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McNamara papers:

Contacts
Korea (1968 - 1973)

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KOREA

KOREA

1.	4/15/68	Choong Hoon Park, Deputy Prime Minister Ambassador Dong Jo Kim
2.	5/31/68	Ambassador Dong Jo Kim Kwang Soo Choi, Economic Counsellor of the Embassy
3.	9/27/68	J. R. Whang, Minister of Finance C. S. Suh, Governor of the Bank of Korea J. S. Lee, Assistant Minister for Financial Affairs S. Chyun, Economic Minister of the Embassy
4.	4/30/69	Choong Hoon Park, Deputy Prime Minister Yoon Sae Yang, Director, Office of Investment Promotion, Economic Planning Board Ambassador Dong Jo Kim Kwang Soo Choi, Economic Counsellor of the Embassy
5.	6/2/69	C. P. Song, President, Korea Highway Corp. (former alternate ED)
6.	6/3/69	Hyok Pyo Yoon, President of the Union of Land Improvement Association, and Eun Jin Lim, ULIA
7.	6/16/69	Dr. Kyun Hi Tchah, Chairman, The Agriculture and Fishery Development Corp. Hong Woo Nam, 2nd Secretary, Korean Embassy
	3/3/70	Ambassador Dong Jo Kim
8.	3/11/70	In Sang Song, Advisor to the Minister of Finance
	5/14/70 (Seoul)	Il Kwon Chung, Prime Minister
	"	C.K. Choi, President, Seoul Trading Co., Ltd. (visited wig factory and planted tree)
9.	"	Han Lim Lee, Minister of Construction
10.	"	Hak-yul Kim, Deputy Prime Minister and Minister of Economic Planning Board
11.	"	Duck Woo Nam, Minister of Finance Jae Sul Lee, Vice Minister of Finance Duck Chin Chang, Assistant Minister of Finance Sung Hwang Hong, Director, Foreign Exchange Bureau
12.	"	Shi Hyung Cho, Minister of Agriculture and Forestry Bong Hyun Chin, Vice Minister of Agriculture and Forestry Y. H. Kim, Assistant Minister of Agriculture and Forestry D. Y. Lee, Assistant Minister of Agriculture and Forestry B. S. Han, Planning Coordinator, Ministry of Agriculture and Forestry

13.	5/15/70 (Seoul)	President Chung Hee Park
14.	"	Jae Mo Yang, Director of the Family Planning Center, Yan Sae University
15.	"	Man Chae Kim, Professor of Economics, Sogong College, Seoul
16.	"	Yong Joo Kim, President, Spinners and Weavers Association
17.	"	Yong Wan Kim, President, Federation of Korean Industries
18.	"	Chin Hyung Kim, President, Korean Development Finance Corporation
19.	"	Jin Hwan Park, Professor of Economics, Yonsei University
		Others possibly met:
		Chai Sun Hong, Chairman of the Board, Korea Development Finance Corp. Yie Joon Chang, Vice Minister, Economic Planning Board Suk Heun Yun, Vice Minister of Foreign Affairs Kyung Woon Park, Minister of Home Affairs Yung Su Park, Vice Minister of Home Affairs Ho Lee, Minister of Law Tak Keun Oh, Vice Minister of Law Nae Hiuk Chung, Minister of National Defense Kyung Ho Lee, Vice Minister of National Defense Jong Chul Hong, Minister of Education Do Chang Kim, Vice Minister of Education Nak Sun Lee, Minister of Commerce and Industry Jong Kwan Hong, Vice Minister of Health and Social Affairs Sun Yup Paik, Minister of Transportation Yong Lee, Vice Minister of Transportation Bo Hyun Kim, Minister of Communications Hyung Soo Kim, Vice Minister of Communications Bum Shik Shin, Minister of Culture and Information Il Kyo Suh, Minister of Government Administration Yu Dong Min, Vice Minister of Government Administration Kee Hyong Kim, Minister of Science and Technology Jae Chul Lee, Vice Minister of Science and Technology Young Sun Kim, Minister of National Unification Board Kyu Hak Lee, Vice Minister of National Unification Board Chae Ho Kil, Minister without Portfolio Byoung Ok Lee, Minister without Portfolio
20.	6/17/70	Kim Tai Dong, Minister of Health and Social Affairs (call on Goodman)
21.	9/19/70 (Copen.)	Duck Woo Nam, Minister of Finance Yie Joon Chang, Vice Minister of Economic Planning Board Sung Whan Kim, Governor, Bank of Korea Sung Hwan Hong, Director, Foreign Exchange Bureau, Ministry of Finance
22.	9/30/71	Duck Woo Nam, Minister of Finance C.H. Kim, Director, Foreign Exchange Bureau, Ministry of Finance B.H. Sh

23. 9/26/72 Duck Woo Nam, Minister of Finance
Jae Sul Lee, Vice Minister, Economic Planning Board
Byung Kuk Choo, Chief, International Finance Division, Ministry of Finance
Byong H. Shin, Alternative Executive Director

24. 9/30/73 Tae Wan Son, Deputy PM of Korea & Minister, Econ Planning Bd
Ambassador Kim
B. T. Hwang, Economic Planning Board
Choon Taik Chung, Financial Attache, Korean Embassy

25. 6/4/74 Yie Joon Chang, Minister of Commerce and Industry
Pyong-choon Hahm, Ambassador
Chin Shik Noh, Commercial Attache, Korean Embassy
Pil Soo Park, Assistant Minister of International Cooperation, Ministry of Commerce and Industry
Joun Young Sun, Chief, Commercial Division #2, Ministry of Foreign Affairs

26. 7/12/74 Tae Won Son, Deputy Prime Minister
Yang Yoon Sea, Minister of Economic Affairs
Sung Ki Lee, Director of Economic Cooperation

27. 9/27/74 Yong Hwan Kim, Minister of Finance and Governor of the Bank
Sung Whan Kim, Governor, The Bank of Korea
Chang Hee Kim, Director of Foreign Exchange Bureau, Ministry of Finance
Mr. Shin, Alternate ED

28. 2/18/75 Duck Woo Nam, Deputy Prime Minister and Minister, Economic Planning Board
Suk Joon Suh, Assistant Minister, Economic Planning Board
Hung Koo Kang, Director, Economic Planning Board
Yoon Sae Yang, Economic Minister of Embassy

29. 8/29/75 Yong Hwan Kim, Minister of Finance
Sung Hwan Kim, Governor, Bank of Korea
Byong H. Shin, Special Adviser to the President
John Kun Park, Chief, First Loan Division, Economic Planning Board

30. 5/13/76 Duck Woo Nam, Deputy Prime Minister and Minister, Economic Planning Board
B. H. Shin, Office of the President
Director Tchah, Economic Planning Board
Director Ham, Ministry of Foreign Affairs
Yoonsea Yang, Economic Minister of Embassy

31. 9/24/77 Yong Hwan Kim, Minister of Finance
Sung Whan Kim, Governor, Bank of Korea
Byong Hyun Shin, Special Assistant to the President for Economic Affairs
Hwa June Tchah, Deputy Assistant Minister for Economic Cooperation Bureau, Economic Planning Board
Yoonsae Yang, Economic Minister of Embassy

