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KOREA'S EXPORT GROWTH: AN ALTERNATIVE EXPLANATION

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INTRODUCTION

Korea's remarkable export achievements are well known. From a mere $175 million in 1965, exports rapidly climbed to $5 billion within a decade and to a staggering $20 billion by 1981. In the earlier period of her development (1966-76), which is of most interest to LDCs aspiring to emulate her performance, exports grew at an average rate of 37% in the late 1960s and 42% in the first half of the 1970s.
It is frequently claimed that the impressive expansion of exports was the cause of Korea's economic growth (see Balassa 1) although the effects are impossible to quantify. The failure hitherto to establish a clear causal link between export performance and economic growth has led to an intense debate over exports being either the `engine' or `handmaiden' of growth. Nevertheless, there is a strong positive relationship between the two (see Table 1) and it would be reasonable to assume that exports made a major contribution to growth because exports enabled Korea to overcome the limitations of her domestic market in exploiting scale economies, ensured full capacity utilisation, improved efficiency (by exposing firms to foreign competition) earned foreign exchange to purchase imports (of capital and intermediate goods) and raised profits for reinvestment in manufacturing industries.

Table 1 **Key Indicators (%)**

	1960-5	1966-70	1971-5
Export growth rate (average annual)	45	37	46
GNP growth rate " "	5.6	10.4	8.6
Exports as % of GNP	3.2	8.6	19.8
Exports of manufactures as % of total exports	36	72	85

Source: Bank of Korea (cited in 2)

As a share of GNP, foreign trade (imports and exports together) increased from 35 percent (in 1988) to 61 percent (in 1985). Although the growth rate of merchandise exports was impressive, it was the growth rates of manufactured goods that were phenomenal and were largely responsible for the overall export growth rates. Manufactured goods (SITC 5-8) which had accounted for 14% of merchandise exports in 1960 rose to 90% in 1982.

Table 2 Total and Manufactured Exports ($million)

Dates	Total Exports	Manufactured Exports (Sitc 5-8) (%)
1965	175	107 (61)
1968	455	340 (75)
1970	835	690 (83)
1973	3,225	2,727 (84)
1976	7,715	6,764 (88)

Source: Bank of Korea; Economic Statistics Yearbook, various years

Although Korea's trade performance is well documented, the means whereby Korea managed to achieve such outstanding export growth rates for manufactured goods has not been satisfactorily explained. It is widely held view that "supply-side rather than demand side variables dominated export growth in developing countries during the postwar period" (3:463) and hence "export success is related to favourable internal factors influencing countries abilities to compete and diversify" [Lowe cited by Balassa (3)]. This paper offers and alternative explanation for Korea's export expansion. It eschews the usual country approach and instead analyses Korea's exports in a regional context. In contrast to the commonly accepted viewpoint, which attributes the cause to internal factors such as government export-orientated strategies (particularly macro-economic policies), the paper demonstrates the important role of Japan in Korea's export expansion. The paper is organised as follows: the first section briefly discusses the popular explanations of export expansion. The second section describes the emergence of a triangular system of trade, which is followed by section on the critical role of Japan in the evolution of the trading system. The paper concludes with a discussion on the implications for countries hoping to emulate Korea's success in the export markets.

1: POPULAR EXPLANATIONS

A variety of reasons for the rapid expansion of Korea's export have been proffered. They include inter alia, export market exploration (through the government's trade offices, KOTRA) increase in production capacity, control over wage increases, juggling of real effective exchange rates, improved labour productivity, selective investments and a wide range of export incentives.

The new Park administration (of 1961) realised that Korea could not adequately provide for a population of 26 million and a labour force that was growing by 300,000 a year, through the promotion of agriculture and import-substitution industries. Moreover the US were about to cut its aid programmes which had partially financed Korea's import bill. An export-oriented strategy seemed the most obvious approach. President Park's new policy was to build a nation through export promotion and to this end his government adopted a strategy which included a wide range of measures to encourage the growth of export industries.

The adoption of the export-oriented strategy and the expansion of exports has led many observers to deduce that the former caused the latter. Moreover, both the major schools of thought on economic growth (in developing countries) have claimed that the Korean export-led success supports their theories, although it is difficult to understand how the same empirical evidence can sustain such opposite theoretical views.

Firstly, the neo-classical development school which argued that `exports expanded because prices were undistorted by government measures'. An exponent of the school is Petri, whose study (4) sought to determine how Korea achieved her trade record. His conclusion was as follows:

"A host of circumstances and policies appear to have been related to these special features of Korea's trade" (that is faster export, growth, greater openness of economy, greater diversification)." Certainly important were Korea's efficient factor markets, high quality labour force and enormous investments in physical and human capital. There is little doubt about the importance of exceptionally able entrepreneurship.... Among policies that encouraged rapid export growth, realistic exchange rates valuation and measures that essentially freed the export sector from import barriers were especially important. These and other export-promoting policies amplified rewards to exporters and produced a regime.... did not significantly discriminate among sectors but it did sharply enhance the returns received by successful export".

In short Petri argued that the government's trade regime attracted entrepreneurial talent to the export sector but "permitted private choices to govern the direction of trading activity". The neo-classical school maintain that Korea (and the other NICs) relied primarily on private enterprise and free markets and that the reason for Korea's export expansion was mainly her `laissez faire' policies which were `neutral' in terms of exports and imports. Several observers (5:139) have noted the contradiction between the `neutral trade regime' advocated by neo-classical economists and the `export oriented strategies' advocated by the same economists. Nevertheless, to quote Greenaway (6), `proponents of outward-oriented strategies have generally emphasised the alleged virtues of competition and benefits of resource allocation being guided by the invisible hand of the market mechanism rather than the visible hand of bureaucracy'.

The `statist' school argues that export growth was largely the result of the `visible hand of bureaucracy' namely direct government intervention. They claim that trade policy was not neutral but on the contrary, the Korean government was noted for its judicious manipulation of both import-substitution **and** export-oriented policies. The general failure to realise this aspect of Korea's trade strategy comes as one economist (5) notes from `the failure to distinguish between two different sets of rules operating in the home market. One set of rules applied to export inputs and priority activities. The second applied to imports oriented purely to the domestic market'. In short imports for export production were permitted whilst imports for domestic use were not.

The `statists have provided many examples to demonstrate that Korea did not create a neutral trade regime that allowed markets to work more freely', in particular `the allocation of foreign exchange, preferential credit tariff exemptions and other subsidies became strictly tied to the fulfilment of officially specified export obligations' (5:143).

