

*Import Substitution and Economic Development in Korea.* By S.T. Suh. Working Paper 7519—Korea Development Institute. December 1975.

This work was completed by the author as one of the long-term projects of the Korea Development Institute.

Whether to adopt export promotion or import substitution as a development strategy has always been a controversial topic. In the present study Suh makes a comprehensive review of the theoretical and empirical concepts and problems of import substitution and analyses the issue for the Korean economy from the 1870's to the 1970's. His main focus is on recent performance during the post-war period. He analyses import substitution as an important element in growth and makes international comparisons.

The book comprises of eight chapters covering 345 pages, and includes 79 detailed tables. Chapter 1 starts with a description of the historical background of the Korean economy. The War of 1945 separated South and North Korea and a new Independent State was born, but the Korean war of 1950-53 destroyed all the productive capacity of the country. Hence the true industrialization process of the Korean economy started only after the end of the Korean war.

In Chapters 2 and 3, the author assesses Import Substitution Industrialization (ISI) as a strategy for economic development and deals with various aspects of the economic problems originating from import substitution.

In Chapter 4, the production and trade structure of the colonial period (1910-45) is compared with that of the 1950's in order to provide a picture of import substitution in Korea before and after World War II. During the period 1954-62 Korea kept exporting primary goods and importing manufactured goods, and its economic growth was mainly attributable to ISI in light manufacturing and non-durable consumer goods.

Chapter 5 deals with various quantitative measurements of import substitution in each sector for the post war period, and concludes that there has been a continuous ISI in light as well as heavy manufacturing industries during 1960-1974.

Chapter 6 is based on the analysis of the incentive system for ISI and export, to see to what extent Korean ISI is the result of deliberate protectionist policy. An interesting result is that the overall import deepening ratio has increased as the economy pursued a rapid growth Policy. So in Chapter 7, the Korean import structure is analyzed and compared with other countries.

Chapter 8 carries a summary of the Korean ISI experience, and contains a good discussion on the causes of ISI being a failure in many LDC's and a success in Korea. The reasons for this, as listed by the author, are:—

- (i) In many LDC's the effective rates of protection on consumer goods were found to be much higher than for intermediate or capital goods whereas in Korea, intermediate inputs for export were declared

- duty free. ISI did not damage the overall performance of the economy.
- (ii) The over-valued exchange rate of most of the LDC's was responsible for penalizing the traditional export sector by making exports less competitive in the world market. But in Korea since the mid 1960's the exchange rate has been maintained at a near free market rate and the effective rate was favourable for export sectors as well as the import substituting sectors.
  - (iii) There was a failure in many LDC's to diversify exports away from the traditional pattern, whereas in Korea the trade structure has changed from a primary exporting and manufactured goods importing pattern in 1950's to a primary importing and manufactured goods exporting pattern in 1960's and 1970's.

Suh concludes from the ISI experience of many LDC's that the use of trade restriction alone to domestic infant industries is not conducive to successful ISI.

The case for Pakistan is well known, the continued protection of certain industries coupled with liberalization of consumption, and the fact that the raw material and heavy capital goods industry were largely ignored, are the factors normally held responsible for the relative failure of ISI, as a strategy for growth.

Though conventionally ISI is identified as trade diverting rather than trade creating, Suh seems to be the follower of those, who support the Balanced Growth Doctrine, as he suggests that import substitution must go together with export promotion to attain a rapid economic growth, which the data the presents, substantiates beyond doubt.

In contrast to all the other studies done on Korea which found export performance to be the main force in the economic development process of the Korean economy, Suh's present study concludes that both export growth and growth of import substitution helped in attaining the present state of the country's economic development.

The author has failed to analyse the cost-benefit aspect of the problem [as the economy moves resources from the more efficient export sector to the less efficient import substitution sector]. The cost of import substitution to the economy could throw a lot of light on the development of the Korean economy and the merits of import substitution as a tool for economic development.

Since Korea in the beginning of the period covered by the paper under review was experiencing very low growth and poor trade, the stupendous rise in growth levels in Korea, undoubtedly a result of ISI, could also be attributed to a "catching up" phenomenon of the economy.

The author admits that many of the ISIs did become export industries later on, and that monetary reforms and the influx of foreign aid helped in the development process in Korea but what mars the depth of his analysis and the

relevance of the book for other LDCs hoping to use ISI as a tool for development, is the absence of analysis or data to determine how much of the growth in the Korean economy was the result of ISI as such, and how much of it could be attributed to the other development policies pursued by Korea.

Nevertheless Suh has dealt with the subject of ISI in Korea very thoroughly. The book provides a great deal of information concerning data on exports, imports, production, employment and quantitative measure of import substitution in all the sectors. The study is not only well conceived with ISI experiences and problems in Korea but also sets a good line of reasoning and contains useful suggestions (i.e. complementary measures) for policy makers of LDCs which are following or plan to follow ISI as a strategy for economic growth. In this regard the usefulness of this working paper cannot be denied.

Pakistan Institute of  
Development Economics,  
Islamabad.

Sohail J. Malik