32.	4/26/78	Chang Yie Yoon, Minister of Energy
33.	6/21/78	Deputy Prime Minister Duck Woo Nam Ambassador Yong Shik Kim
34.	9/24/78 Annual Meeting	Finance Minister Kim Central Bank Governor Shin Economic Minister Yang
35.	10/1/79 Annual Meeting	Finance Minister Woun Gie Kim Byong Hyun Shin, Governor, Bank of Korea Sang Chul Suh, Alt. ED
36.	2/19/80	Deputy Prime Minister Hahn-Been Lee (Also Minister of Economic Planning) Mr. Tchah, Asst Minister for Economic Cooperation, Econ. Planning Bd Mr. Lee, Economic Minister at the Korean Embassy Mr. Kim, Director-General, Bureau of Planning, Economic Planning Bd Mr. Suh, Alternate ED
37.	9/27/80 Annual Meeting	Mr. Lee Seung-Yun, Minister of Finance Mr. Kang Kyong Shik, Asst. Minister for Planning Mr. Choo Byung-Kug, Asst. Min. for Intl Finance

1

BIOGRAPHICAL NOTE

OF

CHOONG HOON PARK

Deputy Prime Minister & Minister
Economic Planning Board
Republic of Korea

1. what % unemployed
underemployed
objectives for future
2. GNP rate [illegible]
Per cap.
T of P
3.

Mr. Choong Hoon Park was appointed Deputy Prime Minister and Minister of the Economic Planning Board in October 1967, succeeding Mr. Key Young Chang, who returned to private life. Before his present function, Mr. Park had been Minister (1964-67) and earlier Vice Minister (1961-63) of the Ministry of Commerce and Industry. During his association with this Ministry, industrialization in Korea proceeded very rapidly and exports increased from only $20-30 million to $320 million in 1967. In an effort to promote Korea's export and to increase the flow of external assistance into the country, Mr. Park made numerous visits abroad.

4. Efforts
what portion?
[illegible]
[illegible]
what is outlook

Mr. Park first joined the Ministry in 1946 as the Director of the Trade Bureau, but interrupted his career during the Korean War to serve in the Air Force. He retired from the Air Force with the rank of Major General in 1961.

Mr. Park is 49 years old; he is married and has two sons and four daughters.

what program [illegible]
[illegible] controls
[illegible]
[illegible]
'67
'72

5. Agri
new seed, etc
6. Capital investment [illegible]

2

Form No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Records DATE: June 10, 1968

FROM: Mirza T. Baig AB

SUBJECT: KOREA - Meeting between Mr. McNamara and Ambassador Dong Jo Kim.

Ambassador Kim called on Mr. McNamara on ~~March~~ May 31. Also present were Mr. Cargill, Counsellor Choi (Embassy), C.P. Song (Alternate E.D.) and myself.

The Ambassador handed Mr. McNamara a letter from President Park. The letter commended Mr. McNamara on his friendship for Korea and stressed the need for development of the agricultural sector.

Mr. McNamara said he was very impressed with Korea's economic progress, especially exports, and discussed the effect of a Viet Nam de-escalation on Korea's economy. The Ambassador was confident economic progress would continue.

President has seen

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 29, 1968

FROM: I.P.M. Cargill

SUBJECT: KOREA - Visit of the Ambassador

Ambassador Dong Jo KIM of Korea has an appointment to see you on Friday, May 31 at 12:15. I understand from the Embassy that he is to deliver a letter from President Park, which will request continued Bank/IDA assistance to Korea, especially in the agricultural field. Our 5-year forecast lists 6 agricultural projects (three irrigation, one fisheries, one seeds and one agricultural credit) for a total of $74 million. Attached is a biographical sketch of the Ambassador.

You already have the five-year economic outlook for Korea. Attached for easy reference is a briefing paper on Korea, which I believe you also have, which summarizes the economic position of the country and our lending operations in Korea. Since the briefing paper was prepared, the following events have occurred:

The Consultative Group meeting was held in the Bank on April 16 and 17, attended by ten countries with the Asian Development Bank, the I.M.F. and Austria as observers. The members were impressed with Korea's economic performance, and expressed a willingness to provide financial assistance for further development.

Consultants are being selected to undertake a feasibility study of selected roads in Korea and to make recommendations for the organization of a highway planning agency and a transport coordination agency. We hope to negotiate a $2.5 million IDA credit for these studies, plus a detailed engineering study, late in June.

A Bank mission will visit Korea in September to appraise the All Weather Farming (irrigation) Project.

A project identification and preparation mission from UNESCO will visit Korea in mid-June, under the Bank/UNESCO Cooperative Program, to prepare a technical and vocational education project for possible Bank or IDA financing.

Attachments

President has seen

BIOGRAPHICAL SKETCH

DONG JO KIM, AMBASSADOR OF KOREA

Mr. Kim is 51 years old and was graduated from the Kyushu Imperial University in Fukuoka, Japan in 1943. He joined the Korean Foreign Service, and in 1959 was appointed Vice Minister in the Ministry of Foreign Affairs. In 1963, he became the first President of the Korean Trade Promotion Corporation, which post he relinquished in 1965 to become Korean Ambassador to Japan. It was during his term of office in Tokyo, that the Korea-Japan talks were successfully concluded. In November 1967, Mr. Kim was appointed Ambassador to the U.S.A.

KOREA

Briefing Paper

I. THE ECONOMY

(a) Basic Data

Population (1967)		29.9 million
Rate of Growth		2.7% p.a.
Density (to arable land)		780
Gross National Product (1967)		US$4,700 million
Per Capita GNP		US$155
Real GNP Growth (1965-1967)		9.7%
Composition of Gross Domestic Product (1967)		
Agriculture, forestry and fisheries		31.0%
Mining and manufacturing		21.3%
Services		47.7%
Foreign Trade (1967)		
Merchandise Exports		US$320 million
of which manufactured products	62%	
in relation to GNP	7%	
Merchandise Imports		US$996 million
of which food	9%	
machinery and equipment	31%	
in relation to GNP	21%	
Services Exports (net)		US$257 million
in relation to GNP	6%	
Gross Foreign Exchange Reserve (January 1968)		US$355 million

(b) Economic Background

After 1945, South Korea had to overcome the effects of the partition of the peninsula which left most industrial and mineral resources with the North and the heavy human and material losses subsequently inflicted by the Korean war. Large-scale U.S. aid contributed to a fairly rapid rise in GNP between 1953 and 1957 but rampant inflation and lack of direction of investment prevented the establishment of a sound basis for continuous economic growth. When inflation was brought under control by strict fiscal management in 1958 GNP growth rates fell below the rate of population increase. Popular dissatisfaction about corruption and the Government's economic failures eventually contributed to the ouster of President Syngman Rhee in 1960. The military Government which came to power about a year later drew up an ambitious plan for the period 1962-66. Unfortunately, a policy of fiscal and monetary stimulation was adopted which after a time led to renewed virulent inflation.