There is a widespread tendency to assume that export promotion policies has a beneficial impact on export expansion (and growth), see for example the World Bank's study on East Asia (7). Although, the highly export-oriented economies of East Asia have been successful, one should be wary of attributing such success to the alleged efficacy of export promotion policies. It is not enough to merely assume that because a degree of government intervention, in the form of export incentives, coincided with a sudden growth of exports, that the former was the cause of the latter. An interesting correlation is not necessarily a causal factor, and such a correlation does not exist for many other developing countries, which have introduced policies with a strong bias towards export markets but have not succeeded in generating a rapid growth in exports. Moreover there have been very few attempts to assess the overall effects of government policies on exports, because of the difficulties of evaluating the contribution of each policy.

The evidence in Korea would suggest that the government was not as effective promoting exports as the `statists' maintain. The previous regime of Syngman Rhee had also promoted exports and intervened with subsidies with no obvious results. Indeed several of the export promotion policies, claimed by both neo-classists and statists to have stimulated exports in the 1960s were actually initiated during his rule in the 1950s (see Box 1). President Park's government introduced a variety of trade policies which included unification of the exchange rate, devaluation of the won, liberalisation of imports and a wide range of export incentives (both discretionary and non-discretionary). In addition the government actively discriminated in favour of the export sector by granting exporters the right to import inputs duty free, offering concessional loans and export credits, promoting Korea's products overseas through a new government agency (KOTRA), trade missions and trade agreements, permitting exporters high depreciation allowances on materials and even subsidising transport costs. The government also set annual export targets for selected commodities, which reinforced the incentive system, since individual firms had to achieve export targets in order to receive importers licences. Overall, the government helped to change attitudes towards exporting. Consequently, it is generally taken for granted that Korea's export success was mainly due to the efforts of the government.

Box 1 Export Incentives	Dates Applicable
1. Tariff exemptions on imports of raw materials and parts	1959-75
2. Tariff and export exemptions to domestic suppliers of exporting firms	1966-75
3. Accelerated depreciation	1966-75
4. Registration of importer condition on export performance	1957-75
5. Reduced rate on public utilities	1967-75
6. Direct export subsidies	1955-56
7. Export credits	1950-75
8. Production loans	1959-75
9. Import credits for exporters	1964-75
10. Credits for overseas marketing activities	1965-75

Source: extracted from Kreuger A O, `The Development Role of Foreign Sector and Aid', Harvard University Press 1979, p93

Despite the very extensive array of official incentives offered to the export sector, the Korean government cannot take the credit for the remarkable expansion of exports. The contrast between the government's export plans and actual outcome are very marked, suggesting that the private firms (especially foreign) had very different ideas about `selecting the winners'. For example, the government planned a 5 per cent increase in the textile and footwear industry during the first plan, but instead Korea achieved a 29 per cent increase. The government had clearly not foreseen the rapid growth of the clothing industry (see Table 3). Nor had it foreseen the rapid growth of the plywood and wigs industries which along with clothing were to constitute the `big three' in Korea's exports in the mid 1960s.

Table 3: Export Plan and Actual Performance 1966 (US$ million)

	Plan	(%)	Actual	(%)
Cotton Fabrics	3.0	(2.2)	10.0	(4)
Silk Fabrics	0.8	(0.6)		
Synthetic Yarns and Fabrics	-	(-)	9.5	(4)
Woollen Fabrics	-	(-)	2.2	(1)
Other Textiles	1.0	(0.7)	12.7	(5)
Footwear	0.8	(0.6)	5.5	(2)
Clothing	-	(-)	33.4	(13)
Wigs	-	(-)	15.5	(6)
All Manufactured Goods	46.0	(33.0)	155.0	(62)
Total All Commodities	138.0		250.0	

( ) = % of total exports

Source: Ministry of Finance (cited in 8:62)

The Second Five Year Plan (1967-71) also underestimated the continued export growth of clothing, footwear, wigs and plywood, and the emergence of electronics as a significant export (see Table 4). It was the growth of these exports that largely accounted for the difference between planned and actual exports in 1971.

Table 4: Export Plan and Actual Performance 1971 (US$ million)

	Base Year 1965	Plan (1971)	Actual (%)(1971)
Cotton Fabrics	11 (6)	37 (7)	31 (3)
Other Textiles	15 (8)	59 (11)	21 (2)
Clothing	25 (14)	84 (15)	304 (29)
Wigs	4 (2.5)	10 (2)	70 (7)
Footwear	4 (2.4)	6 (1)	37 (4)
Plywood	18 (10)	40 (7)	115 (11)
Electrical Products	- -	- -	59 (6)
Other Manufactures	11 (6)	38 (7)	115 (11)
All Manufactured Goods	107 (61)	342 (62)	877 (82)

Source: compiled from Bank of Korea data (cited in 8:64)

The government may have a, as Das (9:91) puts it, `nourished a wholesome macro-economic environment and a stability that encouraged private sector investment'. It may indeed have `selectively applied' its intervention and allowed free market forces and economic agents to act in their own interests. But the government whether providing a suitable environment and/or directly promoting economic activity, could not propel indigenous firms into competitive international markets. The neo-classical school maintain that the liberalisation of trade created sufficient incentives for local entrepreneurs to export. "What the state has provided is simply a suitable environment for entrepreneurs to perform their functions" (10). Maybe but one should be wary of confusing incentives with ability. Korea lacked an international class of entrepreneurs; most Korean firms were too small to meet large overseas orders and lacked the entrepreneurial skills to break into competitive markets, without considerable assistance through sub-contracting to foreign firms or forming joint ventures to acquire marketing skills and also to achieve greater specialisation and the economies of scale to compete. It would seem that far too much attention has been given to government policies as determinants of export expansion. Governments can develop the `supply-side' of export industries but often the `demand-side' is often beyond their control since exports depend on regional and global factors.

Korean representatives of the larger firms realised that the only way to move into the light industries (and the US market) that Japan was beginning to shed and to gain access to Japanese markets, was to obtain external support namely a deal with Japan which was accomplished through the Normalisation Treaty of 1965 (11:73). It was only much later after acquiring considerable entrepreneurial experience in the international markets, that Koreans mainly through the chaebols were able to compete. This paper argues that the impetus for the expansion of foreign trade came not so much from `internal' sources (eg macro-

economic reforms and government incentives) although these undoubtedly helped but from external sources, in particular from Japan.

2: TRADING PATTERNS

To understand the cause of Korea's export expansion, it is first necessary to examine the destination of Korea's exports by composition and the source of her imports also by composition to determine (i) which markets were expanding, (ii) for which products and (iii) emerging trade patterns and secondly how the trade patterns emerged. The major trading partners were the US and Japan which between them accounted for a two-thirds to three-quarters of her total exports and nearly three-quarters of her total imports (see Table 5) during the crucial development period 1965-1975. Since there were no other major trading patterns until the 1980s, we shall concentrate primarily on these markets.

