the separated family members shall be confirmed.
2. Visits and meetings shall be held freely.
3. Letters shall be freely exchanged.
4. Family reunions shall be promoted.
5. Other issues from a humanitarian perspective shall be addressed.

After the 7.4 Joint Communiqué was announced, on August 29, the first talk between the Red Cross delegations was held in Pyongyang, which were followed by six more talks that did not yield any meaningful progress. South Korea sought to make progress on the initiative to unite separated families foremost but North Korea kept pushing for establishing preconditions to further cooperation such as eliminating legal and social obstacles including the Anti-Communist Law and the Security Law. North Korea was not willing to concede this point, declining the proposal by the South Korean Red Cross to organize a special “Chuseok Reunion” of separated families during Korea’s Thanksgiving Day by allowing separated family members and relatives to visit their hometowns.

As talks by the Coordinating Committee and the Red Cross did not produce progress, Kim Young Ju, the North Korean Co-Chair of Organizational Decisions and Political Lessons
the Coordinating Committee issued a statement on August 28, 1973, criticizing the South Korean government over the Kim Dae-jung Affair. The statement said: “The South Korean CIA masterminded the Kim Dae-jung Affair. South Korea has strong anti-communist policies, arresting and suppressing many pro-communist figures.” The North Korean Co-Chair declared he would no longer work with the South Korean Co-Chair of the Coordinating Committee, Lee Hu Rak. Risking an international backlash, North Korea discontinued all talks with South Korea, despite South Korean efforts to continue dialogue by nominating a new Co-Chair, Chang Ki Young.

President Park thought that it was important to remain open to North Korea and to promote exchange through simple but meaningful initiatives. But he also thought that it would take a long time, perhaps 5 to 10 years, to make meaningful progress, which had to be achieved through steady and persistent efforts. Practically speaking, most of what the Coordinating Committee accomplished was done at the working level. Thus, President Park appointed Chang Ki Young, a former National Assembly member, who was an economist, an athlete, and a journalist, as the Vice-Chairman, and Choi Kyu Ha, who was an expert in foreign affairs, and two Director Generals of the KCIA, as members of the South Korean committee.

President Park believed that reunification of the Korean peninsula would come one day when South Korea’s economic might overwhelmed North Korea to open its doors. But the chance to benefit from South Korea’s economic power through assistance in science and technology would mean that Kim Il Sung, who was practically a demigod, would lose his power. President Park put his efforts into developing Korea’s economy while strengthening its
military defense capabilities. Whenever talk of reunification surfaced, President Park said: “Reunification is impossible as long as Kim Il Sung is alive.” He doubted whether Kim Il Sung would pursue reunification at the expense of losing power. But the President held out for hope, seeking new ways to advance the reunification of the Korean peninsula.

**Foreign Policy under President Park**

President Park’s foreign policy was based on the basic principles of upholding Korea’s national interest, maintaining the trust of Korea’s partners and allies, and not letting a foreign country dictate Korea’s domestic agenda.

**Relationship with the United States**

When the 5.16 Revolution was launched, I was working in the New York office of the Bank of Korea. The view among US newspapers was that President Park was “not well known to the US military” or “seemed to harbor anti-American sentiment.” But the basis of President Park’s foreign policies lay in the mutual security agreement with the US; an alliance and partnership he always sought to reinforce and build on from the very beginning.

In the first half of 1965, Korea was embroiled in the controversy surrounding the decision to deploy the Maengho (Fierce Tiger)
Division of the Korean army to Vietnam. The opposition party vehemently opposed it; even some within the ruling party had objections. On June 9, 1965, President Park presided over a meeting of government officials and political leaders from the ruling party at the Blue House to discuss the deployment of Korean troops to Vietnam. The issue incited a heated debate. A National Assembly member and former journalist, well versed in foreign affairs, pointed out how major news outlets all over the world lashed out against countries that sent troops to the Vietnam War, concluding that no good can come out of this if Korea were to send troops to Vietnam.

But President Park was driven by a firm determination to stand in support of the US by sending troops to Vietnam. He said, “We owe a great deal to the US, one of our strong allies. The US helped us in winning our independence from Japan. They came to our aid along with 15 other nations when North Korea invaded in 1950, to help us protect our national sovereignty and freedom. South Korea does not always owe another nation. We must repay our debt of gratitude to the US in kind.” Reminding everyone that many young Americans’ lives were sacrificed in fighting the Korean War, the President believed that Korea had an obligation to send its troops because the US needed help. Though sending the troops to Vietnam would put them in harm’s way, the President believed that Korea had to repay the debt of gratitude owed to the US for their sacrifices in the Korean War. I was present at the meeting, as I participated on behalf of the minister when I was the Vice-Minister of Commerce and Industry. I was so impressed by President Park’s strong conviction of maintaining the trust of our international partners.
**Relationship with China and Taiwan**

In February 1972, US President Richard Nixon visited China, which concluded with the Shanghai Communiqué. In September of the same year, Japanese Prime Minister Tanaka visited China, announcing a joint statement to normalize relations between the two countries. China then became a member of the UN while Taiwan lost its membership. Many countries rushed to establish diplomatic relations with China while severing ties with Taiwan. At the time, Korea and Taiwan held a meeting of economic ministers every year. The site of the meeting alternated between Seoul and Taiwan, each country sending a delegation led by their Deputy Prime Minister. Within the government, the widely accepted view was that Korea should maintain diplomatic relations with Taiwan, while most countries were choosing to court China and cut ties with Taiwan. Nevertheless, it was thought that the meeting should be kept at the level of a minister or the frequency of meetings should be reduced.

Japan believed much was owed to Taiwan, which under the Taiwanese President Jiang Jieshi (Chiang Kai-shek), aided the safe return of Japanese soldiers and overseas residents back home from mainland China after World War II ended. Taiwan also relinquished any right to war reparations from Japan. Also, Jiang Jieshi gave up its army’s occupation of Japan, thereby preventing the USSR army from staying in and occupying Japan. Despite all this, even Japan was guilty of warming up to China while turning its back on Taiwan as the international dynamics changed. So the thinking within Korean government leaned strongly towards cooling relations with Taiwan.
But President Park thought that Korea could not turn its back on Taiwan, not after it had helped Korea’s provisional government so much during Japan’s occupation (1910-1945). After Korea was liberated from Japan, Taiwan had strongly supported Korea on the international stage including in the UN. The President thought that Korea should not seek immediate gains at the expense of its relationship with Taiwan. He added that Korea would be the last country to close its embassies in Taiwan. The President sought to maintain its diplomatic relations with Taiwan without any changes. (The Korean government severed its diplomatic relations with Taiwan on August 24, 1992)

**Relationship with Japan**

Korea’s relationship with Japan was second to only the US in importance. President Park normalized relations with Japan, and spent considerable effort in enhancing the relationship. The President candidly spoke of his feelings and thoughts of the idea of normalizing relations with Japan during an address to the nation on June 23, 1965 on the eve of the Korea-Japan summit talks: “Korea and Japan have been on irreconcilable terms for hundreds of years. Japan took our independence, murdered our families, and confiscated our property. Considering their acts committed on Korea, they are our mortal enemy.”

President Park remarked: “If I am asked about Japan, I will make my deeply rooted, anti-Japanese feelings known to anyone. If I have to choose to either be for or against Japan, I will always choose to be
against Japan. I believe every Korean shares this sentiment. Considering the unspeakable acts inflicted by Japan, the wounds of our suffering cannot heal overnight. But, our country, at this moment, faces more serious challenges. Our country has been divided and is continuously under the threat of communism. Let us not be obsessed over old feelings in this competitive international world. We must be able to rise above, and be willing to cooperate with our enemies of the past: today and tomorrow. It is a wise decision to promote national interests and the welfare of the people. The time has arrived to make a wise decision from a wider point of view, by letting go of old feelings, for our future, for greater freedom, and for the solidarity of the Free World.” (Speech delivered at the US press club on May 18, 1965 during a visit to the US.)