It was not until General Chung Hee Park was elected President in late 1963 and his Democratic Republican party obtained a majority in subsequent national assembly elections that management of the country's affairs improved. One of the chief ambitions of the new regime was to build a prosperous, viable economy, eventually independent of foreign assistance. It recognized the importance of mobilizing domestic resources and removing the disincentive effects of inflation and an over-valued exchange rate. By strict discipline in public expenditures and better tax collection, budget-deficits on current account were eliminated in 1964 and followed by increasingly larger public savings. A combination of monetary and fiscal instruments, including a drastic increase in official interest rates, attracted private savings to the organized banking system and reduced the need to allocate credit by administrative decision. The wholesale price increase, while still substantial, dropped from 21% in 1963 and 35% in 1964 to a level of 6-8% during the last three years. The overall domestic savings rate, which was almost nil in the beginning of the sixties, rose steadily to 13% of GNP in 1966. The Government deliberately increased and widened the role of foreign loans in financing private investments which contributed to capital formation together with still substantial U.S. assistance and - following the Normalization Treaty of 1965 - increasing assistance from Japan. Gross capital formation jumped from 14% of GNP during 1962-64 to around 20% during 1965-67.

Monetary discipline made it possible to devalue the currency in 1964 to a realistic level. With moderate fluctuations this exchange rate has since been maintained. Devaluation combined with a policy which subsidizes interest rates for export industries had a sharp effect on exports which shot up in a most remarkable fashion from $87 million a year during 1962-64 to $250 million in 1966 and $320 million in 1967. In addition to export earnings, there has been a rising flow of invisible earnings associated with the Viet Nam war which reached $130 million in 1967.

A fast increase in manufacturing production (22% in 1967), especially for exports, has been the backbone of the growth of GNP in recent years. Growth of GNP in real terms accelerated from about 7% during 1962-64 to about 10% during 1965-67 with a peak of 13% in 1966. The growth rate in 1967 was 8.4% due to a drought and a resulting shortfall in agricultural production.

In 1966, the Government drew up the Second Five-Year Plan covering 1967-1971. This Plan was formulated in the perspective of a fifteen year development period, 1967-1981. Major targets of the Plan were a 7% per annum growth rate of GNP and an export target of $550 million for 1971. In the light of the successful performance of the economy during 1966 these targets were soon revised upwards and an average growth of GNP of 10% and a level of exports of $800-1,000 million by 1971 are now aimed at.

There are some imbalances in the economy which, if uncorrected, will trouble Korea in the future. Rapid and unexpected expansion in production resulted in serious bottlenecks in power generation, transportation, and other infrastructure facilities; large and costly investment will be required to bring these sectors in line with overall development. Growing disparity between rural and urban incomes may lead to increased social friction and points to the fact that agricultural development has recently lost some momentum.

Monetary expansion accelerated during 1967; money supply increased by over 40%. This was in part due to a rather sharp increase in imports financed on credit, with a corresponding increase in short-term foreign exchange liabilities. Recent discussions with the Government indicate that the Authorities are aware of the problem and apparently determined to maintain stability and to limit the growth of foreign exchange liabilities, to control domestic money supply, to reduce the level of imports, and to improve the debt service ratio in the future.

The Government's targets for development are ambitious but judging by the performance in recent years the Government may be able to mobilize the domestic resources required to attain these targets. As a result of increased tensions between North and South Korea some resources previously earmarked for development will probably be shifted to defense and related investment expenditures. However, President Park seems to feel that the increased aggressiveness of North Korea is directed at disturbing economic progress in South Korea; consequently, he appears determined to continue his emphasis on economic development. The spectacular increase in GNP, exports, capital formation and savings during the last three years has raised the Government's confidence that these policies are essentially correct and increased its determination to proceed in the same direction. Popular backing for the President has increased, as shown by his re-election by a wide margin in May 1967. Reports of vote rigging at subsequent elections for the national assembly led to some popular unrest and the opposition party refused for some time to take its seats in the assembly. These difficulties marred the picture somewhat but have been overcome.

In order to finance the rapid growth, Korea will continue to need a large inflow of foreign capital despite improved mobilization of domestic resources. The resource gap is still large ($324 million in 1966 and around $400 million in 1967) and is likely to remain so for several years. The proportion of grants and soft aid in total capital inflow has been dropping in recent years while rather short-term suppliers' credits gained in significance. In view of Korea's still not excessive debt service obligations, sizeable foreign exchange reserves, and favorable trade prospects, it should be possible for the country to accept, in addition to grants and soft loans, a modest amount of conventional loans. But in view of its poverty and continuing large requirements for external resources, a substantial portion of the capital inflow should still be on concessional terms. For Bank Group operations, Korea is therefore considered a soft blend country.

II. CONSULTATIVE GROUP

In 1964 the U.S., Japanese and Korean Governments began to urge the Bank to organize a Consultative Group for Korea. The U.S. was anxious to share the burden of its massive aid program, and the Koreans, fearing economic domination by Japan following the Normalization Treaty which was under discussion and the promise of $500 million over ten years in grants and soft loans from Japan, wanted the Bank to act as a buffer. The Bank declined to join such a group because the Bank was unable at that time to endorse Korea's economic planning or performance, and Bank activity in the country was at a standstill.

By late 1965, Korea's economic performance and financial stabilization had improved to a point where the Bank felt the country was eligible for technical assistance and soft loans. Other countries were showing an interest in providing financial assistance to Korea. In late 1965, a seven-man economic mission visited Korea and presented its findings at a preliminary meeting of a group of countries interested in helping Korea in London in May 1966. The delegates at the meeting expressed an interest in formalizing the Group. The first formal meeting of the Consultative Group was held in Paris in December 1966 and was attended by representatives of Australia, Belgium, Canada, China, France, Germany, Italy, Japan and the United States. The United Kingdom and the Netherlands have since joined the Group. The Group was impressed by Korea's economic achievements but expressed concern that the targets of the Plan were too ambitious. Members of the Group were anxious to make it clear that the purpose of the Consultative Group was to keep members informed of economic conditions in Korea and to coordinate financial assistance and channel it into the most productive high priority projects. The Koreans, on the other hand, considered the Consultative Group as a means of extracting financial commitments from members and were disappointed about the lack of enthusiasm for making commitments on the part of most of the members of the Group.

An economic mission went to Korea in the fall of last year to assess the progress of the Second Five-Year Plan. The report by the mission will be the basis for discussion at the Group meeting scheduled for April 16 and 17 at Bank headquarters. Information on twenty projects for which the Koreans are seeking external assistance has been distributed to the Group for discussion at the meeting.

III. BANK/IDA OPERATIONS

In 1962, the Bank Group undertook its first lending operations in Korea extending a $14 million IDA credit for a railway project. In the following years, Korea's economic policies which had led to serious monetary instability and a decline in foreign exchange reserves precluded any further lending by the Bank or IDA. After the Korean Government had begun to make determined efforts to improve the economic situation, the Bank/IDA in 1965 agreed to consider further operations. The Government requested the Bank in 1965 to assist in the preparation of a transport investment program and the Bank extended a technical assistance grant of $400,000 to finance a comprehensive transportation survey for that purpose. Recently, the Association made a second credit of $11 million for the Korean railways. IFC sponsored the establishment of a private development finance company, the Korea Development Finance Corporation. IFC made an equity investment of about $700,000 in this company along with nine major commercial banks; simultaneously, U.S. AID and the Bank made loans of $5 million each to the company.

Bank Loans and IDA Credits as of February 29, 1968:

Loan or Credit No.	Year	Borrower	Purpose	Amount (U.S. $ million) Bank	IDA	Undisbursed
25	1962	Korea	Railways		14.0	
110	1967	Korea	Railways		11.0	11.0
529	1968	KDFC	Industry	5.0		5.0
	Total, net of cancellations			5.0	25.0	
	of which has been repaid to the Bank and others			-	-	
	Total now outstanding			5.0	25.0	
	Total now held by Bank and IDA			5.0	25.0	
	Total undisbursed			5.0	11.0	16.0

An IDA credit of $2.5 million is under consideration to help finance economic feasibility and engineering studies for highways, and the organization of highway planning, construction and maintenance bureaus. The credit is expected to be presented to the Board by the end of June.