Table 5 Percentage Share of US and Japan in Korea's Trade 1965-75

	Exports	Imports
1965	61	75
1970	75	70
1972	72	81
1975	56	59

Source: Economic Planning Board

2.1 1960s

As Table 5a reveals, the products which contributed most to Korea's growing exports of manufactures were textiles, plywood and clothing, the combination of which (plus wigs) accounted for approximately 73% and 70% of the total growth of exports between 1962-64 and in 1965 respectively.

Table 5a **Korea's major exports by commodity (1962-65)($ million)**

	1962	1964	1965	1966
1. Textiles	-	20	26	39
2. Clothing	2	6	21	30
3. Plywood	1	12	18	33
4. Wigs	-	-	7	12
5. Total Exports of manufactured goods	10	58	108	155

Source: Bank of Korea, Economic Statistics Yearbooks, various years

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The US was the main market for exports of clothing, wigs, plywood and to a lesser extent textiles. Statistics on imports by major source show the dominance of Japan as Korea's major supplier of capital and intermediate goods (see Table 6), and the US as a supplier of raw materials, except for synthetic fibres, the bulk of which came from Japan. A triangular trade structure began to emerge whereby capital and intermediate goods were imported from Japan to produce labour-intensive manufactures for export to the US.

Table 6 Imports by Main Product and Main Source 1964-66 (Jan-Jun) (US$ million)

		Total		Major Source (1966)	
SITC	**Product**	**1964**	**1966**		**(%)**
00	Food	33	42	US	(70)
2	Crude Materials	49	66	US	(52)
242	Wood	10	19	-	-
263	Cotton	18	20	US	(92)
266	Synthetic Fibres	3	5	Japan	(93)
3	Minerals	14	18	-	-
5	Chemicals	37	46	US	(62)
6	Basic Manufactures	23	52	Japan	(83)
651	Textile Yarns	8	14	Japan	(85)
651.6	Synthetic Fibres	5	7	Japan	(94)
651.7	Rayon Yarns	-	6	Japan	(75)
67	Iron and Steel	-	17	Japan	(88)
7	Machinery	39	66	Japan	(67)
717.1	Textile Machinery	6	15	Japan	(78)
719	Non-electrical Machinery	9	15	-	-
72	Electrical Machinery	4	12	-	-
8	Misc Manufacture	3	5	Japan	(61)
	Total all imports	200	300	(Us	(40)
				(Japan	(37)

Source: Calculated from UN Commodity Tables

After 1966, the triangular system of trade expanded. Korea's exports continued to be dominated by the `big three' products of clothing, textiles and plywood, which between 1967 and 1970 accounted for high shares of total manufactured exports (see Table 7). Although there appears to be a widespread notion that Korea produced a wide range of exports, a majority of her exports were narrowly based, despite government inventives to promote greater diversification, on textiles and clothing in the later half of the 1960s and also in the first half of the 1970s (with the addition of electrical goods), which combined accounted for more than half of Korea's total exports.

Table 7 Major Exports of Manufactured Goods ($ million)

	1966	(%)	1971	(%)	1976	(%)
Clothing	33	(17)	303	(33)	1,845	(31)
Textiles	39	(20)	137	(15)	964	(16)
Plywood	30	(15)	127	(14)	339	(6)
Electrical Mach*)	3	(-)	54	(6)	646	(11)
Telecom	-	(-)	11	(1)	302	(5)
Footwear	5	(3)	37	(4)	498	(8)
Total	196		916		5,894	

(* Includes watches and sound recording equipment)

Source: UNCTAD

The major destination for the key exports (clothing, plywood, footwear and textiles) was the US. Japan on the other hand accounted for a high proportion of exports of food and crude materials (see Table 8).

Table 8 Main Destination of Major Exports 1967-70 (US$ million)

		Total		US		Japan	
SITC	**Product**	**1967**	**1970**	**1967**	**1970**	**1967**	**1970**
0	Food	19	23	5	6	12	11
2	Crude Materials	27	40	5	-	16	29
6	Basic Manufactures	43	100	20	42	6	18
631.2	Plywood	15	43	14	30	1	8
65	Textiles	21	38	5	8	2	5
7	Machinery	6	27	2	17	0.5	4
8	Misc. Manufacturing	40	162	27	113	3	25
84	Clothing	24	94	14	57	3	22
851	Footwear	3	9	3	8	-	-

Source: UN Commodity Trade Statistics (Jan-June only)

In the latter half of the 1960s, the Japanese domination of the imports of manufactures and capital goods continued (see Table 9).

Table 9 Major Sources of Imports (1967-70) (US$ million)

SITC	Product	1967	1970	Difference	Share Difference US	Share Difference Japan
0	Food	33	102	69	68%	-
2	Crude Materials	86	185	99	36%	-
5	Chemicals	38	82	44	-	66%
6	Basic Manufactures	81	140	59	-	71%
7	Machinery	137	274	137	18%	43%
	All imports	411	872	462		

Source: Calculated on data from UN Commodity Tables (Jan-June for each year). (See Annex II).

The `Switch'

During the mid 1960s, there was a fundamental re-orientation in Korea's (and also Taiwan's) trade, for whereas in the early 1960s Japan had been the major market and the US the major supplier, by the late 1960s the roles had been completely changed: the US was the major market and Japan the main supplier (see Table 10). Similarly in Taiwan, in 1960 the major destination of exports was to Japan by 1970, the US had replaced Japan, which had in turn replaced the US as the major source of imports.

Table 10 Main Sources and Destinations of Korea's Trade (%)

	Exports		Imports	
	Japan	US	Japan	US
1960-62	49	17	23	48
1965	26	35	39	37
1967	26	43	45	31
1968	22	52	43	31
1969	21	50	41	29
1970	28	47	41	30

Main Sources and Destinations of Taiwan's Trade (%)

1960	38	12	35	38
1970	15	38	43	24

Sources: (a) Korea: Bank of Korea (b) Taiwan: UN Commodity Tables

2.2 Growing Importance of Japanese Market

An examination of some of the export growth sectors in the 1970s shows the increasing importance of the Japanese market in basic and miscellaneous manufactures. Indeed the massive growth of exports in these sectors (SITC 6 and 8), was partly due to the expanding Japanese market (see Table 11). For example, exports of woven textiles (and cotton fabrics) in the 1970s rose rapidly, largely due to the expansion of the Japanese market.