Speaking of the bitter rivalry between France and Germany, President Park noted that two countries despite having waged war with each other were able to make amends and cooperate after World War II, the result of the wisdom and decisiveness of President Charles de Gaulle and Chancellor Konrad Adenauer. President Park urged the Korean people that it was imperative to normalize relations with Japan and engage in mutually beneficial cooperation with the Japanese.

**Human Rights**

In 1974, the issue of human rights drove a wedge between Korea and the US. The US government criticized the actions of the Korean government that led to the arrest and imprisonment of demonstrators
in January 1974, most of which were students of Seoul National University, following demonstrations against the government to restore democracy in October 1973, one year after the October Revitalizing Reform (Yushin). Intellectuals and religious people were also among the demonstrators.

In his memoirs, Cyrus Vance, former US Secretary of State wrote that there had been human right issues in Korea all the time; however, the US had to always keep in mind that the confrontation between the heavily armed forces of North Korea and the allied forces of Korea and the US might trigger a war in the Korean peninsula anytime and that North Korea, which was just 35 miles away from north of Seoul, was oppressing its people and restraining their liberty. He pointed out that the US had to note such contrasting situations in South and North Korea, and that some critics felt that the US had not taken a firm stance to improve human rights in Korea. However, he believed that a careful balance was necessary and should be maintained in Korea. This view had presided over US Presidential Administrations of Nixon and Ford Administration, but it changed once President Carter took office.

President Park did not understand why, or what right, the US had in raising the issue of human rights in Korea. His reasons were simple and frank: “I am Korean. So I value and respect the rights of our people more than Americans do. I do not understand why Americans act the way they act. They are only foreigners.” President Park did not tolerate the needless oppression of people, but he understood that a country had its own unique political system that fit the circumstances. He regarded the act of blunting efforts to push a political system unsuitable under the circumstances as rational.
Indeed, President Park did not stand for the meddling of foreign countries by raising the issue of human rights in Korea.

On November 16, 1973, US State Secretary Kissinger made his first ever visit to Korea en route to the US after a visit to China, and met President Park. The visit lasted 4 hours and 30 minutes. A former presidential advisor on US national security, US State Secretary Kissinger was a well-known international political expert. The reason for his visit was to explain the US policy toward China in light of US President Nixon’s visit to China in the previous year and the conclusions of his visit. Over lunch, speaking with President Park, US State Secretary Kissinger laid out in detail the US China policy. The lunch meeting was attended by the US Ambassador to Korea, Secretary Kissinger’s staff, Foreign Minister, two of President Park’s advisors and other staff members of the Blue House. The US State Secretary had a lively discussion with the two advisors on the geopolitics of the region and the political systems of Asian countries. One of the advisors argued that a western Eurocentric democratic system could not take root in Asia due to differences in their history, civilization, and culture. In fact, outside of the Philippines, a long time territory of the US, and Japan, there were no democratic countries in Asia.

Secretary Kissinger responded that the Philippines was not a democratic country while Japan though democratic had a different style of democracy compared to European countries. He also added that a country had to adopt a political system that served its environment, as the history, culture, and politics of every country was different. Secretary Kissinger did not raise the October Revitalizing Reform. When US President Gerald Ford visited Japan,
the USSR, and Korea in November 1974, he was accompanied by US State Secretary Kissinger. Before the trip began, Secretary Kissinger remarked in a press conference that: “We cannot change all the governments and their political systems in the world based upon our American values.” On his tour of Asia, President Ford visited Korea during November 22 to 23 of 1974. He was the third sitting US President to visit Korea, following President Dwight Eisenhower in 1960 and President Lyndon Johnson in 1966.

The declaration of the Presidential Emergency Order # 1 on January 8, 1974 led to a backlash, both from aboard and home, of criticism of the Korean government for violating human rights. The criticism was voiced by the US Congress and media.

On the first day of the Korea-US summit, a meeting was held from 3 PM to 5:15 PM on November 22, which I attended with Prime Minister Kim Jong Pil, Foreign Minister Kim Dong Jo and Hahm Pyong Choon, Korean Ambassador to the US. President Ford was accompanied by Secretary Kissinger, US Ambassador Sneider, Deputy State Secretary Habib, and a presidential advisor on national security. During the meeting, President Park and President Ford discussed international issues and Korea’s political environment and its national security. At the conclusion of the meeting, the two countries confirmed their close partnership and agreed on strengthening cooperation. Then, from 5:15 PM, the two Presidents had a one-on-one meeting where the issue of human rights was discussed. The second day of the summit was marked by a customary farewell meeting in the morning for 20 minutes.
After their one-on-one meeting, President Park spoke about what was discussed during his meeting with US President Ford with Prime Minister Kim Jong Pil and members of the administration. President Park had said that the US President did not have any intentions to interfere in Korea’s domestic issues; but that some within the US Congress would raise the issue of human rights in Korea, since it was Congress that appropriated aid to foreign countries, making it important to have their support. President Park said that he responded by explaining the unavoidable circumstances that bound Korea, to which President Ford did not say anything more.

Soon after President Carter took office, he acted on his presidential campaign pledge to withdraw the US troops serving in Korea by initiating withdrawal plans with the Korean government. The US President also openly raised the human rights record of other countries under his “human rights diplomacy.” Before President Carter took the Oval Office, the US government was at times openly critical of Eastern European countries including the USSR for their record on human rights, while addressing the issue of human rights with its friends and allies behind closed doors. However, the issue of human rights for all countries, democratic or not, was put front and center under the Carter Administration. Naturally, this led some within the US Congress and the media to pay more attention to the issue of human rights in other countries.

President Park believed US President Carter’s policy of withdrawing US troops in Korea was wrongheaded for the US, for Northeast Asia, and for the world. President Park, himself an expert in military strategy, explained the strategic importance of US troops serving in Korea; and that a withdrawal would undermine this. But,
he also realized that Korea would one day need to prepare itself for the withdrawal of US troops in Korea, for it was not something Korea could control. On the issue of human rights, the US Congress put economic pressure on Korea by reducing military and economic aid and sales of farm surpluses, by suspending the US Ex-Im Bank’s payment guarantee for the construction of nuclear power plants, and by delaying approval of loans from the IBRD and the ADB.

To this, President Park said: “I do not think it is right for the US Congress to meddle in the domestic affairs of Korea, without exactly understanding our situation and the risks to our national security. As an independent nation, Korea will not allow other countries to interfere in its domestic issues. We do not have to kowtow to the US Congress so that they may lift the economic sanctions. If aid or loans from the US are reduced, we can procure goods on our own or secure loans from another country.” Thus, the government made haste to make preparations. In general, the sanctions were not expected to result in too great of economic difficulties. But US companies that were negatively affected by the economic sanctions from a reduction in aid or loans to Korea strongly opposed the actions of Congress. Despite pressure from Congress, the US government made every effort to support Korea in face of the headwinds, since it was still in the best interests of the US for them to provide a certain level of military and economic support to Korea.

During the Carter Presidency, former US Vice President Agnew visited Korea and had conversations with President Park, often while they golfed. The former US Vice President remarked that even President Abraham Lincoln, who was thought to be the embodiment of democracy, very tightly controlled the press during the Civil War;
and the US government, during World War II, placed Japanese-Americans in internment camps. He also talked about how America struggled with racial discrimination against African-Americans or other minority races, which was very serious in some of the southern states of the US. The former US Vice President said that the Carter Administration was wrong in openly criticizing the human rights record of other countries while turning their back on their own human right issues. He pointed out that, as a result of this open criticism of countries, Iran, which was once a strong anti-communist country and a strategic counterbalance to the USSR fell into the hands of anti-American militants. He added that the US Congress was becoming increasingly critical of President Carter’s human rights policy, and opposed the idea of withdrawing US troops from Korea.

