

4. THE ECONOMY

4.1 General Overview

Korea has proved itself to be one of the most successful of developing countries. Twenty-five years ago it was among the poorest, heavily dependent on agriculture, with a weak balance of payments, financed almost entirely through foreign grants. But GNP growth averaging eight per cent annually since 1960 has raised Korea's per capita income from Cdn \$180 in 1960 to over Cdn \$2,274 in 1986 (both in current dollars), and has brought the country into the ranks of the semi-industrialized nations. Today Korea is the world's thirteenth largest trading nation and is making a name for itself in sophisticated industrial products.

Korea's outward orientation makes it unusually susceptible to external shocks. But the quality of its economic management enabled it to adjust rapidly to high growth in 1975-78. The second oil crisis in 1978-79, combined with sharp increases in international interest rates and the onset of a deep global recession, proved more difficult to manage, especially following the assassination of President Park. In 1980, Korea's economy contracted for the first time in its modern economic history - the GNP fell by five per cent in real terms, the balance of payments deficit reached nine per cent of GNP, and unemployment rose to 5.2 per cent.

The economy responded well to stabilization and adjustment programs implemented subsequent to 1980. Growth averaged 7.5 per cent in 1983-85, while inflation was held at an average of about four per cent. Unemployment was reduced to 3.8 per cent in 1985, while the current account deficit was cut to one per cent of GNP. The economy performed exceptionally well in 1986, responding to the triad of favourable circumstances - low oil prices, low world interest rates on Korea's external debt and the rapidly appreciating Japanese yen, which aided the competitiveness of exports. As a result, in 1986 GNP growth was 12 per cent and the current account swung into surplus, at a level of \$4.5 billion.

As has been the case in recent years, Korea's growth during the rest of the 1980's will be determined largely by the performance of exports. The guidelines for the Sixth Development Plan (1987-91) call for an average growth of 7.5 per cent to be achieved via an export growth rate of 10 per cent and a national savings rate of 33 per cent by 1991. This is to be accompanied by stable prices and sustained surpluses in the current account. The proposed targets are ambitious and the self-imposed constraints are tight. Hence, careful macroeconomic management will be required over the next few years.