Table 11: Exports: Key Products by Destination 1970 (Jan-June) and 1973 (Jan-June)
(US$ million)

		World		To Japan		To USA	
SITC	**Products**	**1970**	**1973**	**1970**	**1973**	**1970**	**1973**
0	Food	23	94	11	61	6	11
2	Crude Materials	40	74	30	63	-	-
26	Textile Fibres	16	32	14	31	-	-
261	Silk	15	26	13	26	-	-
3	Mineral Fuels	3	16	-	12	-	-
6	Basic Manufactures	100	445	18	130	43	177
631	Veneers/plywoods	43	138	8	32	30	101
651	Yarn	5	33	-	16	-	-
652	Cotton Fabrics	12	23	-	16	-	-
653	Woven Textiles (non-cotton)	14	82	-	36	4	5
67	Iron and Steel	8	73	3	4	-	43
7	Machinery	27	156	4	30	17	86
71	Non-electrical Mach.	-	24	-	9	-	10
72	Electrical Machinery	22	121	-	21	16	68
729.3	Transistors/valves	14	75	-	8	11	48
8	Misc. Manufactures	162	439	25	105	113	207
84	Clothing	94	280	22	78	57	114
841.1	Clothing	37	110	-	25	30	47
841.2	(non-knitted)						
	Clothing Accessories	19	22	18	21	-	-
841.1	(non-knitted)						
	Clothing Accessories	37	137	3	36	25	59
851	(knitted)	9	41	-	5	8	30
89	Footwear	56	92	3	16	46	55
	Miscellaneous						
	Total Export *	371	1,257	92	411	182	487

- = insignificant (below US$ 3 million)

* = totals include products not listed

Source: Compiled from UN Trade Commodity Statistics.

The entry into the Japanese market for manufactured goods was a major boost to Korea's exports, which soared to new heights. The massive expansion of exports from US$835 million (in 1970) to $7,715 million (in 1976), almost a 1,000 percent increase, can be partly attributed to the increase in exports to Japan.

Table 12 Share of US and Japan's markets in expansion of selected exports
(US$ million)

SITC		1970-73 Difference	Share of US/Japan	
6	Basic Manufactures	344	Japan (33%)	US (39%)
7	Machinery	129		US (53%)
8	Misc. Manufactures	277	Japan (29%)	US (34%)

Source: compiled from Table 11

Imports

During the 1970s, imports continued to expand. The real surge took place between 1972 and 1974 (See Annex II) particularly for imports of manufactured goods and machinery. The Japanese market accounted for a high proportion of both.

Table 13 Imports by Major Commodities (US$ million)

SITC	Main Commodities	1970	1972	1974	1976
2	Crude Materials	405	454	1,250	1,565
3	Mineral Fuels	136	219	1,054	1,747
5	Chemicals	164	224	631	866
6	Manufactured Goods	306	396	1,000	1,146
7	Machinery	590	762	1,849	2,387
71	Machinery (non-elect.)	306	360	724	1,016
72	Electrical Machinery	133	223	513	791

Source: Bank of Korea: Economic Statistics Yearbooks (various issues); Economic Planning Board: Economic Indicators

Throughout Korea's initial period of development, Japan dominated Korea's imports. During the later 1960s and 1970s, there was a steady shift in the commodity composition of Japan's exports to Korea from textiles to capital goods (see Table 14).

Table 14: Composition of Korea's Imports from Japan (%)

	1965	1975	1979
Textiles	20	11	5
Metals	16	11	18
Machinery/equipment	27	40	47
Total (US$ million)	180	2,248	6,247

Source: Japan Trade Association Summary Report 1979

A dual pattern of trade had evolved, firstly the `triangular trade' whereby goods were imported and processed for export to third countries, such as the US (and later to European countries) and secondly the `home trade' whereby imported goods were processed for sale in Japan (and sometimes via Japan to third countries). It is generally thought that Korea had to export to pay for her imports. Although Korea in the early 1960s had to expand exports to partially offset her large import bill, the development of the triangular trade introduced a new dimension of Korea importing to keep pace with the export-led industries. Imports also became a function of the export of home-produced goods, rather than the reverse; arguably, it was not imports that stimulated exports but exports that stimulated imports. Since Korea "lacked the industrial base and technical know-how to produce its own capital goods", she had to import intermediate goods as inputs for the production of export goods. ".... large number of plants and much equipment and machinery were imported on foreign credit.... This may well explain the continued dependence of exports on imports" (12). It was upon these foundations that Korea expanded her trade with the rest of the world, and which gave her a head-start (over other non-developed countries). Access to US and Japanese markets gave her an enormous advantage which was not available to most LDCs.

3: EXPLANATION FOR THE DUAL TRADE SYSTEMS

The next question we need to address is how the triangular system of trade developed? The reasons for the increase in the US share of Korea's exports have puzzled many economists, some of whom have put it down to "Japan's notoriously restrictive commercial policies" (13). The implication of such statements is that the US market was tapped because Korean entrepreneurs had few alternatives. How East Asian firms gained access to some of the world's most competitive market has been largely neglected in the literature on the NICs which is surprising given the powerful influence of market penetration on the export performance of these countries. As Lall (12) noted,

> "Received trade theory assumes that the marketing of manufactured products does not constitute a separate determinant of success with exporting. An enterprise which develops the ability to produce a good in conventional theory.... at or below ruling world market prices can become an exporter with no extra effort".

In short, little account is taken of the barriers to entry into global markets by new exporters, and yet such barriers are very important, for as Lall (12) explains,

> "Recent research into the marketing of developing country exports suggest that information gaps and transaction costs of various kinds, as well as the more conventional costs arising from scale economies in advertising and distribution act as significant barriers to entry and expansion by new exporters. While such barriers are inherent to all forms of industrial marketing, they assume special significance for developing country enterprises because of this relative distance from final markets, inexperience, small size and inadequacy of local institutional support. It is important for purposes of both theory and policy making to understand the nature of marketing barriers and possible means of overcoming them".

There is no evidence of the Korean government itself master-minding such a trading system. Nor can we assume that it was based on the collective initiative and drive of Korean entrepreneurs. It would have been exceedingly difficult for Korean entrepreneurs to break into the US market in the 1960s entirely on their own without the support of intermediaries to provide market and product advice. The Koreans lacked the basic skills required for international trade, particularly in the sophisticated markets of the US and Europe. They lacked information flows that are necessary to market manufactured products. They also lacked the economies of scale which the intermediaries possessed to reduce the high costs of marketing transactions. The explanation for the access to US and Japanese markets has much more to do with Japanese interests than Korean government policies.

3.1 Crucial Role of the Japanese

3.1.1 Investments

The geographical pattern of commodity flows cannot be fully understood without an analysis of the distribution of foreign investment and other sources of capital. It became apparent in the later half of the

1960s, that the Japanese were sub-contracting manufactured products, which they had previously exported to the US, to firms in Korea. This was no secret; in October 1965 Korea and Japan had agreed to an international division of labour, whereby "Japan would sub-contract out to Korea its labour-intensive, export orientated processing industries" (15) which in Japan were in decline. The Japanese were quite explicit:

> "It is natural that in less developed countries the necessity of promoting labour-intensive industry is paramount. In this case (Korea) it is not unusual for a majority of these labour-intensive industries to be from the sector of declining industries of the developed countries (Japan)" (16).