Financial Distress of Construction Companies in the Middle East

One of my most bitter experiences while serving as the President’s Chief of Staff was resolving the wave of insolvencies of Korean construction companies in the Middle East. After the first Oil Shock in October 1973, Korean construction companies began to make headway in the Middle East, but most of them were unable to secure payment guarantees on performance bonds from local commercial banks due to their weak financial condition. So a lot of construction companies except for the big ones had difficulty in securing construction orders from the Middle East. To support these companies, I went to the Ministry of Finance and proposed
supporting these companies by having the local commercial banks provide payment guarantees against the construction orders secured by the companies. But, the ministry was not willing to take up my proposal. Instead, they proposed to have the banks selectively provide guarantees. This issue was something that had not been addressed for a long time.

In the second half of 1975, after the Export Promotion Meeting, President Park had lunch with the Prime Minister, the ministers, and the Chairs of the four economic organizations. During lunch, the Construction Minister strongly urged the Ministry of Finance that efforts needed to be made in facilitating unconditional payment guarantees, on behalf of companies, for overseas construction projects approved by the Ministry of Construction. The minister would carefully screen and only approve projects that were qualified. In response, the Finance Minister pledged to support this initiative, but insisted that payment guarantees must be provided selectively. A heated debate ensued; I along with the Minister of EPB sided with the Ministry of Finance while the chairs of the four economic organizations supported the Construction Minister.

Considering how conservative the financial institutions were, the position of the Finance Ministry made sense to the President, but he also thought it could hinder the construction companies’ ability to secure orders in the Middle East, thus, to earn foreign currency. As such, the decision was made to support construction companies secure performance guarantees from the local banks on foreign construction orders, which were vetted and approved by the Construction Ministry. I briefed the Construction Minister on the decision to support the efforts of the construction companies in the
Middle East, urging that the vetting and approval of the construction companies by the ministry was critical to protecting the banks, preventing excessive competition among Korean construction companies in the Middle East, and ensuring the quality of construction work. Construction Minister Kim Jaegyu was fully supportive of this, and gave his assurances that a cap of 20 would be applied on the number of approved companies. As such, the Foreign Construction Promotion Act was established in December 1975, ensuring full support of construction companies and their overseas construction orders, which were to be approved by Ministry of Construction. In this case, “full support” actually meant “unconditional” in terms of the performance guarantee put up by banks.

After that, the Construction Minister worked another year at the ministry, diligently vetting and approving 20 construction companies eligible for guarantees. The Korean Ambassador to Saudi Arabia oversaw the companies and visited every project site to resolve any issues and to boost the morale of the workers. The hard work and effort of the skilled construction workers helped Korea overcome the financial crisis caused by the first Oil Shock, and swung Korea’s international balance of payments into a surplus in 1977. Their work elevated Korea’s construction industry, our economy, and our people, into the world’s upper echelon.

As work of the 20 Korean construction companies was well received, and the presence of the industry grew in the Middle East, more construction companies sought to enter the Middle East market. In the run up to the National Assembly elections in 1978, the ruling party, which was lobbied by the construction industry, began to
pressure the Ministry of Construction to expand the pool of construction companies that could obtain government support. But I along with Lee Hee Il, the Second Senior Presidential Secretary for Economic Affairs, believed that too many companies competing in the Middle East would lead to considerable negative effects. Opposing the approval of new companies, I recommended an alternative solution of having new entrants form an alliance with companies already in the market, which would then subcontract a portion of a new construction order to the new company.

Despite heavy criticism for siding with the large, established construction companies, we did our best to prevent the government from approving additional companies. But it would be all for naught, as the new Construction Minister, also a National Assembly member, went ahead and approved 58 more companies in 1978 under the pretext of promoting free and fair competition. This brought the number of construction companies to 78 in the Middle East market, creating excessive competition, which then led to many of the negative effects I had warned would happen. Excessive competition led new entrants to poach workers from established companies; it drove companies to undercut each other in pricing; and it led to overinvestment in the industry. By then, there was nothing I could do, as I had resigned as the President’s Chief of Staff in December 1978.

After the Second Oil Shock in June 1979, oil prices rose again, which led to a global drive to reduce oil consumption and develop alternative energy sources. This drove oil prices back down. Lower oil prices negatively affected the oil-producing countries. As a result, the construction business in the Middle East cooled off rapidly,
putting many of the Korean construction companies in the region in financial trouble. In 1980, the Senior Presidential Secretary of Economic Affairs sought my advice on how to resolve the massive insolvent construction companies. I told him how I regretted not having been able to prevent this mess.

Because of the construction business in the Middle East had contributed greatly to Korea’s economy, I advised him that special financial, banking, and tax measures had to be implemented for the construction companies while the workers should be given some benefits and the heavy equipment should be salvaged through a special act. I also advised him to send a research team comprised of members from the Office of the Presidential Secretariat, the ministries, and financial institutions, to the Middle East to assess the situation. I made the recommendation that the Office of the Presidential Secretariat take charge of the liquidation process to ensure it is carried out in an expedient and decisive manner, instead of letting the ministries or financial institutions drive the process. Otherwise, the situation could get much worse.

As I had recommended, a research team was sent to the Middle East and the process of resolving the troubled firms began. Soon after, the Senior Presidential Secretary tragically died in Aung San, Burma, in service of his country. The liquidation process dragged on, taking far too long, and left banks saddled with mountains of non-performing loans.
Presidential Secretaries

On July 1, 1971, President Park was inaugurated as the 7th President of Korea, and I began to reorganize the Office of the Presidential Secretariat. First, I sought to fill several vacant positions including Senior Secretary of Communications, recently held by Yoon Chu Yung, and Senior Secretary of Political Affairs, previously held by the new CEO of KEPCO. I recommended promoting two presidential secretaries to fill the vacancies: Kim Sung Jin as Secretary of Communications and Hong Sung Cheol as Secretary of Political Affairs. President Park approved the appointments without question.

Kim Sung Jin recommended Lew Hyuck In from the Dong-A Ilbo as a candidate for Presidential Secretary of Political Affairs. He began his career as a political journalist at the Dong-A Ilbo, serving as the Chief of the Tokyo Bureau and Head of the Political Desk at the paper. After studying at Harvard University as a Nieman Fellow, he returned to the paper as an editorial writer. Since I was not personally acquainted with him, though I did read some of his work at the newspaper, I thought it best to let Kim Sung Jin recommend his candidacy to President Park.

After Kim Sung Jin approached him about the job, Lew Hyuck In accepted the post of Presidential Secretary of Political Affairs. On July 9, 1971, I appointed Kim Sung Jin as the Senior Presidential Secretary of Communications while appointing Hong Sung Cheol as the Senior Presidential Secretary of Political Affairs. Then, I merged the two Presidential Secretary Offices of Information and Civil Affairs, and eliminated the position of Senior Presidential Secretary at the Presidential Secretary Office of General Affairs.
Hong Sung Cheol had a great knowledge of the inner workings of all the ministries and had a deep network of relationships in the ruling party and the opposition party, the Catholic Church, and the military as well as North Korea. He had voluntarily joined the Marines when he was studying at the College of Commerce at Seoul National University, rising to the rank of colonel before being discharged. Then, he served as the Korean Minister to the US and as the Chief of Staff for Prime Minister Chung II Kwon for six years. After Prime Minister Chung II Kwon resigned, he was appointed as a Presidential Secretary of Political Affairs.

When I reorganized the Office of the Presidential Secretariat, I reduced the number of Grade Two presidential secretaries by a few, while I kept the status of the senior presidential secretary at the vice-minister level.

Seniority, one’s rank, is so important in civil service. In general, people fear public officials in positions of influence, even if the position was low in rank or stature. So if such a position were elevated to a higher rank, then it could lead to some negative effects. Under each senior presidential secretary, I had two or three presidential secretaries report to the senior secretary. The presidential secretaries were qualified professionals from government or the military. I also instituted a personnel rotation system where civil servants from other branches of government or military were given a two- or three-year rotation in the Blue House, before returning to their original post.
Based on my experiences in government, I knew that there weren’t many Grade Five or Four public officials that possessed the capacity to identify problems and their solutions on their own by conducting research and analysis using the cases of other countries. This was not to say that there weren’t any in government that could. I believed that there were a few who had the capacity to greatly contribute to Korea’s economy by improving or creating new systems, and by policymaking, when they rose to the position of director generals.