The IBRD/FAO Cooperative Program has been helping the Government prepare an irrigation project for IDA financing. A feasibility report is being prepared by FAO and, when cleared by the Bank, will be sent to the Korean Government. This report is expected to form the basis for a credit application to IDA.

An education reconnaissance mission went to Korea recently to assess the country's need for financial assistance to improve educational facilities. The mission recommended that a project preparation mission should be sent under the IBRD/UNESCO Cooperative Program.

Further off there are prospects of another railway project, a seed improvement project, which has been identified by FAO, an agricultural credit project and possibly a power project.

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FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Records

DATE: September 30, 1968

FROM: Jochen Kraske JK.

SUBJECT: KOREA: Meeting of Korean Delegation with Mr. McNamara

The Minister of Finance, Mr. J.R. Whang, paid a courtesy visit on Mr. McNamara on September 27. The Minister was accompanied by Mr. C.S. Suh, Governor of the Bank of Korea, Mr. J.S. Lee, Assistant Minister for Financial Affairs, Mr. S. Chyun, Economic Minister of the Embassy and Mr. C.P. Song, Alternate Executive Director. Messrs. Knapp and Kraske also attended the meeting.

Mr. McNamara welcomed the Minister of Finance and his delegation to Washington and to the Annual Meeting and the Minister in turn extended his Government's best wishes and, in particular, President Park's personal warm regards to Mr. McNamara.

Mr. McNamara then asked about economic development in Korea during the last year. The Minister replied that economic growth in 1967 at the rate of 8.9% had still been remarkable in spite of a serious drought in southern Korea which resulted in a 6% decrease of agricultural output. Thanks to the monetary stabilization policies adopted by his Government, economic growth had taken place under conditions of relative monetary stability; price increases in 1967 amounted to 6.4%. The Minister said that his Government expects a growth rate of 12.4% in real terms for this year and a growth rate of slightly above 11% in 1969. Increasing emphasis on monetary stability would hopefully slow down price increases below the rate of 6.4%. The Minister informed Mr. McNamara of President Park's special concern about the drought which again threatens to hamper economic growth this year and asked for Bank Group assistance for projects designed to provide relief from the drought problem. The Minister then expressed his Government's satisfaction with the IDA policies recently discussed by the Board of Directors, particularly with the new approach to the financing of local expenditures. The Minister felt that in distributing IDA funds, high priority should be given to countries which followed sound development policies worthy of support.

Mr. McNamara assured the Minister of Finance that economic performance was given its proper place among the criteria for IDA assistance. Mr. McNamara noted the Korean Government's concern about the drought problems and their effects; these problems and ways in which the Bank Group might be able to assist had already been discussed by the Korean delegation with Messrs. Knapp, Cargill and Goodman who would inform Mr. McNamara of the details.

JKraske:rk

cc: Messrs. McNamara, Knapp, Cargill, Goodman, Street

4

Mr. McNamara - to see, please.

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

RBS 6/2

OFFICE MEMORANDUM

TO: Records

DATE: May 28, 1969

FROM: Douglas J. Fontein for DF

SUBJECT: KOREA: Visit by Deputy Prime Minister

On April 30 the Deputy Prime Minister of Korea, Mr. Choong Hoon Park, accompanied by Mr. Yoon Sae Yang, Director of the Office of Investment Promotion, Economic Planning Board, Mr. Dong Jo Kim, the Korean Ambassador and Mr. Kwang Soo Choi, Economic Counsellor of the Embassy, called on Mr. McNamara. I was present. The following were the main points of the discussion.

External Debt

The Deputy Prime Minister said that new foreign borrowing would be limited so that the service of debt with maturities of three years and more would not exceed 15% of foreign exchange earnings at any time. New short-term borrowing would be limited to the financing of essential grain and cotton imports within the limit of $40 million agreed with the IMF for the current calendar year. The Government was attempting to distribute the debt service on existing foreign debt more evenly by rescheduling repayments of short-term debt falling due in 1970/71. Assuming that half of the short-term debt repayments in 1970 and 1971 could be postponed until 1972 and 1973, debt service of existing medium- and long-term debt would not absorb more than about 10% of foreign exchange earnings, leaving some room for the incurring of new medium- and long-term debt.

Money Supply

The increase in the money supply would be limited to 20% this year, as compared to 25% in 1968 and 42% in 1967.

Budget

The Government hoped to achieve savings of between 4 to 5 billion Won by a cut of 5% in the administrative budget.

Exports

During the first quarter of this year, exports had increased by 36% over the comparable period of last year. The target for the year as a whole was a 40% increase. The United States was the most important market for Korean exports and it was hoped that out of total exports of $700 million the United States would take more than $400 million. The Korean Government was concerned about possible United States restrictions on exports of Korean textiles. This would be the subject of discussions with Secretary of Commerce, Mr. Maurice Stanz who would be visiting Korea in May. Another important market for Korean exports was Japan. In 1968 Korea bought about $600 million of goods from Japan and exported to it only about $100 million worth. The reasons for the low exports to Japan were its high tariffs and

President has seen

quota restrictions. Although Japan had recently agreed to reduce the tariff on eleven minor items this would not go far enough and the subject would be discussed by the Deputy Prime Minister with Japanese authorities on his way home to Korea.

Growth Rate

Stability in the economy would require a reduction in the growth rate. The Government nevertheless expected GNP to grow by 10% this year, compared to 11.7% last year.

Visit by Mr. McNamara

Mr. McNamara said he would visit Korea before the middle of next year.

Seoul-Pusan Highway

The Deputy Prime Minister said that the Seoul-Pusan Highway would be completed by the end of this year or the middle of next year. Referring to the current highway feasibility studies being carried out by consultants, the Deputy Prime Minister said that he hoped these would be completed this year, and that a selection could be made of certain high priority roads with a view to their detailed design and engineering and an appraisal for possible Bank Group financing early next year.

Harbors at Inchon and Pusan

The Deputy Prime Minister mentioned these as possible objects of Bank Group financing.

Steel Mill

The Deputy Prime Minister said that the proposed KISA steel mill project would be a large investment and that his Government wanted to be careful before committing itself to going ahead with it. The German authorities with whom the Deputy Prime Minister had discussed the project said they were not ready to finance this project at this stage and that they wanted the Bank to make a study of it. The U.S. Export-Import Bank had also said that they were not prepared to finance the project at this stage. In view of this reaction, the Deputy Prime Minister would consult with the appropriate authorities in Korea whether to ask the Bank to reappraise the project and come up with possible alternative solutions. The Deputy Prime Minister said that Korea's steel consumption amounted to 940,000 tons last year and they expected a 17% increase this year. The Government would like to see financing for a steel mill from Germany, the U.S., Japan and the Bank. He also envisaged some private participation as a means of securing sound management.

Mr. McNamara said that if requested we would reappraise the existing project and that we could do this relatively easily with our own staff. A study of alternatives would be more complicated. Pending a request by the Government, we would consider how to tackle the study.