Subsequently, strong links were forged between Japanese and Korean firms on a sub-contractual basis, particularly in the textile and clothing industries. The sub-contracting was supplemented by direct foreign investment and commercial loans to Korea. Once a few leading Japanese companies had shown the advantages of sub-contracting to Korean firms many others followed. In 1970, there was a wave of Japanese investment, particularly in those industries which Japan had decided to relocate (through the establishment of overseas subsidiaries and joint ventures) or upgrade by relocating only the labour-intensive processes.

The Japanese initially concentrated on the textile, metals and electronics industries (see Table 15). During the 1970s investments increased in the machinery, chemical and metal industries. For the period 1967-71, Japan accounted for 67 per cent of a total of 241 investment projects. Between 1972 and 1976, Japan's share of all projects (739) rose to 85 per cent and Japan dominated foreign investment in most manufacturing sectors.

Table 15 Direct Foreign Investment, Aug 30 1971

	Total			Japan		US
	Proj.*	Am.**	% Share of Proj.	Distrib. of total amount	% Share of Proj.	Distrib. of total amount
1. Manufacturing	295	212	62	(89)	31	(83)
- Textiles	40	24	68	(19)	23	(5)
- Chemicals	39	21	82	(12)	15	(4)
- Glass and clay	18	16	72	(10)	11	(2)
- Metal products	17	11	94	(14)	-	(-)
- Machinery and Parts	41	8	68	(6)	27	(1)
- Elect./Electronic	58	50	50	(23)	46	(20)
2. Social overheads	22	36	40	(9)	36	(16)
3. Total	336	250	60	(100)	31	(100)

(including agriculture, mining, fertilisers and petroleum products)

* Investment projects

** Amount (in $million)

Source: compiled from data supplied by Economic Planning Board 1972

Commercial loans, a substantial proportion of which came from Japan (17) were also directed towards the manufacturing industries in the export sector. Loans in the form of supplier's credit were extensively granted to the export-industries for the purchase of imported inputs (capital and intermediate goods). Both Japanese official and commercial loans were usually `tied' to the purchase of machinery and equipment from Japan. Frequently such `packages' (of loans and capital goods) included marketing arrangements. In several key industries (such as electronics), there were a large number of Japanese firms, joint-ventures and sub-contractors, which used Japanese capital, technology and imported components to produce goods for the export market (16).

3.2.2 Motives

The flow of Japanese investment and loans "was not something that has just happened, it has been positively encouraged" (18) by the Japanese government. The relocating of Japanese manufacturing industries to Korea (and the subsequent development of the triangular trading system) were influenced by a variety of motives. Firstly, Japan sought to concentrate more of its productive capacity in the higher value

industries. During the 1970s Japan's industry moved upmarket into more technology-intensive products, which created a niche in Japan's export markets (and later Japan) for the more labour-intensive manufactures such as textiles and basic electronic consumer goods and later during the 1970s for semi-manufactured goods (such as iron and steel). MITI was concerned to `internationalise' the Japanese economy. "Overseas production has suddenly emerged as a national requirement encompassing practically the entire spectrum of her industries and enterprises small and large alike. The segments of industrial activities that are no longer suitable, environmentally or otherwise for the Japanese economy needed to be transplanted abroad.... Furthermore, overseas investment is now viewed as an essential device by which to upgrade Japanese industry" (Ozawa cited in 18:176). In order to upgrade its industries but not sacrifice total control over the industries catering for the lower end of the market, the Japanese designed an informal `system' which incorporated Korea and Taiwan whereby these two countries produced goods which were no longer profitable to manufacture in Japan but at the same time gave Japan some control over an important source of supply.

Secondly, the Japanese were also concerned to develop the NICs as a major export market for their expanding output of machinery and related product. "Economic growth of the investment-orientated type requires a rise in imports of capital goods...." (19), and Japan was the main beneficiary of increased capital-goods imports. Their subsidiaries and joint ventures in Asia were mostly required to import capital goods from Japan. Korea was Japan's most important market after the US, particularly for capital goods and hence it was in Japan's interests to promote the export of Korean goods which in turn increased the demand for her own exports to Korea. Japan therefore ensured that both Korea and Taiwan flourished, not only to safeguard her investments but also to ensure a continuous demand for Japanese capital and intermediate goods.

Thirdly, Japan increasingly suffered from trade restrictions in her more important markets (the US and Europe). Japanese firms were thus encouraged to bypass US trade restrictions by exporting, via neighbouring countries, which were not subject to the same restrictions. For example, many of the large electrical firms (e.g. Sony, Matsushita and Mitsubishi) established plants in the early 1970s in Taiwan, Korea and Malaysia to avoid trade restrictions and also to use the quotas of the host countries.

Fourthly, the rapid rise of wages in Japan also encouraged the Japanese conglomerates to "divide the entire manufacturing process into different phases so that labour-intensive procedures could be located in labour-abundant countries such as Korea" (20). The Koreans offered a low cost (and highly disciplined) workforce. Table 16 provides the major motives for investment in Korea by Japanese firms in 1979. The search for lower production costs (i.e. low wages and plant sites) are significant because they reflect the investors desire to remain competitive in third country markets.

Table 16: Reasons for Japanese Investment in Korea (%)

Industry	Higher Profits	Low Wages	Domestic Market	Plant Site	Other	Total
Textiles/apparel	21	41	16	9	12	100
Wood products	17	30	50	-	-	100
Chemicals	20	27	29	10	14	100
Metals	16	22	33	14	16	100
Machinery	16	33	24	10	16	100
Machinery	18	35	21	9	17	100
electrical	20	22	39	15	5	100
Machinery transport						

Source: Economic Planning Board Special Survey: Foreign Direct Investment 1979

Japan managed to avoid the `boomerang effect' by keeping investment closely tied to the real economy in Japan, by farming out labour-intensive parts of the production process to Korea, while keeping the higher value added capital and technology (skill)-intensive parts in Japan.

Fifthly, the Japanese were concerned for Korea's trade imbalance with Japan, for although Japan benefitted by exporting high value goods in return for low value goods, it was not in her longer term interests to worsen Korea's balance of payments deficit. Initially, Korea covered the deficits through short and long term loans from the US and Japan. By the mid-1970s the triangular system of trade with the US and the expansion of exports to Japan reduced the scale of the trade deficits.

Table 17: Korea's Trade Balances with US and Japan (US$ millions)

Year	Exports to US	Exports to Japan	Imports from US	Imports from Japan	Trade Deficit(-)/Surplus(+) US	Trade Deficit(-)/Surplus(+) Japan
1965	62	45	182	175	-121	-130
1970	395	234	585	809	-190	-575
1975	1,536	1,293	1,881	2,434	-345	-1,141
1976	2,492	1,802	1,962	3,099	+530	-1,297

Source: Economic Planning Board, Korean Economic Indicators

3.2.3 Export-orientation

A study (21) of foreign investment projects (883 in total) in 1974 found that the vast majority (760) were `type C' firms which were primarily export-orientated. The same study showed that nearly all wholly-owned subsidiaries were export-orientated as were the majority of joint-ventures (see Table 18).

