

The Backlog in Korea

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CLOSELY following the news of armistice agreement in Korea came that of President Eisenhower's request to the Congress for a grant of \$200 million for relief in South Korea. This is as it should be. Korea is entitled to aid from abroad particularly from those who took a more direct interest in her political future—not merely because she stands in desperate need of healing her war wounds but also because she has been the victim of a fight in which power-politics rather than ideology played the greater part. Barring the objective, vague and indeterminate, expressed by such phrases as 'checking aggression', 'teaching a lesson' etc, no other purpose seems to have been served by it.

The record of economic progress in Korea during the last two decades points to one important conclusion—that the course of economic development in this unhappy country has neither been one of uninterrupted progress nor of continued deterioration. The ups and downs fall into well defined stages. The decade immediately preceding the outbreak of World War II easily stands out as a stage by itself; so also does the period intervening the years of World War II and the period following thereafter.

The first witnessed a most intensive period of development. An all round increase was secured in the production of all important commodities, including minerals. Agriculture was modernised, industry more intensively developed, the volume of employment greatly increased (South Korea alone had 300,520 persons employed in numerous small firms in 1944), the value of the gross national output multiplied and external trade stepped up both in volume and value (in 1943, for which figures are available, the value of Korea's exports and im-

ports amounted to \$956 million and \$1348 million respectively). Progress would have been even more pronounced had it not been for the world economic depression of the 30's, the effect of which continued to be felt right upto the outbreak of the World War II.

This striking achievement was possible largely as a result of Japanese efforts and initiative. Under Japanese initiative were developed such important industries of North Korea as cotton spinning, hydro-electric power, cotton, silk and rayon weaving the nitrogenous fertiliser works and allied chemical industries. Both for political and economic reasons, Japan thought it prudent to develop Korea's economic potentialities which held out the promise of at least a partial solution of her own food and raw material problems at home. Not many years ago Korea used to provide Japan with 10 per cent of her food requirements, besides such important raw materials as, cotton, iron ore, coal, etc. Indeed, now that Japan is once again up against the difficulty of obtaining raw materials for her growing industries, one might have expected promising days ahead for Korea's export trade, had it not been for the fact that Korea would be unable to do any export trade at all for many years to come.

Though Korea was not a party to it, the outbreak of World War II was to affect her economy by involving Japan in its meshes. With attention now exclusively devoted to the promotion of war, Japan could pay little attention to Korea's economic development except to the extent dictated by war consideration. Thus, while production of almost all important agricultural commodities and of most manufactured goods was allowed to fall,

the production of minerals was not only maintained but increased in some cases as will be seen from the table below.

Japan's defeat followed by her eviction from Korea ruled out the possibility of her again taking up the thread of economic development from where she had left off at the outbreak of war. Instead, this task devolved on two great powers whose experience of Korean economic life was far from that of Japan and who were divided among themselves beyond all hopes of rapprochement, thereby making the pursuit of a unified, consistent policy in Korea quite impossible. This, together with the fact that occupation involved the partition of the country into two halves, introduced a serious disturbing element into Korean economy. Not only production was interfered with but even more, a fundamental imbalance was created in the economy. The old trade relation was disrupted (North Korea's trade came to be conducted exclusively with countries like the USSR, China, etc, except for a small fraction); new barriers were raised between the old sources of supply of raw material and those of the manufactured goods—a barrier of which we in this country have painful experience; shortages were treated where none existed before; inter-zonal trade between south and north came to a standstill except for a thin trickle through illegal channel.

However, thanks to the efforts of the Korean people themselves and of those of the occupation authorities, the rapid deterioration of the early post-occupation years seemed to have been not only arrested but reversed. South Korea's production of rice, bailey and soyabeans which had fallen to 2,418,000, 392,000

Production of Some Important Commodities in Korea

	1930	1934	1935	1939	1940	1944
1. Barley ('000 metric tons) ..	817	1,048	1,178	1239	1,282	1,269
2. Rice ('000 metric tons) ..	*	3,101	3,318	2,663	3,994	2,978
3. Soyabeans ('000 metric tons) ..	575	492	564	308	431	356
4. Iron Ore ('000 metric tons) ..	233	74	96	357	480	1,349
5. Tungsten (metric tons) ..	7	239	569	2,579	2,742	5,416
6. Gold (kilogrammes) ..	6,186	12,427	14,709	29,192	25,280	20,425
7. Wheat Flour ('000 metric tons) ..	11.9	21.2	33.6	42.7	63.0	29.7
8. Cigarettes (in millions) ..	3,299	3,936	4,386	7,134	8,011	9,938
9. Cotton yarn ('000 metric tons) ..	0.14	9.39	14.79	27.62	136.64	0.02

* Not available.