As far as financing by the Bank of a steel mill was concerned, Mr. McNamara said that in principle we would consider doing this provided (i) the project had a high return and (ii) was soundly managed. Sound management could be best achieved by having private participation.

Proposed Loan for Agriculture and proposed Credit for Education

Mr. McNamara expressed his concern about the fact that the necessary legislation had not yet been enacted. He inquired when the next session of the National Assembly would be. The Deputy Prime Minister said that the next session would be in June and that the legislation, if not already passed, would be enacted during the first week of June. (We were subsequently informed that the necessary legislation had in fact been enacted by the National Assembly on April 30).

DJFontein:rk

cc: Messrs. McNamara
Knapp
Goodman
von Hoffmann
Kraske

Form No. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 29, 1969

FROM: Douglas J. Fontein DF

SUBJECT: KOREA: Visit of the Deputy Prime Minister on April 30, 1969

The Deputy Prime Minister of Korea, Mr. Choong Hoon Park, will call on you on April 30 at noon. He is returning from the meeting of the Consultative Group in Paris on April 17/18. Following the meeting the Deputy Prime Minister visited Germany which is resuming assistance to Korea following a period of strained relations. The Deputy Prime Minister will also have had discussions with U.S. Government officials here in Washington and is planning to return to Korea on May 1.

I. Discussions at the Consultative Group Meeting

As expected the discussions at the Consultative Group meeting centered around two issues: (i) the terms of Korea's external debt and the future debt service burden, and (ii) the Government's investment program, in particular, the proposed integrated steel project.

(a) External Debt Management

The Korean Government is deeply concerned over the debt service projections and the criticism of the Government's external debt management contained in the latest Bank economic report. There is no doubt that President Park, who appreciates the Bank's judgment and interest in Korea, was seriously alarmed and that he instructed his Government to do what was necessary to bring the situation under control and to satisfy the Bank. Accordingly, the Deputy Prime Minister was eager to speak in some detail about the measures already taken or about to be taken by his Government to control the further inflow of short- and medium-term debt and to keep future debt service within reasonable limits.

In the recent Standby Agreement with the IMF, the Government agreed to limit additional debt with maturities between three and ten years to $295 million for the current calendar year. Since a large proportion of short- and medium-term foreign loans have come into the country in the past under commercial bank guarantees and have thus avoided screening by the Government, it was essential for the Government to extend and tighten its control over these loans. The Government now requires that all foreign loans above a certain amount (we understand the Government is considering an amount in the order of $5 million equivalent) have to be guaranteed by the Government and approved by the National Assembly. Under Korea's Foreign Capital Inducement Law, the debt service on Government guaranteed debt must not exceed 9% of foreign exchange rates; this and the formalities involved in obtaining the Government's guarantee should effectively limit and slow down the amount of further loans in this category. In addition, commercial banks are now required to obtain clearance from the Ministry of Finance before

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they can guarantee foreign loans of any size; similarly, potential borrowers are now required to receive the Government's permission before they can even start to negotiate with foreign suppliers. Additional short-term loans with maturities between one and three years will be limited to the financing of essential grain and cotton imports with a ceiling of $40 million equivalent for the current calendar year agreed with the IMF. The Government has also taken steps to discourage non-essential imports by requiring importers to deposit in advance up to 200% of the value of the imports. Measures to further encourage exports are under consideration, in particular, the expansion of export credit facilities.

The Government is confident that the measures to control the inflow of short- and medium-term debt, to restrict imports and to further encourage exports will be sufficient to keep future debt service obligations in a reasonable proportion to foreign exchange earnings. The Deputy Prime Minister assured the members of the Consultative Group that the service of debt with maturities of three years and more would not exceed 15% of foreign exchange earnings.

It is not possible at this stage to estimate the impact of the debt and import controls on the investment program and the growth rate. The effects should be reflected in the Overall Resources Budget for 1970 which will be available for review by our economic mission next fall. There is no doubt however that the Korean Government recognizes that the debt service constraint will affect the investment program and the growth rate. (Copies of Mr. Goodman's opening remarks and of the Deputy Prime Minister's statement are attached).

(b) The Proposed Integrated Steel Plant

In response to our suggestions that the Government review the rather ambitious investment program in the light of the future debt servicing problems and to screen, in particular, large capital intensive projects, the Deputy Prime Minister assured the members of the Consultative Group that his Government would carry out a careful review to determine which of the projects could be postponed or scaled down. He specifically mentioned that the review of large investment projects would include the proposed integrated steel plant; he indicated informally that it was not possible for his Government to withdraw the proposed steel project at this time because under the terms of the agreement with KISA the Government is required to support the project and to seek financial assistance for it. The U.S. and German delegations expressed informally their misgivings about the economic justification of the project but, for political reasons, were unwilling to criticise the project openly or to turn down the Government's requests for financing. In the circumstances, the U.S. and the German delegations welcomed the decision of the Government to review the project and suggested that the Bank should carry out a detailed evaluation of the proposal and of suitable alternatives on behalf of the Group. The Deputy Prime Minister is likely to raise the question whether and to what extent the Bank would be prepared to assist in reviewing the steel project. We have indicated that we would be willing to study the economic feasibility of the existing project proposal. It should not be very difficult to firm up the tentative conclusions derived from a desk review which showed that the project would require a protective tariff of at least 46% to be financially viable and that it would result in a net foreign exchange loss of $17 million over the initial six years of operation. Considerably greater efforts would be required if we wanted to help the Government to modify the KISA proposal to make it economically attractive or to devise an entirely new approach to meeting Korean steel requirements during the next decade. The rapidly growing demand for steel of the Korean economy makes it important to develop a sound and economic investment program for the domestic steel industry. This and the key role which the present project proposal has assumed in the Government's overall investment program would seem to justify the Bank's assistance in a thorough review of the entire problem.

II. Future Bank Group Assistance

(a) The Bank's Five-year Lending Program

As you will recall, we discussed with you on April 2 a country statement and proposed lending program for Korea. The proposed Bank Group lending over the next five years was estimated at $351 million, including $80 million of IDA funds. In view of the uncertainty about Korea's creditworthiness you decided to postpone consideration of our lending program until after the Consultative Group meeting when we would know more about the Government's intentions to tackle the problem of external debt management. We have informed the Deputy Prime Minister of your personal concern about the future creditworthiness of Korea and he knows that future Bank assistance to Korea is predicated on the Government's sound management of her external debt. We believe that the measures taken or about to be taken by the Government to control the further inflow of short- and medium-term debt are adequate and, provided they are implemented strictly, should bring the situation under control. We are therefore planning to re-submit the original lending program without substantial changes following Mr. Goodman's return. If our next economic mission comes to the conclusion that Korea's creditworthiness remains in doubt, the lending program would have to be adjusted accordingly. In any event, the five-year lending program provides for a gradual build up of our lending to Korea; the amount of $43 million allocated for 1970 is relatively small and might be further reduced if, as seems now likely, the seed production and distribution project for an $8 million Bank loan slips into 1971. (A copy of the country statement and lending program is attached).

(b) Projects under Consideration

All-Weather Farming Project: Documents for the proposed $45 million Bank loan have been circulated to the Executive Directors but a date for consideration has not been set. Before the Executive Directors can consider the proposed loan, the National Assembly would have to pass a resolution enabling the Korean Government to guarantee the loan and ULIA to borrow from the Bank. We have been informed that the National Assembly was to act on this resolution during the session which is expected to close on April 30.