Table 18: Orientation of Joint-ventures Firms 1969-74

	Domestic Market	Export Market
Textiles	1	98
Timber	1	15
Chemicals	16	61
Clay and related products	2	12
Metals and metal products	6	35
Machinery and parts	9	86
Elect/Electronics	2	153
Total Manufacturing (incl. others)	47	593

Source: Sung-Hwan Jo (21:141)

Several studies show that the Japanese had a higher proportion of joint ventures than US and other investors (see Table 19). Given that majority of joint-ventures were export-orientated and also Japanese, it follows that most Japanese affiliates were export-orientated.

Table 19: Ownership distribution of Foreign Firms

	1971		1981	
	Japan	**US**	**Japan**	**US**
Wholly-owned	26	27	92	23
Majority-owned (51-99%)	41	17	73	20
Co-owned (50%)	45	36	171	40
Minority-owned (10-49%)	90	24	276	52
	202	104	612	135

Sources: 1971 Economic Planning Board data

1981 Compiled from Ministry of Finance data

Furthermore, the exports of foreign (mainly Japanese) firms grew more rapidly than those of Korean firms, the former by 11 times and the latter by 5 times between 1970 and 1974 (21:146). By 1974, foreign firms

controlled a significant proportion of Korean export industries (see Table 20). Since the majority of foreign firms in these sectors were Japanese we can reasonably conclude that Japanese firms were a major influence on some of Korea's key exports. In other export areas where Japanese firms did not account for a high proportion of actual exports, (such as garments and textiles), the Japanese nonetheless were indirectly influential through (a) dominance of the upstream synthetic fibre industries and (b) the extensive system of sub-contracting to Korean garment producers. The vast majority of Korean small and medium size garment manufactures did not engage directly in export activities (22:41).

Table 20: Exports of Foreign Firms as a Share of Total Exports (per cent) 1974

Manufacturing	31
Textiles	12
Wood	2
Chemicals	57
Clay and glass products	74
Metals and Metal products	84
Machinery and parts	93
Elect/Electronics	89

Source: Bank of Korea cited in Sung-Hwan Jo (21)

Japanese firms and joint ventures exported their products to the home country and to third countries. By the late 1970s, according to a MITI Survey, the Japanese market had become relatively more important than third country markets (see Table 21).

Table 21: Markets for Produce of Japanese investment projects in Korea 1977 (%)

	I	II	III
Textiles	16	15	67
General Machinery	63	22	15
Electrical Machinery	32	20	48
Transport Equipment	50	-	50
Precision Machinery	23	6	71
Miscellaneous	25	32	43
Manufacturing	35	20	45
All Manufacturing			

I = host country; II = third countries; III = home country

Source: adapted from table 7.3 in Morris-Suzuki (23)

3.2.4 Marketing Outlets

The Japanese subsidiaries and joint ventures in most cases brought their `overseas customers' with them. In those industries where there was substantial Japanese involvement (through investment and sub-contracting) Korea did not have to seek new markets; they had already been penetrated by firms relocating to Korea. Japan also helped indirectly by establishing a reputation for Japanese goods, which benefitted Korea because not infrequently consumers in OECD countries were ignorant of the differences between Japanese and Korean goods. Most joint ventures sold through their foreign parent companies (or their foreign branches). For those joint ventures that did not inherit such marketing outlets, the Japanese general trading companies or `sogo shoshas', would in return for sub-contracting in manufacturing for Japanese firms, provide access to the US and other markets particularly for low-wage labour-intensive products which did not directly compete with Japanese exports. Some Korean firms sought the services of the Japanese trading companies because they provided access to a global market, especially for textile, clothing and electronic products. The general trading companies aided Korean firms in a variety of ways; they were frequently responsible for initiating, financing (through investments and loans) and marketing products for export. They would identify the products and indicate the quality, the price, the deadlines etc that had to be maintained to meet international competitiveness. They also arranged for imports of raw materials and intermediate components, frequently financing such purchases through credit. However, in the absence of data on the sogo shoshas, it is difficult to evaluate their contribution to Korea's exports in quantitative terms.

It seems that much of Japanese `off-shore' investments in the labour-intensive export industries were undertaken with the extensive participation of trading companies and with few exceptions the trading companies handled the exports of these products (24:265). In the case of firms not linked to foreign investment, it is difficult to assess the role of intermediaries because of the lack of data. Very little research has been undertaken into the sub-contracting arrangements made with Korean firms. Rhee (25) on the basis of a small sample of large firms, claims that a third of Korean firms were represented by Japanese trading companies, whilst the majority of the rest used importers. It has been claimed by Mitsui (26) that the Japanese trading companies were responsible for half of Korea's exports. According to Krause and Sehiguchi (27), the trading companies were responsible for half of Japan's total exports and about two-thirds of her imports (84% in 1970). Therefore, most of Korea's exports to Japan were almost certainly handled by the trading companies. It was estimated that 50 to 70 percent of Taiwan's exports passed through Japanese general trading companies (28). According to Huong Chi's estimates, Japanese marketing firms controlled 50 percent of Taiwan's exports "even to the United States". It is therefore most likely that the trading companies, which had direct links to the US and Japanese retail outlets, also covered a significant percentage of Korea's exports (29). According to Hofheinz and Calder (30:199) in the late 1970s a third of Korea's entire trade was handled by Japanese trading companies.

As Japan shifted out of labour-intensive industries, Korea moved into the `niches' vacated by the Japanese in the US market (and later in the Japanese market). Initially, the Japanese assisted this development through the conglomerates, which arranged for the supply of parts, machinery and materials, credit and also marketing. It was only in the mid-1970s that the Korean trading companies, the `chaebols', (officially established in 1975) began to expand exports. By 1977, they were responsible for a quarter of Korea's total exports (see Table 22), which rose to 34 per cent in 1979 and 48 per cent by 1982.

Table 22 **Chaebol's exports 1977 ($billion)**

	Total Exports	Chaebol's Exports	(%)
Manufactured goods	9.4	2.6	27.4
- heavy industry	3.8	0.9	23.3
- light industry	5.6	1.7	30.1
- textiles	3.2	0.9	28.8
Total (incl. others)	10.5	2.8	26.4

Source: Korean Traders Association

3.2.5 Competition?

Given (a) the encouragement by the Japanese government (through MITI) for labour-intensive industries to more `off share' to Korea and continue to export to third countries and (b) the dominance of Japanese firms and trading companies in Korea's trade, it would be naive to assume that the reduction in Japanese exports in light industrial goods to the US between 1966 and 1971, which closely matches the increases in Korea's exports (to the US in these products), was entirely co-incidental (see Table 23). Indeed it is highly improbable that the Japanese intermediaries, who had already established commercial networks in the US would have stepped to one side to allow the Koreans to develop their own links to the US market.