I also believed that the position of presidential secretary offered a great opportunity for young, capable policymakers to expand their views and experiences and learn the governing principles and strategies, all of which could play a part in their personal and professional development, thus, leading them to make contributions to the administration. From July 1971, when I reorganized the Office of the Presidential Secretariat until the time I resigned, no staff member in the Blue House had personal ties with President Park, except for the Senior Presidential Secretary of Civil Affairs, who was a former head of the military police under President Park when he had been a division commander. There were also some junior secretaries and drivers who had served under President Park in the army. So, there was no “vassal” of President Park causing serious issues.

I also made sure that all the staff members of my office did not use name cards that indicated they worked at the Blue House to prevent abuse of the office. I made it clear that anyone who broke this rule would be removed from the Blue House. The rule was followed until my resignation.

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Presidential Secretariat
I fixed the maximum number of employees at 227 including 110 high level government positions and 117 technical positions based upon Presidential Decree #4660 dated February 25, 1970. And, the maximum number was not changed until I resigned. Incidentally, the number of employees in the Office of the Presidential Secretariat under President Kim Young Sam according to Presidential Decree #13884 dated May 15, 1993 was 377, including 183 political and general positions and 194 technical positions while the number increased to 498 as of December 2005 under President Roh Moo-hyun.

I truly believed that the senior presidential secretaries and the other presidential secretaries I worked with during my 9 years and 3 months as the President’s Chief of Staff were the best in history. Indeed, many of them, 26 in total, ended up becoming ministers.

Also, seven executive officers I worked with in the Office of the Presidential Secretariat became ministers in the Kim Young Sam Administration or the Kim Dae-jung Administration.
Management of Policy Priorities

For policy priorities, President Park created a new presidential secretary’s position at the Blue House to give strategic guidance and ensure effective implementation. For example, developing the defense industry (Chapter 19), working out insolvent companies (Chapter 16), and promoting the leisure and tourism industry were important tasks that President Park handled directly, within the Office of the Presidential Secretariat by appointing a special presidential secretary rather than delegating to a line ministry. Once its mission was accomplished, a newly created presidential secretary’s position was dismantled, and a line ministry or an administration team took over.
Promoting Heavy and Chemical and Defense Industries

US President Richard Nixon’s Guam Doctrine of July 1969 meant that Korea had to strengthen its own military defense capabilities. In July 1970, President Park discussed the effects of Nixon’s policy with the Minister of the EPB, seeking his help to build up Korea’s defense industry. At the time, a factory to produce M16 rifles was being constructed. Much to the disappointment of the President, the EPB failed to secure loans, first from Japan while no progress was made in over a year with the US and Europe, needed to finance the construction of four factories: a foundry, a steel factory, a heavy machinery factory, and a shipbuilding factory.

On November 10, 1971, O Won-chol, an assistant minister in mining, manufacturing, and electricity at the Ministry of Commerce Industry, was appointed as the second senior presidential secretary of economic affairs by President Park to lead the development of the heavy and chemical and defense industries, resulting in the establishment of the second Office of the Presidential Secretary for Economic Affairs. It led the development of the heavy and chemical and defense industries for more than eight years until December 17, 1979, making great contributions to Korea’s economic development.

Dealing with Insolvent Companies

In April 1969, an assistant minister of the Ministry of Finance was appointed as the third presidential secretary within the Presidential Office of Economic Affairs, to oversee the workout of
insolvent companies. The senior presidential secretary’s team was tasked with managing the restructuring of 30 insolvent companies out of 147 private companies that had foreign debt. They prepared a plan to restructure the companies in August, and completed the process in the second half of the following year, and subsequently, disclosed its results to the general public.

Once the Blue House took over the process, however, the government ministries and financial institutions that needed to administer the restructuring of the companies remained on the side line, following the lead of the Office of the Presidential Secretariat. As such, the process was not executed in a prompt and timely manner, worsening the situation of insolvent companies. Midway through, the senior presidential secretary stepped down to run for the National Assembly, after which the office was shut down and the team disbanded on my recommendations to the President on December 10, 1970, as part of a reorganization of the Office of the Presidential Secretariat. From then, the corporate restructuring process was left in the hands of the President’s administration team and the financial institutions, which expanded the size and scope of the Company Rationalization Committee. The chair of the committee, the governor of KDB, was replaced by the Minister of EPB, while the ministers of economy-related ministries were selected as committee members.
Promoting the Leisure and Tourism Industry

Wishing to promote the leisure and tourism industry along with Korea’s export industries, President Park established the Korea Tourism Organization in 1962. In particular, President Park sought to make Gyeongju, the ancient capital of the Shilla Dynasty, into a world-class tourist destination. A Gyeongju redevelopment program was established with loans of USD 25 million from the World Bank. Under the redevelopment program, Gyeongju was restored to its former glory, reflective of its splendor, generosity, progressiveness, composure, elegance and profundity. Recognizing the need for a landscaping expert in the tourist development planning organization, Oh Whee Young, a graduate of Hanyang University with a degree in construction engineering and a master’s degree in landscaping from the graduate school of Illinois State University was recruited, and appointed as a presidential secretary. (At the time, Korean universities did not offer studies in landscaping.)

In May 1972, 10 months after the restoration of Gyeongju began, Yang Yoon Se, an assistant minister of the agricultural administration at the Ministry of Agriculture and Forestry was appointed as a presidential secretary by the President to oversee the leisure and tourism development, thereby, creating the third Presidential Secretariat under the Office of Economic Affairs. To promote leisure and tourism, Presidential Secretary Yang first mobilized the funds by securing long-term loans at low interest rates, taking an approach similar to the export promotion fund, and then, launched several projects including the renovation of the Yongin Folk Village, the Young Dong Youth Hostel, and some hotels across the nation, and the construction of a large hotels such as the Lotte
Hotel, the Shilla Hotel and the Hyatt Hotel. The Bando Hotel and the Walker Hill Hotel in Seoul were also privatized while restaurants were modernized and transportation was improved with the introduction of airport buses, tourist taxies, and hotel limousines.

Yang also contributed to creating tax benefits and easing regulations in the leisure and tourism industry. To secure additional funding, the Korea Tourism Organization was the only company allowed to operate duty-free shops in the airport and harbors. In addition, a hotel management school was established in Gyeongju to improve service while tourism bureaus were created to cater to tourists.

In two years, the base upon which to build up Korea’s leisure and tourism industry was established. Subsequently, the presidential secretary’s position and office was dissolved. Yang went on to be appointed as the Minister for Economic Affairs at the Korean Embassy in the US on February 1974.

**Restoring Korea’s Historical Sites**

Confident Korea’s rapid economic development achieved under the First and Second Five-Year Economic Development Plans had put the nation on strong footing, President Park sought to seize the opportunity to revive the spirit of patriotism founded on the sacrifices of our nation’s ancestors. As such, a program was initiated to restore many of Korea’s historic and cultural sites.
For reclamation projects of historic and cultural sites or temples, the area around the site was cleared of any cluttered buildings like inns, restaurants, and shops, while a tourism complex was established nearby. The Korea National Parks Service was created to promote the preservation and reclamation of national parks. To orchestrate these projects that required massive efforts in getting cooperation from the ministries including the Ministry of Culture and Information, the Ministry of Construction and local governments, and in conducting on-site surveys and instructions, Oh Whee Young was appointed as a presidential secretary under the First Senior Presidential Secretariat’s Office of Economic Affairs to manage the restoration projects. It was a position akin to the senior presidential secretary in stature.