Education: A $14.8 million IDA credit for the expansion and improvement of vocational and technical training facilities was negotiated in mid April; consideration of the proposed credit is scheduled for May 27 subject to the Government's approval of the draft credit documents. The resolution before the National Assembly on the proposed $45 million All-Weather Farming loan will also empower the Government to sign the agreement for the proposed IDA credit.

Second KDFC: The appraisal report was submitted to the Loan Committee for approval on April 29. The report recommends a Bank loan of $20 million even though KDFC's original request was for $15 million only; the higher amount recommended is based on our detailed projections of KDFC's foreign exchange requirements during the next two years. We expect to begin negotiations on May 20 and to submit the loan proposal to the Executive Directors before the end of the current fiscal year.

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Agricultural Credit: The FAO mission preparing the irrigation project also included two experts working on the preparation of an agricultural credit project. Because of the complexity of this project, it is scheduled for consideration in FY 1971; depending on FAO's report, we may be able to proceed faster than expected.

Seed Production and Distribution: The proposed loan for the All-Weather Farming project includes provision for consultants to work on the preparation of this project. Because of delays on the Korean side in finalizing terms of reference for the consultants and a list of consulting firms to be invited to submit proposals, we no longer expect that the project will be ready for consideration within the next fiscal year; Board consideration is now scheduled for August 1971.

III. Release of 9% Capital Subscription

We have requested the Ministry of Finance to release $2.25 million of Korea's 9% capital subscription of $4.8 million for local use. A $6.5 million contract for fishing vessels under our second fisheries loan to the Republic of China would permit us to use these funds. This release and further releases for local purchases under future contracts awarded to Korean firms should not be an excessive burden on the Korean economy and would be a reasonable contribution by Korea to the cooperative efforts of the Bank. The Government has agreed to our request in principle but a reminder to the Deputy Prime Minister may speed up a final agreement on the release.

cc: Messrs. Knapp
Cope

Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 29, 1969

FROM: Douglas J. Fontein DF

SUBJECT: KOREA: Visit of the Deputy Prime Minister on April 30, 1969

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cc: Messrs. Knapp
Cope

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONSULTATIVE GROUP FOR KOREA

Opening Statement by the Chairman, Mr. Goodman

Gentlemen:

1. It is a pleasure to welcome you to the third regular meeting of the Consultative Group for Korea. On behalf of the delegates to this meeting I welcome especially the Deputy Prime Minister of Korea and his associates who have come to discuss with us the economic situation of their country and their Government's investment program.

2. I should like to turn briefly to the plan for the meeting. We have circulated an agenda which lists what we thought should be the main topics of discussion. I propose that my opening remarks be followed by a statement of the IMF Representative. Then there will be a statement by the Deputy Prime Minister of Korea, Minister Park. Before opening the discussion on the economic situation of Korea, we will have a coffee break. Tomorrow morning we would conclude the discussion on the economy, and we would then have a discussion concentrating on the projects presented by the Korean delegation. The Korean delegation will introduce these projects to you. The formal meeting should then come to a close in the course of tomorrow afternoon.

3. Since our last meeting in April of last year, the Bank has continued to keep in close touch with the Korean Government and with developments in Korea. A bank mission visited Korea last October/November to review the economic situation and the prospects for further development; the report of this mission was distributed to you in March. Mr. Yang, the leader of our economic mission, is here with us and will be happy to answer any questions you may have on the report. Messrs. Kraske and Yang visited Korea just before this meeting to collect up-to-date information on the economy; these latest data are given in several tables which you have before you. The Korean delegation has brought along copies of the Government's Overall Resources Budget for 1969 which outlines the Government's plans for the current year. These documents will form the basis of our discussion of the economic situation and prospects which, as we suggested in our agenda for the meeting, might focus on the Government's plans for economic growth, investment and capital inflow in the light of Korea's growing burden of foreign debt.

4. Once again, Mr. Minister, we have to congratulate you on the outstanding performance of the Korean economy. 1968 proved to be another record year. GNP increased by over 13 percent in real terms in spite of a bad drought which severely affected agricultural output. This is much higher than the growth target of 7 percent in the original Second Five-Year Plan and even above the 10 percent target of the revised plan. The reason for this exceptional growth is largely the rapid expansion of industrial output, which increased by 26 percent and now contributes roughly one quarter of GNP. Especially noteworthy was again the growth of export earnings, which was about 40 percent. These remarkable achievements are matched by few other countries; they must be attributed to the energy and

enterprise of the Korean people. Yet no small share of the credit is due to the policies of the Government, which provided the proper framework for sound and rapid growth, and to the determination with which they have been carried out.

5. In this connection, I would like to mention particularly the relative monetary stability which the Government has succeeded in maintaining in recent years. Price increases in 1968 kept within reasonable limits of 7 to 10 percent. Money supply increased by 25 percent, considerably slower than in 1967, when a 42 percent increase gave us cause for concern. The Government is taking steps to limit the increase of money supply further in 1969 so that the rate of price increase should gradually come down. This would indeed be desirable in the interest of further savings and export growth.

6. Another notable feature of progress to which the President of the Bank attaches great importance is the rapid decline in the rate of population growth. Along with the vigorous implementation of the Government's family planning program, the population growth rate in Korea has continued to decline from 2.9 percent in 1960 to 2.3 percent in 1968. This is certainly an outstanding record among developing countries, and substantially reduces the capital requirements needed to sustain the growth of the economy.

7. You will recall that we mentioned in the past the problems arising from a shortage of power and transportation facilities; we also pointed to the growing disparity between industrial and agricultural development and between urban and rural incomes. These problems have in the meantime been vigorously attacked by the Government. The power shortage has already been overcome and projects under construction or in the planning stage would seem to provide sufficient capacity to meet the future demand. Transportation is still a bottleneck but investment in the transport sector has increased substantially in the last 2 years. The lack of balance between industrial and agricultural growth was aggravated by the effects of the consecutive droughts in 1967 and 1968, and brought this problem sharply to the attention of the Government and the public. The problem will not be solved overnight but a stepping up of agricultural investment, as is now planned, and recent measures of price policy should go some way towards improving the situation.

8. The performance of the Korean economy has consistently outpaced the most optimistic projections. This has baffled observers abroad and, I believe, has often surprised the Korean planners themselves. Consequently, growth targets including the investment target, have been revised upward; investment is now put at 46 percent higher than in the original Second Five-Year Plan, and the related estimate of external capital requirements are correspondingly higher. Gross capital formation reached 24 percent of GNP last year and is forecast to go to a level of 26 percent of GNP for the remainder of the Plan period. Domestic savings, especially public savings, have been satisfactory at a level of about 13 percent of GNP in recent years, considering the adverse effects of the drought. Barring

unusual circumstances, it seems reasonable to expect that savings will go up to a level of 15-16 percent of GNP. Yet, this will still leave a gap to be filled by external capital of around 10 percent of GNP, which means roughly between $600 and $700 million annually. This is very large indeed.

9. It seems unrealistic to expect that these amounts, or even a major share of the requirements, will be available on reasonably long terms. The terms of external borrowing in recent years confirm this; of the total loan commitments at the end of 1968, roughly 70 percent were on short-and medium-terms and only 30 percent were on long or concessional terms. The service of this existing debt will absorb a substantial proportion of foreign exchange receipts in the coming years. If the debt service burden is to remain within reasonable limits, the future share of short-and medium-term borrowing will have to be reduced.