Source: *Statistical Year Book 1950-51*, United Nations.

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and 131,000 metric tons respectively in 1946 rose to 2,956,000 640,000 and 188,000 metric tons respectively in 1949. Similar increase was also effected in respect of most other commodities, including mining and manufactured goods. Although actual figures are not available, the recovery of North Korea was reported to have been even more pronounced. War broke out, says ECAFE in its 1950 report, when "Korea was slowly regaining its capacity to export surplus rice". South Korea's export which had fallen almost to *nil* in 1945 and 1946 was making slow recovery so that she could look forward to a day when she would be able to do without, the huge American Aid which she had been receiving for sometime past (since occupation began till July 1949 South Korea received \$430 million worth of US aid).

It was just when these hopeful trends had appeared in the Korean economy that hostility broke out in 1950. All the good results hitherto achieved were wiped out; the old problems worsened and the new ones cropped up in the process. It is not possible to assess with any degree of exactitude the extent of the damage caused to the Korean economy by the 1950 war. The costly efforts which succeeded in bringing about an improvement in production was followed by a sharp decline. The monthly average production of coal and cement, for example, which rose to 67,000 and 1,900 metric tons respectively in 1948 in South Korea fell sharply to 9,000 and 500 metric tons respectively in 1951. Similar decline was also registered by other commodities. Shortages appeared in the supply of all essential commodities. Refugees coming from North Korea reported severe shortages of civilian food, clothing and medical services. More than 2 million people lost their lives; many more have been uprooted from their hearth and homes; constant migration of people from fields and villages has brought activities in the agricultural sector to a standstill.

Inflation which was until then only a potential danger rather than an immediate problem came to the fore in South Korea. The price of rice per ton which stood at 411 *won* in 1943 shot up to 14,136 *won* in 1952. The Pushan cost of living index which taking the base year 1948 as 100, stood at 123 in 1949 rose to 3446 in 1952.

Crisis after crisis overtook the currency system of South Korea. The external value of *won* showed a persistent tendency to decline so much so that the Government had to intervene twice in its aid since 1949 but without any appreciable result. The Government of South Korea, by a presidential decree, tried to arrest this decline in 1949 by fixing a dual rate of exchange for *won* in relation to US dollar, one at 400 *won* —\$1.00 for all Government transactions and another at 900-950 *won* = \$1.00 for all other transactions. But within a few months of the announcement, US notes were being sold at the rate of 2,450 *won* = \$1.00. Realising the futility of its earlier efforts, the Government of South Korea again sought to reform the currency, this time only more drastically but all the same, it appears, with no better result. By the new reform introduced in February that year, the old currency *won* was withdrawn from circulation and a new one called *hwan* introduced in its place. The possessor of *wons* was required to exchange them at the rate of 1 *hwan* = 100 *won*, thereby achieving an automatic devaluation of the old currency. But the pur-

pose of the reform—to stabilise the exchange rate—was as little realised by this new reform as it had been by the old, since the official rate of exchange at 100 *hwan* or 6,000 *won* to the US Dollar is reported to vary considerably from the free market rate at 50,000 *won* to the US Dollar.

Thus in their task to restore Korean economy back to its former health the Korean people and their benefactors, whoever they may be, will have to deal with accumulated problems. First, the depression of the 30's intervened to slow down the rate of progress; then came the World War II to prevent further progress being made; occupation followed with its concomitant partition which reversed the old record of progress in the opposite direction and, finally, the war to accelerate the down trend set by partition and occupation. To re-build Korea, it will be necessary to deliver her economy from the crushing load of these accumulated problems. And there will remain the problem of securing further development of the Korean economy which, even at its peak of prosperity, was but under-developed.

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