Table 23 Share of the US Market (%)

	1966		1971	
	From Japan	**From Korea**	**From Japan**	**From Korea**
8411 Clothing/textiles	36	3	22	13
8414 Clothing	20	2	13	14
6312 Plywood	37	17	21	37
7293 Transistors	34	-	13	12
8510 Footwear	26	3	12	4
Other manufactures	21	7	17	18

Source: UN Commodity Trade Statistics (adapted from Cole, 31)

The Japanese did not see these products as crucial to their own export strategy, which by the 1970s had switched to the production of higher value goods. On the contrary the Japanese partially vacated a niche in the market which they encouraged the Koreans to fill. In Korea's two key industries, clothing and electronics, many of the products were sold under `foreign brands' and therefore marketed by foreign companies. In the case of textiles and clothing, the trading companies accounted for a high proportion of exports (32:242). In the case of electronics, the share handled by the trading companies tended to be less because the Japanese industrial conglomerates which dominated Korea's electronics industry tended to handle their own exports. A complementary rather than competitive trade was established. There was a mutually beneficial division of markets rather than a contest for markets. For example in the textiles and clothing industry the Japanese upscaled into more sophisticated products, (which still gave them a

substantial share of the world market) and at the same time relinquished the lower-end of the market to Korea, initially through Japanese firms and conglomerates.

Table 24 Japan and Korea's Share of the World Market in Textiles and Clothing

	1968	1970	1972	1974	1976
Textiles					
Japan	15.7	14.1	12.9	11.0	10.8
Korea	0.8	0.7	1.0	1.8	3.1
Clothing					
Japan	10.9	9.1	5.6	2.8	2.5
Korea	3.2	4.2	5.7	8.1	11.2

Source: UN Commodity Trade Statistics

3.2.6 Import-orientation

Japanese firms, joint ventures and local firms (sub-contracting to Japanese firms or joint ventures) also imported a high proportion of their inputs, particularly capital and intermediate goods from their suppliers in Japan of Japanese subsidiaries in Korea, which in turn were dependent upon Japanese suppliers. As can be seen in Table 25, foreign (mainly Japanese) firms had a high propensity to import their inputs from Japan rather than to use local sources. Although it is that such close parallels between imports of inputs and exports of foreign firms should come as no surprise since only foreign firms which engaged in exports were allowed to use imported inputs, nevertheless import dependency for foreign firms and affiliates was much higher than for Korean firms (20:160). Moreover, since according to Park (20:6) more than half of joint-ventures obtained more than 50 per cent of their imported inputs from their partner's countries and since the majority of joint ventures were Japanese, a high proportion of imported intermediate inputs came from Japan.

Table 25: Foreign Firms: Propensity to import inputs 1975

	Imports
Textiles	74
Chemicals	92
Metals	74
Machinery & Equipment	76
- Machinery	59
- Electrical Machinery	82

Source: Park E Y, (20:134)

4: CONCLUSION

The conventional explanations of Korea's export growth in manufactured goods are inadequate. Trade expansion is determined by a complex combination of factors. On the supply-side, the Korean government's efforts to low labour costs, subsidise transport costs and allow exporters to import inputs at world prices, undoubtedly contributed to the export expansion. On the other hand, creating the degree of specialisations and the economies of scale necessary to reduce prices would have been difficult without strong external demand. The emphasis in the literature on Korea's trade, on supply-side variables has led to the relative disregard for the demand-side factors. Most writers seem to be content to list Korean export promotion incentives, and assume that such incentives were sufficient to expand exports in global markets. The statists' claim that government intervention was very supportive of exports was undoubtedly true but alone was insufficient to enable Korean firms to penetrate the highly competitive markets of the US followed by Japan and Europe. Similarly in the case of the neo-classical development school, merely by freeing the market in Korea and adopting a so-called neutral export-orientated development strategy does not guarantee access to world markets. Earlier attempts to foster exports through trade liberalisation and trade promotion had not been particularly successful. We therefore need to consider an alternative approach, which gives greater recognition to `external' regional forces rather than `internal' domestic factors, to give less weight to such internal factors as export-orientated policies and to focus more on international factors which have been seriously neglected in the literature on export expansion. I have argued that Korea's export success was not a national phenomenon but instead a regional phenomenon, based partly on a triangular trade pattern that was largely masterminded by Japan. Accordingly Korea's export expansion was not a matter of market forces or free trade policy (as the neo-classical school would

have us believe) or government intervention (although export incentives undoubtedly contributed) but more a reflection of Japan's industrial and trade policies which in turn were determined by Japan's industrial restructuring. The signing of the Normalization Treaty with Japan created opportunities for Japanese and Korean firms to collaborate in the expansion of trade. The Japanese were partly responsible for the expansion of Korea's exports to the US (and later the EEC) through the triangular trade and also to Japan itself, both of which were largely motivated by Japan's industrial restructuring from labour-intensive industries to capital-intensive and then to technology-intensive industries. The improved share of Korea in the export markets was due more to Japan's vacating its share of the lower end of the market for consumer goods (garments, footwear and electronics) rather than to Korea's policy makers.

The combination of an aggressive neo-mercantilist Japan and an open US market created a system of trade which heavily influenced Korea's industries and trade patterns. The Japanese `connection' stimulated the development of product specialisation, which in turn generated major economies of scale, the proceeds of which were subsequently reinvested in the expansion of export industries and the development of new higher value industries. Access to the US, Japanese and European markets gave Korea an enormous advantage which was not available to most LDCs and partly explains the successful development of her manufacturing industries which in turn made a major contribution to Korea's economic growth.

4.1 Period of Import substitution?

Weiss (28:236) claimed that import-substitution policies were a necessary pre-requisite for later export promotion. "One route to industrial competitiveness that has achieved considerable success at least is South Korea and may hold lessons for other countries" seems to imply a period of import substitution. Import substitution policies were used to protect export-orientated industries. Rapp (34) claims, it takes time for industries to become internationally competitive once they have begun production on the grounds that there is a lag between initial production and export competitiveness. This may have been true for some branches of the Korean textile industry, but does not appear to have been the case for clothing and electronics. These industries were highly export-orientated in the early stages of their development. The domestic economy advanced as a result of incomes generated by export expansion, which subsequently stimulated domestic-orientated production. Korea's experience also seems to contradict Dr Akamatsu's `wild geese' (Ganko-keitai) theory of economic development (35), whereby imports are replaced by increased domestic production to meet home demand and after exceeding home demand, turn to the export market (to take up excess production). The experience of Korea's lead industries (plywood, clothing, electronics and shipbuilding) was that export-orientated production preceded domestic orientation, rather than vice versa.