On visiting many of the sites undergoing restoration with the President, I noticed that the President and Secretary Oh worked very well together, able to understand each other’s view, complementing each other like a pair of gloves. President Park had a good sense of the environment’s aesthetics while Secretary Oh proved to be quite an able administer. He helped establish the Environmental Graduate School at Seoul National University, and create the study of landscaping at Seoul National University and Yeungnam University. By 1996, three graduate schools, 27 universities and five technical colleges produced 1,200 graduates majoring in landscaping. Presidential Secretary Oh also helped to establish the landscaping construction license system and to create the Korea Landscape Architecture Corporation on July 2, 1974, and supported the founding of the Korean Institute of Landscape Architecture and departments responsible for landscaping at state-owned enterprises, such as the Korea Expressway Corporation, the Korea Industrial
Complex Development Corporation, the Korea Tourism Organization, and, the Korea Land Corporation, and at local governments including Seoul.

During President Park’s term of office, 28 historic sites in memory of overcoming national crises, 12 historic sites of ancient sages that embodied the national spirit, 18 cultural sites, and 8 monuments in honor of the Korean War were repaired or renovated.

The Chief of Staff and Office of the Presidential Secretariat

On December 16 1963, when President Park was inaugurated as the 5th President of Korea, the Office of the Presidential Secretariat was established under the following bylaws per Presidential Administrative Order #1680. The bylaws remained in force until November 23, 1989 when they were amended.

Article 1 (Duty) Presidential Secretariat shall serve the president in executing the duties bestowed on the secretary and the policies of the president.

Article 2 (Chief Presidential Secretary) The Chief of Staff shall manage all matters of the Office of the Presidential Secretariat, and shall supervise its staff.

Upon my appointment as the President’s Chief of Staff, I struggled to grasp the scope of my responsibilities, the extent of which was not defined in the bylaws of the office. I was not sure what the duties of the chief of staff entailed exactly; in that, I was not
sure if its duties also included unofficial, private matters of the
president and his family. No one clarified this matter for me. Six
months into the job I quickly came to understand what the President
wished of his Chief of Staff and the Office of the Presidential
Secretariat: it was to assist the President in executing the affairs of
the state. Besides the two personal assistants assigned to the
President, and the three assigned to the First Lady, all duties of the
chief of staff and presidential secretaries would be official state
affairs. The presidential family also kept a maid, a cook, and a food
inspector, who was a staff of the Office of the President, while the
President was assigned security wherever he went.

I held a meeting of senior presidential secretaries at the Office of
the Presidential Secretariat at 8AM every morning. At the meeting,
each senior presidential secretary made a briefing of the day’s top
issues, both domestic and international, and an update of the
ministries, which I briefed the President. The meetings served as a
place to share information, exchange opinions, and maintain
communications, all of which were vital in enhancing the office’s
role in coordinating policy. I briefed everyone on the top issues as I
came to know them very well, sitting in on all official meetings with
the President, getting to understand the President’s views and goals.
This was very helpful for everyone, as it narrowed the focus onto the
President’s top policy initiatives. The meeting lasted only 30 or 40
minutes, but the effectiveness of the meeting made it seem like much
more time was spent.

The President rarely held meetings with all the senior presidential
secretaries, holding not more than a few meetings during my 9 years
as his Chief of Staff, to hear their collective views and opinions on an
issue. When policy directives had to be made, the President called upon the Prime Minister and the ministers, those actually responsible for government administration.

In the past when the President attended a meeting, all the ministries set the main agenda of the meeting and prepared some remarks the President could deliver at the end of the meeting. It was requested by the presidential secretary, who reviewed it before the President delivered it. Having spent time as a minister, I knew remarks were prepared by a director or Grade 5 official at the ministries, before it reached the minister for final approval. But the President preferred to engage in free flowing discussions and exchange of opinions. So I decided to not include any prepared remarks at the end of the meeting. Any speech at the end of the meeting, I believed should be ad hoc and not staged.

**Delegation of Discretionary Powers to Senior Presidential Secretaries**

Besides matters regarding the President’s itinerary and appointment schedule, the unwritten rule was that a presidential secretary had to go through the Chief of Staff to report anything to the President. For urgent matters, it was directly taken to the President with the senior secretary, who made the full report after I quickly briefed the President. In some cases, the presidential secretary also joined me for a briefing. President Park often had further questions after being briefed, and looked to the senior presidential secretary or presidential secretary for answers. Their
response left the President assured, and the presidential secretaries encouraged. This was very efficient, especially if the President had questions on other policy matters.

As Chief of Staff, I delegated significant discretion to senior presidential secretaries, entrusting them with nearly all affairs related to politics or communications. The trust was mutual as I was made aware of all things reported by them to the President. At times, I was sought for advice by the secretaries. I was always supportive of the Minister of EPB, and never intervened in the administration of the ministries, but rather offered advice and support on the economic issues I could on their request.

During my time as Chief of Staff, the President’s cabinet and the Office of the Presidential Secretariat stood united on key policy issues, never showing disagreement. I avoided holding press conferences or giving lectures. I demanded, and received, the same discipline from the senior presidential secretaries and the Blue House staff members.

I made sure each senior secretary had a bulletin board to monitor the progress and address any issues that came up of a major project such as the Saemaul Movement, reforestation, underground water development, agricultural policy, construction of industrial complexes, construction of expressways, and development of the heavy and chemical and defense industries.

Most of the presidential secretaries were qualified government officials from the President’s cabinet while the Blue House staff members were young, talented professionals recruited from the
public and private sector that were recommended by senior presidential secretaries or other presidential secretaries. Also, the presidential secretaries conducted research and surveys if needed. The Office of the Presidential Secretariat supported the public officials of the central government and the local governments in implementing their project, providing moral support and policy advice. Presidential Secretaries brought focus and stability to policymaking by monitoring their implementation to the end, thus, instilling confidence within the general public in the government’s policies.
Conclusion

25. A Personal Sketch of President Park
It is difficult for me to describe in words the kind of person that President Park was. I find it easier to draw a personal sketch of the man I observed while serving as his Chief of Staff for so many years.

**President Park’s View of Korea’s History**

A student of history, the President had a deep appreciation, and personalized view of Korea’s history. He had an admiration of Korea’s rich history, its heritage, its traditions and beliefs, and its place in the world that made it unique from all other countries. The President was proud of our ancestral roots, the long legacy left by the conquering of the north under the Goguryeo (Koguryo) Dynasty (BC 37-AD 668); the unification of the three kingdoms under the Shilla Dynasty (BC 57-AD 935); the period of enlightenment, prosperity, and welfare under the Goryeo (Koryo) Dynasty (918-1392); the establishment of the Korean language and democratic ideals, the
seeds of a national restoration movement sown during the Chosun Dynasty (1392-1910).

But the President knew too well that these accomplishments could not overshadow the suffering of the Korean people, nearly 500 years of human turmoil suffered during the Chosun Dynasty. The President believed that much of the suffering could have been prevented had our forefathers taken it to task. Nearly 10 years before Japan invaded Korea in 1592, Yi Yul Gok, a prominent scholar-official, called on the leadership to raise a standing army of 100,000 men, only to have it fall on deaf ears.

Korea also would not have suffered the hardships at the hands of the Manchurians had it not needlessly toiled in political strife, giving the Manchurians the opportunity to invade in 1636. After the war with the Manchurians began, the king of Chosun fled to the Namhan Mountain Fortress, while the royal family fled to Ganghwa Island, leaving the Prince Hyojong to be taken hostage and confined in Manchuria. War ended after the king came down from the mountains, and swore allegiance to the emperor of the Manchurians, subjecting Korea to its rule. Prince Hyojong waited for nine years, planning to avenge the humiliation brought on by the Manchurians. The prince, however, would die of disease before he could exact his plans.

For hundreds of years, Korea was a vassal state under Manchurian rule (Qing Dynasty). During the early years of King Gojong’s rule (1863-1907), his father, Daewongun, sought to reform Korea’s dysfunctional government: a result of the constant political meddling in government by members of the royal family and its
court. This was four years before the Meiji Restoration of 1867-1868 began in Japan, during a time when western influences had penetrated the East. He tried to pursue reforms based on a strong national isolationist policy, only to be undone by a bloody power struggle between him and his daughter-in-law, Queen Min. Divided and weak, Korea was invaded by Japan, becoming a Japanese colony for 35 years (1910-1945). President Park believed Korea could have modernized as early as Japan had the people and the government seized the opportunity and woken up to the dawning of a new modern era.