10. I know that the Government of Korea recognizes this problem. A number of measures designed to improve the debt profile and to keep debt service obligations at a manageable level have already been taken ; others are under consideration. The Deputy Prime Minister and his associates will describe these measures in some detail. I have no doubt that the Government of Korea will implement the necessary measures with the vigor and determination which have become the hallmark of economic policies in Korea.

11. The implications of these measures will have to be worked out in detail; they will no doubt be reflected in the Overall Resources Budget for 1970. It seems inevitable that the investment will have to be scaled down to allow for the limited availability of external capital on suitable terms. I do not believe that this would necessarily result in a slowdown of economic growth. The present investment program includes in our view a number of large, capital-intensive projects with long gestation periods which will contribute little to output in the near future and yet would use up a sizeable share of scarce resources. It would seem to us that some of these projects should be scaled down or postponed. Korea has so far not achieved much depth in her industrialization and consequently her dependence on imported raw materials, components and capital goods is great. It is therefore important to promote import substitution and export promotion in a more selective way, concentrating on products which require relatively high inputs of labour and skill and discriminating against capital-intensive and import-intensive industries.

12. While it is advisable for Korea to be more selective in her investment program and to adopt after five years of extremely rapid growth a strategy of consolidation, it would be tragic if for lack of suitable external assistance investment had to be cut to an undesirably low level. Even if the investment program is limited to the absolutely essential, the need for external capital will remain large. In view of the long period during which foreign assistance will still be required, it is necessary to provide loans and credits on terms more in line with the working life of the projects they finance than in the past.

I pleaded for lending on sufficiently long terms at the past two meetings ; I warned the members of the Group that heavy reliance on short-and medium-term suppliers credits would strain the Country's debt servicing capacity in a dangerous way. I think all of us do now recognise this problem and we should keep this in mind when deciding the terms of our assistance. The excellent growth performance of the Korean economy and the record of sound economic policies of the Government, clearly entitle Korea to our support.

East Asia and
Pacific Department
April 17, 1969

CONSULTATIVE GROUP FOR KOREA

Statement by His Excellency Choong Hoon Park

Deputy Prime Minister and Head of the Korean Delegation

Mr. Chairman, Distinguished Delegates:

1. Once again I am privileged and honored to have this opportunity to present to you our accomplishments of the past year and to describe the policies which we intend to follow to solidify these accomplishments and to deal with the problems we shall face during this year.

2. I also like to take this opportunity to express my heartfelt appreciation for the hard work and excellent arrangement of our friends in the World Bank in making us get together today in this beautiful city of Paris to review and discuss the matters on the Korean economy. It gives me a sense of happiness to note that our cooperation with the World Bank Group has been growing ever closer in the past years. The same can be said of the relationship between Korea and other international institutions here represented and the member countries of this Group. The continuing strong support of the countries and organizations you represent has been a source of our renewed courage and determination in all-out effort to grow.

3. I must add that Dr. Yang and his colleagues from the Bank spent considerable time and efforts last fall in Korea to examine the path of our economic growth. The result of their examination, which is embodied in the Bank's 1969 Economic Report on Korea here distributed to you, will greatly serve all of you in understanding the present conditions of the Korean economy. It also contains invaluable advice and suggestions on the management of the Korean economy in the future. I want to assure you that their advice and suggestions will not be neglected.

4. Despite another serious drought in the southern region for the second year in a row and despite repeated provocative infiltrations of the North-Korea's armed commandos attempted to disrupt economic and social fabrics of the country and to cause a sense of panic among our people, we had succeeded again in achieving a high rate of growth with stability in 1968. The provisional estimate of GNP growth in 1968 is 13.1%, 4.2 points higher than the growth rate achieved in 1967. A 26.2% growth rate in the mining and manufacturing sector represented a record achievement in our history. This phenomenal growth had progressed hand in hand with the commensurate increase of exports which rose by 40% in 1968 and exceeded the target of $500 million. The rapid growth led by industrial expansion and geared for export is an important feature of the Korean economic development.

5. Due largely to the increases in grains prices, occasioned by under-production of food grains, the wholesale price index rose by 7% in the year, while consumer prices in Seoul registered an increase of about 10%. While these rates might appear rather high to the eyes accustomed to developed economies, the bitter experience of the Korean economy, which had continuously undergone unbearable price hikes ranging over 20%, typical of a war-devastated economy, can accept these rates still as moderate and manageable. This is particularly so, if viewed against the fact that internal tax collection in 1968 increased by 50%, and time and savings deposits were almost doubled. Sustained development not contradictory to stability is another facet of today's Korean economy.

6. In the area of capital financing needed to support the high growth rate, the fact that we had in 1968 to resort in a larger part to foreign savings to the extent of 11.1% of GNP is a matter calling for serious attention of my Government in formulating our development strategy, because of its impact on the future debt service and on the external balance of the economy. This is essentially the background of our sincere consultations with the members of Dr. Yang's team of the Bank and Mr. Ahrensdorf's team of the Fund. Out of these consultations, there emerged a new system of placing certain ceilings on additional incurrence of foreign debt financing to a level compatible with growth with solvency.

7. In my report to you last year I noted two major bottlenecks which threatened to impede Korea's economic growth - namely power and transportation. I am happy to report today that the generating capacity of 944 MW as of the end of 1967 was increased to 1,275 MW by the end of 1968, while it will reach 1,629 MW by 1969 and 4,170 MW by the end of 1971, the last year of the Second Five Year Development Plan. Meanwhile, all of these planned capacity increases will go on schedule in so much as the required financing arrangement, both foreign and local, are adequately lined up. Thanks are due to you all for the cooperation rendered to Korea for such necessary capital arrangements toward this end.

8. Expansion and modernization of transportation media and transport facilities have been receiving the utmost attention of the Government ever since the commencement of the Five Year Development Plan. Compared to the patterns of the efforts made during the First Five Year Plan period which placed main emphasis on railroad modernization and network expansion, the present fashion of developmental emphasis is on highway network development. In parallel with inland transportation, increasing portions of capital expenditures are being used for coastal transportation. By the result of these serial efforts the total hauling capabilities of inland and coastal transportation have been greatly increased.

9. Despite the success in increasing transportation capabilities including speedy completion of Seoul-Inchon and Seoul-Osan highways, the

increase in traffic volume far exceeded our effort to expand means of transportation. By its nature development of this sector is a time consuming one. It may take another couple of years of concerted efforts as well as a good deal of outside help before we can reach a point of some relief. A high priority will be continuously placed on the plans and projects to improve our transportation capabilities. Construction of highway networks initiated last year will be continued throughout this year. Railway transport capabilities must be improved on a continuing basis. Harbor facilities must be enlarged. Close cooperation with the World Bank, the Asian Development Bank, and the member countries so far has been most helpful not only in providing investment but also in identifying problems and preparing projects. We want to maintain these relationships in the years to come.