4.2 Dependency?

The degree to which Korea prospered generally depended on the pattern of demand of the core economies of the US and Japan and was very much influenced by the changing priorities of the latter. Economic dependence emerges when one country's trade is dominated but not reciprocated by another particularly

when one country depends on another for the bulk of its imports. Japan was very significant in Korea's trade but Korea accounted for only a small percentage of Japan's (see Table 26). Japan exercised considerable influence over Korea through the control of Korea's essential imports, especially capital goods. Such was the extent of the economic dependence that Korea could only develop those industries which the Japanese did not consider to be an important threat to her own long-term industrial interests.

Table 26: Korea-Japanese Trade (percentage of total trade)

	1965	1970	1975	1980
Japan's exports to Korea	2.1	4.2	4.0	4.1
Japan's imports from Korea	0.5	1.2	2.3	2.1
Korean exports to Japan	25.1	28.0	25.4	17.4
Korean exports from Japan	36.1	40.8	33.5	32.0

Source: Bank of Japan Economic Statistics Annual 1968-80 EPB

As a trade-orientated economy, Korea was highly sensitive to economic changes in her two main trading partners, the US and Japan. The volume of Korea's trade fluctuated accordingly. Indeed there is a close correlation between Korea's trade performance and booms/depressions in these economies (see Table 27). "The recessions in US economy during 1970-71 and in the Japanese economy during 1971-72 lowered the import demands of Korea's major customers and Korea's real exports recorded very low growth rates of less than 20 percent" (36:126). The boom conditions in the US and Japan during 1972 and 1973 greatly accelerated Korea's exports. The recession of 1974/75 created by the oil crisis led to a sharp drop in exports, which in the second half of 1974 recorded a decline of 7.7 percent. The recoveries in the US and Japanese economies in 1976 again stimulated demand for Korea's exports.

Table 27 Changes in Values of Korean GNP and Exports

	Korea		US		Japan	
	GNP	Exports	GNP	Imports	GNP	Imports
1970						
First half	10.8	20.6	-0.3	6.1	11.2	22.2
Second half	6.1	10.4	-0.3	1.1	10.2	16.3
1971						
First half	14.2	19.5	2.4	2.6	7.9	4.6
Second half	6.0	17.6	3.6	7.8	7.0	-5.2
1972						
First half	5.5	23.8	4.8	13.0	7.9	4.1
Second half	8.0	45.4	6.7	13.9	10.0	21.0
1973						
First half	17.8	56.0	6.6	7.9	12.2	27.6
Second half	15.6	43.5	4.1	2.9	7.4	27.9

Source: Bank of Korea etc. cited in H-Y Song (37).

With rapid growth in exports, Korea continued to diversify her exports, so as to reduce her vulnerability to trade fluctuations, and also to diversify her foreign markets to reduce her dependency, although trade between Japan and Korea continued to rise (from US$ 10 billion in 1979 to nearly US$ 30 billion in 1989).

4.3 Relevance of Korea's experience?

Many who stress the lessons of Korea's economic achievements for other developing countries, tend to draw conclusions on the basis of Korea's performance over a period of three decades, 1960-1990. However, to adopt this broadbrush approach is to miss the essential point; different forms of development take place in different historical periods. The circumstances facing the Koreans in the 1980s were very different to those of the 1960s and the lessons most relevant to developing countries are those that took place in the earlier stage of Korea's development, in particular 1965-75. If we therefore adopt a more time specific approach, we can safely conclude that during the initial period of Korea's economic development, the most influential factor on Korea's export expansion was the role of Japan.

What are the lessons for other developing countries wishing to emulate Korea's achievement? Firstly, to achieve success in manufactured exports requires a great deal more than free market policies, as advocated by the World Bank. It required strong political commitment and government support for exports of manufactures. However, such `internal' stimulus although important was insufficient, it also required external stimuli in the form of massive assistance from another economy, through loans, investment,

relocation of industries, technology transfer and especially access to markets for manufactures. Korea was fortunate to gain the support of one of the existing players, who was prepared to surrender a market share in the US and also to open up her own market. Such assistance was governed by Japan's industrial restructuring trade friction with the US, exports of capital goods, and geo-political considerations not by altruism. Korea provided a `low cost capacity expansion'. Secondly, industrial development requires massive imports of intermediate and capital goods (and for resource-constrained LDCs, industrial materials). It is not only at the initial stage of industrial development that imports are required, but, as Korea has demonstrated, in the transition to higher levels of industrialisation, the dependence on imported capital goods increases. To finance such imports, it was necessary to generate foreign exchange earnings from export expansion.

Thirdly, markets in the developed economies were preferable to regional markets. There is little evidence of export growth being based on regional or intra-Asian trade which excludes Japan. Both Korea and Taiwan were heavily dependent upon two crucial markets - the US and Japan. During the whole of Korea's critical growth period, the US and Japan accounted for the major part of Korea's trade. The proportion of exports going to the developed countries rose to 87 percent (in 1970), before falling back to 74 percent (in 1979). It was the industrialised economies that offered markets for mass produced consumer goods (such as textiles and) garments and later consumer durables (such as electronics). Advocates of regional trade associations (e.g. SADEC in Southern Africa, Andean Groups in South America and CARICOM in the Caribbean) should note the importance attached by Korea (and other Asian NICs) to trade with major hard-currency countries rather than trading arrangements with countries in the same region. The Koreans fully realised that political goodwill was no substitute for economic reality.

Fourthly, more attention has to be given to the type of trade. Trade is not necessarily an engine of growth, it can be an engine of decline, where imports of foreign manufacturers compete with local manufactures. Historical examples show that trade can have an unfavourable impact. Korea was more fortunate; the Japanese instead of swamping Korea with Japanese goods and reducing it to a supplier of raw materials, developed Korea as a market for capital goods and a platform for exporting manufactured goods to third countries. As Kojima (38) noted as early as 1973, Japanese investment in joint-ventures in labour intensive manufacturing industries were mostly export-orientated. This strategy saved Korea from a fate encountered by many developing countries. By providing Korea with an external source of effective demand, in manufactured goods, Japan contributed to Korea's eventual industrialisation.

A distinction has to be made between lessons and replication. It would seem that there would be major difficulties in replicating Korea's export expansion outside S.E. Asia because of the timing and geographical location. To put it simply Korea was in the right place at the right time, in relation to Japan's industrial restructuring. It is not possible to recreate the same set of `external' factors and therefore emulation of Korea's export success would be extremely difficult. Countries wishing to imitate Korea's export achievement would need to find such a `patron', whose own economy is upscaling into higher value

products and who is prepared to assist in the production (or even transfer of production) of lower value products, for export to third countries and its own economy.

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