Japan’s surrender to the Allied Forces brought an end to Word War II in 1945 and Korea’s liberation from Japanese rule. But Korea’s independence was won with the assistance of other countries and was not of our own doing. The President believed that Austria, despite being occupied by the US, the USSR, the UK and France, kept its independence and solidarity among its people; however, Korea was an independent but divided nation, its unity and identity divided by ideological differences among its people. Korea was eventually ripped apart by the Korean War, when North Korea invaded South Korea.

History had taught President Park that the unification of the Korean people was as important a struggle to undertake as any. The President said: “We must modernize our country to reunify its people. A modern country rests on the bedrock of economic independence. The long journey to reunification begins with economic independence.” The President seized upon the initiative to establish a country economically independent and able to defend itself, the basis for a peaceful reunification. He sought to rid the
country of poverty and hunger. The economic development policies of the President were based on export-led industrialization, first in the light industries and finally the heavy and chemical industries. The President sought to strengthen Korea’s national security policy, especially against the threats posed by North Korea, by mobilizing a reserve army of 2.5 million men. Faced with US President Carter’s policy of withdrawing US troops in Korea, the President modernized Korea’s military and developed the defense industry.

**Decision-Making**

President Park was a patient and deliberate man. In meetings, he made sure everyone spoke their mind before weighing in and making a decision. Once a decision was made, it was carried out to its desired end. For instance, the President held dozens of meetings and made frequent visits to project sites for several years when Korea was trying to develop underground sources of water. His persistence led to new methods of tapping underground water, managing water wells, storing water and maintaining water pumps.

Not all of the policies or initiatives implemented by President Park were well received or fully appreciated early on; even policies that now seem so great and visionary, that had the best interest of the nation and its people, faced opposition and resistance. Undeterred by skeptics and critics, the President pushed ahead until he had changed the hearts and minds of naysayers by showing the merits of the policies. These included normalizing diplomatic relations with Japan, building POSCO, and constructing the Seoul-Busan Expressway. But
nothing was more misunderstood than President Park’s policy to
build up Korea’s reserve army, which many mistook as being driven
by political motives and not as an effort to strengthen Korea’s
military defense.

President Park was a reflective and decisive man. He took to the
challenge of arriving at a conclusion or new approach, often calling a
meeting in the Blue House when faced with a difficult situation.
Once new developments were presented, he reassessed the situation
and adopted accordingly, taking a new approach to the same issue.

The President often reflected at home, thinking through decisions
late into the night, and delivering a decision the next morning. He
had a direct hand in innovating and implementing new ideas to guide
reforestation efforts and improve Korea’s expressways, beautifying
the landscape and building rest areas along the roads. For instance,
President Park wanted the land along the expressways to look
natural, something like nature had created, but the Korea Expressway
Corporation did not have the resources to create a landscape that the
president envisioned. At the time, there were no landscape artists in
Korea who knew about the western ideals of landscaping and how to
incorporate natural elements into the landscape. So after making
some inquiries, I came upon Oh Whee Young (currently a professor
at Hanyang University) who studied landscaping in the US and was
working at a top firm in the US. Appointed as Presidential Secretary,
he worked well with President Park as he advised the President on
landscaping projects for Korea’s expressways and other government-
related construction projects. With the President’s vision and
Secretary Oh’s technical expertise, the government was able to create
natural looking landscape.
Personal Characteristics

The President was a disciplined, well-organized man, organizing and filing documents and records methodically, and writing notes on important matters. His methodical nature led him to review and assess past projects and reflect on the difficulties experienced early in office. He had an exceptional memory and was good with numbers, a trait that often kept ministers and experts on their toes. He also presented himself properly and dressed neatly in a shirt and tie. From the mid 1970s, the President adopted a different look, wearing an open-collar shirt that he designed himself. He encouraged other government officials to trade their ties for open collar shirts.

The President was unassuming in every way. He lived a life of economy and practiced diligence and frugality in every facet of his life. He had servings of rice with barley and wheat flour noodles for lunch every day. He enjoyed drinking unrefined rice wine. He always used local products, only resorting to imports when there was no alternative. Except for the neckties, fountain pens, and electric shavers, the President’s entire wardrobe, his suits, overcoats, shirts, underwear, socks, and shoes, were home spun. In fact, Korean-made ties came undone so frequently that the President once asked the Ministry of Commerce and Industry to see if something could not be done to improve the quality of domestic ties. The ministry found that Korean tie producers could not afford to pay the technology licensing fees that kept neckties from coming undone too easily. The President also tried to help out the local fountain pen producer, Pilot, but to no avail.
President Park was impressed when Doosan Industries, a local brewery, made white and red wines called “Majuang.” To test whether the wines were any good, Catholic priests and nuns from wine-producing countries who were living in Korea were invited for a wine tasting of Majuang alongside foreign wines. The guests judged that Majuang’s white wine matched the quality of the foreign wines, but the quality of Majuang’s red wine did not fare so well. After the wine tasting event, Majuang’s white wine was served whenever western cuisine was served for foreign dignitaries. Gyeongju Beobju, a traditional Korean wine, was served with Korean cuisine. In addition, all the dishware used at the Blue House was domestically-made. Some of the china used early on did not contain cow-bone powder, but a local china manufacturer in Cheongju, encouraged and supported by the First Lady, succeeded in developing china that contained cow-bone powder. The First Lady then began to use bone china at the Blue House while making sure Korean diplomatic offices in foreign countries used them as well.

President Park was not impressed by worldly desires nor did he seek wealth; a truth plainly revealed to the world after his death. I always accompanied the President whenever he made visits to project sites by car or helicopter. I must have traveled by helicopter more times than anyone I can imagine. From high above on a helicopter, I could see the towering apartment complexes scattered everywhere; beautiful country houses, small and large factories, large multi-purpose dams, and restored lands. I could see how much joy it brought the President. The President’s wealth was in his country and his people.
The President’s will and determination were unyielding. He was always under intense pressure to make decisions that decided the fate of our nation and its people. At times, the President would go on for days on end to deliberate and arrive at a decision. The mental stress took its toll. The President suffered from ulcers, which he was able to treat through early diagnoses and proper medical treatment by Dr. Min Heon Ki, the presidential doctor.

As his Chief of Staff, I felt the weight of the world on my shoulders, feeling constant stress and pressure, so I could only imagine what it was like for the President. Every day of my life was filled with moments of tension and anxiety, handling every emergency, briefing the President every day and night. When President Park sought solutions to significant issues, I too, tried to find a solution. My hair would literally fall off, which I thought was hereditary or because of old age, but I stopped losing hair as soon as I left my job as Chief of Staff. I also suffered from sciatic neuralgia from 1975 until I resigned my post, which left me unable to sleep at night or sit in a chair. I often had to work standing all day, and to get physical treatment and medical care. My doctor told me I was suffering from too much stress. It was never easy to brief the President on behalf of others, especially bad news which were usually followed by a scolding from the President. Even under a great deal of stress and pressure, the President always kept a cool, level head, not letting his emotions get the better of him, when making a decision. The President exercised great patience and mental strength.
Promotion of National Values

Some people say that President Park made great contributions to economic development but did not pay attention to national values. As mentioned above, President Park devoted himself to the development of the economy because he believed that it would lead to the fulfillment of our generation’s mission, to reunify the Korean peninsula peacefully. To fulfill that mission, it was necessary to improve the nation’s power or to implement the policies to achieve national prosperity and military strength. Economic power was the most important part of national power. He constantly emphasized increased production, exports, and construction, and encouraged diligence, frugality, and saving. However, it should be noted that he also tried to cultivate and foster national values to reinforce the qualitative aspects of modernization and to overcome communism.

To promote Korean values, the President established the National Education Charter and created the Research Institute of Korean Values and Culture (Academy of Korean Studies). The Saemaul Movement was about instilling a new ethos based on the basic ideals of diligence, self-help, and cooperation, inspiring the people of this nation with a “can-do” spirit and a drive to achieve “prosperity through hard work.” These achievements of President Park were as great as his economic achievements that have been acknowledged world-wide.

The President took special interest in moments of triumph over adversities in the history of the Korean people, and believed these historic moments should be commemorated. President Park sought to restore cultural relics of historic importance such as the
Hyeonchungsa (dedicated to Admiral Yi, who defeated the Japanese at the end of the 16th century), the tomb of 700 National Martyrs in Geumsan, and the “tomb of 10,000 National Martyrs” in Namwon. Other restored historic sites included Haengju Mountain Fortress, home to a brave army that fought for justice, and Ganghwa Island, the site of an epic battle where a Korean army defeated conquering invaders, an inspiration of patriotism and overcoming adversity.

**Concern for Farmers and Workers**

President Park was always concerned about farmers, factory workers, and welfare recipients, at times, directly influencing policies with their interest in mind. The President was confident that communism’s end would be the beginning of prosperity among the farmers, as farming villages developed and the number of independent farmers increased. President Park also believed a stable society could be achieved once factory workers entered the middle class.

The economic policies for the development of the region along the four rivers, the initiatives to increase the economic opportunities of farmers and fishermen, the dual grain price policy, and the Saemaul Movement, all helped to raise the average income of rural households, which began to exceed the average income of urban households in 1974. The President took great pride in the successes of the agricultural policies, but he was most proud when seeing the positive effects of the Saemaul Movement or farmers being better-off economically.
Supplying electricity to rural areas was a national achievement but also a personal triumph for the President who knew the meaning of its significance, having grown up without electricity. It is a marvel how something so simple could significantly raise productivity and living standards. It meant farmers could work while children could study at night, people could watch television and use simple household appliances like rice cookers, fans, and refrigerators to make their lives better. Black-and-white televisions spread throughout the nation. The electronics industry asked the government to allow them to sell color televisions in Korea to reinforce the base for the export of those televisions. I also made the same recommendation a couple of times. However, it was not allowed during his Presidency because he was worried that farmers might have to shoulder the extra burden of buying new color televisions in addition to the black-and-white ones and that the luxurious colors of color televisions might harm the healthy customs of farming villages.

President Park frequently dined with all the senior presidential secretaries and presidential aides, where politics and policies were the main topic of dinner conversations. The Saemaul Movement was always discussed. When the mood at times turned heavy, President Park was always pleased to hear detailed reports of the Saemaul Movement having a positive effect on the livelihood of farmers.

The President made sure to visit factories, special technical high schools, and vocational training centers that were part of the policy efforts, all across Korea. During his visits to factories, the President encouraged the workers, treating them as if they were his own sons and daughters. He was always interested in the working conditions and paid close attention to employee facilities such as dining halls.
and bath facilities and their salaries and benefits. The President sought to provide sufficient support for training and education initiatives, so that workers had the opportunity to move up the social ladder. The sight of seeing young students with the badge given to the “flag-bearers of Korea’s modernization” always made the President proud.

To the President, nothing made him more hopeful than seeing company’s management working hand-in-hand with their fellow employees, wearing the same clothes, eating the same food. Just the same, nothing discouraged him more than seeing management perched high above in lofty, luxurious offices. President Park believed that labor and management could coexist without conflict if managers were austere and treated employees like family even if the company could not afford high salaries.

President Park believed it was premature to introduce a minimum wage system, but he did everything possible to ensure wages did not drop below a certain level and to minimize wage differences within the same industry. It was a situation he monitored through regular reports from the Ministry of Health and Social Affairs and the Ministry of Labor. It was hoped that the Factory Saemaul Movement would take root in Korea, fostering a Korean brand of cooperation between labor and management that would lead to productivity gains and better working conditions.

The President was very supportive of welfare policies to assist the disenfranchised through welfare assistance programs to the extent allowable under the national budget. The assistance programs provided medical aid, and support to those who could not work.
People who were able and wanted to work but were unable to find jobs found support through the Saemaul job creation projects that were often supported by budget surpluses in the Saemaul Movement.

I truly believe that President Park was a leader of his time, a man who possessed the cardinal virtues of a revolutionary, a soldier, an educator, and an administrator. He was a man great enough to turn the tide of our nation’s long decline, marked by the Japanese Invasion of Korea in 1592, the Manchu War of 1636, Japan’s annexation of Korea in 1910, the division of the Korean peninsula in 1945, the Korean War in 1950, and to revive and modernize Korea.

In November 1982, former US President Jimmy Carter published his memoir. I quickly purchased a Japanese version of the book to find out what he had written about President Park. I wondered what the former US President would write about his decision to withdraw US troops stationed in Korea, his conversations with President Park on this and the issue of human rights in Korea.

I was shocked to find that only four and a half lines from a book with 940 pages had been written about Korea, all of which described the former US President’s conversations with Reagan, the president-elect, after Carter had lost the presidential election in November 1980. Carter wrote that he and Reagan discussed about what he had done to save the life of Kim Dae-jung who was a leader of the pro-democracy movement in Korea, and that Reagan thanked him for sending a message to President Chun Doo Hwan to guarantee the life of Kim Dae-jung. The book also wrote that Reagan said that he envied President Park’s power to close universities and send the students, who participated in the demonstration against the
government, to the army in order to control campus unrest. Aside these anecdotes, there was no other reference to Korea. I could not hold back my tears thinking that all the hardships President Park suffered while he wrestled with Carter’s policies and human rights allegations had been whittled down to four sentences in a book.

**Reflections on Korea’s Development and Corporate Responsibility**

In the 1960s, it was difficult to achieve economic take-off as Korea was an underdeveloped country that was not endowed with natural resources and had a dearth of capital and technologies; many hardships had to be overcome in the early years of economic development. Indeed, Korea had to resort to its own unique brand of policies and strategies to achieve economic development.

In year one of the First Five-Year Economic Development Plan (1962-1967), Korea’s exports totaled USD 55 million and its foreign exchange reserves totaled USD 168 million, while its economic growth rate was 2.2%. By June 1963, the foreign exchange reserve fell to USD 114 million; Korea’s economy was barely kept afloat by aid from the US. The lack of foreign exchange proved to be the biggest obstacle in implementing the Five-Year Economic Development Plan, and the only way to get around this was to induce foreign investment. At the time, diplomatic relations with Japan had not been normalized, and it was inconceivable for Korea to secure loans from European countries including the UK, France, and West Germany. This left Korea dependent on the US. As a poor
undeveloped country kept afloat with aid, Korea had a very poor international credit rating while Korean companies, which were not known in the global financial market, could not induce foreign investments.

To address this, the government adopted a system where the government or state-owned banks provided payment guarantees on foreign loans lent to companies. Such a system was not found in any other country. For example, credit agreements between a Korean private company and a foreign financial institution to facilitate trade financing were first approved by the EPB and the National Assembly, while the Korea Development Bank and the Bank of Korea guaranteed their payment. As a result, financial institutions in foreign countries began to have greater confidence in providing loans to Korean companies regardless of their creditworthiness, thus, providing Korea with the capital to develop its economy.

The projects in the First Five-Year Economic Development Plan were managed by the state, encouraging the government and financial institutions to work together and provide strong support. The First Five-Year Economic Development Plan was an off-shoot of a long-term economic development plan that remained unfinished and was prepared by President Syngman Rhee’s Administration in 1959 and by Prime Minister Chang Myon’s Administration in 1961. The plan itself was quite crude relative to the Second Five-Year Economic Development Plan that was prepared by Korean economists with advice from US experts sent by USAID. The first plan introduced mostly new factories unseen before in Korea. It was difficult to estimate the amount of money needed to invest in factories because the government officials and business entrepreneurs could not easily visit other similar factories.
in foreign countries due to strict overseas travel restrictions at the time. In some cases, a low investment amount was intentionally estimated for fear of not receiving any money if it was too big.

From the outset, the First Five-Year Year Economic Development Plan faced an uphill struggle. President Park began to monitor the progress of each of the plan’s projects, even creating an office at the Presidential Secretariat to get frequent updates and document every step in the process. Updates on the progress of the projects were also presented as part of the Monthly Economic Trends Report and the Quarterly Evaluations and Assessments of Government Projects. President Park believed that even those projects driven entirely by the private sector should be treated as part of the larger scheme of national economic development, thus, they should receive strong government support and be considered as quasi-public projects. The President pushed the government all the time, often making some public officials that were leading a project that was far behind regret that they ever included the project in the plan.

When necessary, the Ministry of Finance had to lean on the financial institutions to lend more, despite criticisms of government-induced or preferential financing. The Ministry of Commerce and Industry provided construction materials for some of the projects such as iron bars, cement, lumber, and bricks. Early on in development, Korean companies were financially weak and lacked sufficient collateral, thus, the Korea Development Bank or commercial banks had many difficulties in providing loans or payment guarantees. Loans that soured due to a projects failure often led to banks being sanctioned by the audit authority for their part in cooperating with the government.
Even after factories were built with support from President Park, the ministries, and the financial institutions, and the government still had to ensure that factories operated as a on-going concern; otherwise their failure would have put the country’s credit rating at risk since the loan used to finance the factories were backed by the government, thus, risking the government’s ability to secure further loans.

Many newly-built factories had difficulty establishing their footing in the beginning. For instance, the Korean market was often flooded with a six month or a year’s supply of foreign-made goods, especially from Japan, at heavily discounted prices while payment for the goods was deferred. Some of these products were the very same products the factories built in Korea were suppose to produce, which made it difficult for them to maintain normal production levels. Since anti-dumping trade measures did not exist then, the government had to provide additional financial support until the market was exhausted of imported products. So the factories had to struggle for a long time to make up for the losses incurred in the beginning.

During the First and Second Five-Year Economic Development Plans, the issue of monopolies and oligopolies became a problem. In the early stages of economic development, the government supported the growth of specific companies while promoting free competition. But Korea’s domestic market was too small to spur competition; and even a company that achieved a monopoly in Korea was too small compared to international standards. Promoting competition did not seem suitable in Korea considering its limited domestic capital and foreign exchange. Instead, the government sought to regulate the
monopolies by allowing existing companies to reach a scale big enough to compete globally, while their products would be sold at international prices domestically. The government was supposed to establish price controls to minimize the effects of monopolies, and then, implement measures to support late entrants into the market. But the government policies to mitigate monopolies were ineffective due to insufficient controls and the lack of cooperation from companies.

The First Five-Year Economic Development Plan finally began to produce results after the efforts and support of the government; Korea’s economy grew 12.7% in 1966 after experiencing a low growth rate of 3% in the early 1960s. Over the period of the Five-Year Plan, Korea’s economy grew at an annual growth rate of 7.88%, exceeding the plan’s target of 7%. Exports totaled USD 250 million and the foreign exchange reserve totaled USD 240 million at the end of 1966.

The Economic and Social Modernization of the Republic of Korea, published by the Korea Development Institute and the International Development Institute of Harvard University, pointed out: “In 1961, the First Five-Year Economy Development Plan (1962-1966) with the averaged yearly growth rate target of 7% was announced. Considering the economic trend in the early 1960s, the above target seemed too high to be attained. However, actually, the target was exceeded. In the past, the US advisors regarded Korea as a hopeless country. However, Korea was now on the threshold of the era of rapid economic growth that was exceptional case in the world’s economy history. Also, Korea introduced the Economy Liberalization Plan (the market liberalization policies) in 1964 and
1965 and changed its import substitution-oriented economy into the export-oriented economy from 1964 to 1967, reinforcing the base for the rapid economic growth.”

It added that: “The Korean government clearly showed its ability when implementing development policies rather than when establishing such policies. According to the definition of Karl Gunnar Myrdal, who won the Nobel Prize in economics, Korea was a hard state that had the ability to practice policies.”
Soon after, the government began to promote the heavy and chemical and defense industries during the Third and Fourth Five-Year Economic Development Plans. The Plans helped Korea become a leading developing country. A year after US President Nixon implemented measures based on a strong dollar policy, a ripple effect swept across Korea’s industries, many companies unable to make payments on loans, were put at risk of a financial collapse. In response, the 8.3 Emergency Decree was implemented to reform the informal curb money market to help companies overcome the crisis.

Going as far as the government and financial institutions monitoring the construction progress of companies’ factories and providing strong support to companies speak for themselves when it comes to President Park’s view of business. The peaceful reunification of the Korean peninsula was believed by the President to be the great mission of our generation. To reunify the peninsula, Korea had to achieve economic development to secure economic prosperity and a military strong enough to defend itself. He also believed that economic power was the basis of national power, and that companies should grow to develop the national economy and to improve the living standards of the people. With an entire nation behind him, the President supported and promoted Korea’s industrialization.

President Park always reminded companies of their social responsibility, their social obligations for the sacrifices of the nation and its people. After Korean companies benefited from the 8.3 Emergency Decree which came at the sacrifice of the curb-money lenders and at the government’s expense, they pledged to fulfill their social responsibility by selling shares of their company to the public.
After two years had passed, the pledges remained unfulfilled. On May 29, 1974, the “Special Presidential Order to Promote Initial Public Offerings” was announced. The family ownership structure of Korean companies stood in the way of progress in human resource development, improvement in better labor-management relations, and fostering globally competitive companies. Companies were strongly encouraged, at times heavily induced, to take their companies public after the 8.3 Emergency Decree. Observing the excessive accumulation of wealth by the chaebol, large family-based business groups, and their reckless expansion initiatives, the President urged them to address these issues.

Even hearing the word chaebol annoyed the President, making sure to let the ministers or presidential secretaries know of it, remarking: “Some family-owned business groups are recklessly expanding their business. They own too many companies. As a result...their old, dated ways of managing the business do little to inspire progress, they do everything to concentrate and keep their properties within the family. This is standing in the way of the healthy development of companies.”

President Park urged the ministers to implement economic policies to counter the accumulation of wealth by the chaebol and to help companies become globally competitive. When these businessmen or family businesses went beyond their boundaries, the President took swift action, being firm but discreet to redress the situation to maintain national stability.
Efforts on Amending the Yushin Constitution

After being elected as the 9th President in July 1978 under the Yushin Constitution, President Park held a summit with leaders from both the ruling and opposition parties. During the talks, the opposition party pledged to support Korea’s security policy, while President Park pledged to pursue a democratically based political system once Korea’s security had been secured.

To this end, the former Director of the Korea Central Intelligence Agency was requested by the President to examine ideas to amend the Yushin Constitution including the presidential election system. The senior presidential secretary for political affairs was put in charge of researching amendments to the Yushin Constitution as well as plans for steering the nation’s affairs in the future.

President Park also appointed a former Director of the Korea Central Intelligence Agency as a presidential aide for legal affairs, a newly created position, so that he could continue to work on the amendment of the Yushin Constitution when the administration was reshuffled at the end of the year.

“Stepping Down as President and Securing a Line of Succession”

When work began on amending the constitution, President Park had decided to step down from the presidency, a year before his term was to end, planning to name Kim Jong Pil, the former Prime
Minister, as his successor. Under the existing constitution, the Prime Minister being next in the line of succession, stood to serve out the rest of the term as the acting President in the absence of an election. After Kim Jong Pil had served the remaining term as the President, a presidential election was to be held to elect the next President with candidates from both the ruling and opposition party.

The President often remarked to me and Lew Hyuck In, the Senior Secretary: “I think Kim Jong Pil should be appointed as the Prime Minister again so he can act as the President.” He also said: “Once Korea’s national security has been firmly secured and the US troops have been completely withdrawn in 1982, I think I will have achieved all I can for our nation. It will be a good time for me to rest, and marry off my son and daughters.”

I want to state that the accusations of the opposition party that President Park had peddled political influence by paying off leaders of the opposition party during inter-party talks are completely baseless and unfounded. As a former Chief of Staff, I never once suspected nor found evidence of such activities in the presidential office.