10. Successive droughts in the southern region in the past two years pointed clearly to the inability of the agricultural sector to keep pace with the development in other sectors. A drastic reduction in production of rice has not only further aggravated the lag of agricultural incomes but also resulted in expenditure of valuable foreign exchange to import rice and other food grains. We are most grateful to the Governments of the United States and Japan for their assistance and cooperation in this area. Bitter experiences in the past two years demonstrated clearly the need for accelerated efforts to increase food production as well as farm income to ensure more viable and balanced economic growth. In order to provide incentive for investment in the agricultural sector, the Government had increased its purchasing price of rice. At the same time, many of Government's investments are programmed for agricultural development through the utilization of large sales proceeds of food imported on long term credit basis and of foreign capital from various international financing institutions. We are pleased by the concrete cooperative actions already taken by the World Bank and the Asian Development Bank to help us in these endeavors.

11. While we are all proud of our export performance, the rapid increase in imports has presented itself as a problem. Total imports increased by 45% last year and reached a level of $1.3 billion. Imports of food grains were unusually large and imports of capital equipment continued to rise. In addition, the increase in consumer goods imports is apparently related to some changes in the domestic consumption pattern which needs to be re-examined. The direction and purpose of our re-examination in this respect are being geared to eliminate non-essential import.

12. The successive inflow of foreign capital had played an important role in helping us make up for trade and saving gaps and in supporting the high growth rate. Being cognizant of the adverse effect of the future debt burden on external balance and solvency of the economy, we have already initiated several measures from the middle of last year. Limitations were placed on the amount of new supplier's credits at $295 million with a term of more than 3 and less

than 10 years, as agreed upon with the IMF. For external credit of less than 3 years with the exception of some grain and cotton imports, virtually no new loans will be approved. Domestic financial burdens on importers of non-essential commodities have been increased by raising again the percentage of advance deposits up to 200% in early 1969. Procedures of importing capital goods have been further refined to be more selective and priority-oriented. All external loans guaranteed by the commercial banks are now required to be cleared with the Ministry of Finance and any projects requiring external loans exceeding a certain amount will have to be approved by the National Assembly. We will also request our entrepreneurs who have been relying upon medium-term supplier's credit to seek in the future better terms and conditions, with an adequate grace period. They are also required to receive the Government's clearance before they start to negotiate with foreign suppliers. I want to make it clear to all of you that we have already been and will continue to be mindful of our obligation and responsibility to our creditors. I intend to keep the ratio of our service of external debts of three years and above to total export earnings within the limit of 15%. Accordingly, our development goal and the level of investment will be essentially oriented to the reasonable prospects of the availability of resources. We shall try to raise further our rate of savings. At the same time, we will try harder to accelerate our export growth. We have raised our merchandise export target for 1969 from $650 million to $700 million and for 1970 from $800 million to $1 billion. An increased export and reduced capital inflow will improve the debt service position.

13. During 1969 we will continue to pursue policies designed to achieve greater stability and sustained growth. A financial stabilization program, the essence of which has been agreed with the Fund in our new standby agreement, will be the key instrument by which we aim to attain further stability and balance both domestically and externally. Strict restraint will be placed upon the expansion of money supply, to assure that it does not become excessive in relation to real growth in the economy, and thereby to assure the continuation of the trend to slow down the price increase.

14. Mr. Chairman and delegates, I am confident that the economy of my country is now firmly standing upon a solid base after having weathered so many difficulties and problems inherent to a developing economy. I am sure the present political and social stability being enjoyed under the leadership of President Park Chung Hee will continue to be maintained and our present good relationship with the organizations and nations you represent here will continue. On this firm ground, the Korean economy will continue to generate self-propelling momentum and to register reasonably high rates of growth during the remaining years of the Second Five-Year Economic Development Plan period.

15. In this connection I would like to remind you of the special consideration which I asked you to give in the last meeting to

improving and relaxing terms of repayment and interest rates of credits to Korea. The actual performance in this respect up to now is not so satisfactory compared to our expectation. Your continued consideration of the matter and efforts to make the external financing on more favorable terms needed for continued development of the Korea economy will be most appreciated.

16. Even if we exercise restraint and cut investments and imports to the absolute essential and sacrifice some of the growth momentum, we still need help and this help should be on terms adequate to the purposes it serves. The rapid growth has to be matched with stability, solvency and balance. The route to the attainment of these qualities requires not only carefulness and cost-consciousness on the part of ourselves but also closer cooperation and understanding on the part of the organizations and nations you represent here in improving the terms and conditions of assistance and credit you are providing us.

17. We have distributed a list of prospectuses of projects which call for foreign capital financing. The projects listed are carefully identified and developed. I hope you will find some of the projects are of interest to you.

18. Mr. Chairman and distinguished delegates, I would like to reassure all of you that the desire to do everything we can to maintain stability and solvency and to attain growth remains strong and vigorous. We are aware of the problems we face. We will always be prepared to recognize and solve these problems, as we feel these are the positive challenges. We will always have the courage to meet the challenges of development.

April 17, 1969

COUNTRY STATEMENT

The Republic of Korea

I. THE ECONOMIC SITUATION AND OUTLOOK

Economic Performance in 1968

1. GNP in real terms grew by 9 percent in 1967 and 13 percent in 1968 in spite of a drought in each of these years. This is much higher than the 7 percent growth rate originally planned, largely because industrial output grew by 22 percent and 26 percent in 1967 and 1968 respectively. The rate of population growth has slowed down from 3 percent to 2.3 percent in the last decade and per capita GNP has grown at rates approaching 10 percent to about $170 equivalent in 1968.

2. Agricultural performance in the last two years has been disappointing; the 1968 output remained at the low level of 1967 which was 6 percent below 1966. While poor weather undoubtedly was the main reason, a slowdown of agricultural investment has been noticeable.

3. Major factors stimulating economic growth have been investment (other than in agriculture) and exports. Gross capital formation increased by 30 percent and exports of goods and services by 40 percent annually during 1965-68. The bulk of investment has been in the manufacturing sector and associated infrastructure.

4. Gross capital formation amounted to 24 percent of GNP in 1968. Investment increased more rapidly than domestic savings and the resource gap, which has been widening since 1966, reached close to 11 percent of GNP in 1968. This gap was again filled by capital inflow from abroad, but with a different composition. The share of official grants declined and that of loans, especially short-term commercial loans, increased sharply.

5. Private savings, which had slowed down somewhat in 1967 due chiefly to the low agricultural income and increase of private consumption, regained some strength in 1968. Public savings rose substantially owing to a large increase in tax revenue, following a tax reform and further improvements of the tax administration. Total gross domestic savings stayed at a level of 13.5 percent of GNP in 1968, almost double the average rate in the early sixties.

6. Merchandise exports increased dramatically from an average level of less than $90 million in 1962-64 to almost $490 million in 1968, but imports also expanded rapidly, especially in the last two years, as a result of the economic expansion, the need for food imports and trade liberalization. The deficit on goods and service account increased therefore to almost $620 million in 1968 from $415 million in 1967 and $220 million in 1964.

Targets for 1969 and beyond

7. The Government is projecting a GNP growth of 11.7 percent in 1969 and of 10 percent in 1970 and 1971. Given normal weather conditions and higher investments in agriculture, agricultural output should rebound substantially from the 1968 low level and might grow at 8.2 percent in 1969 as expected by the Government.

8. Gross domestic savings in 1969 are expected to amount to Won 289 billion (US$1.03 billion) or 15.1 percent of GNP at current prices. This is based on the assumption that private savings would further recover to 10.6 percent of GNP and that public savings would be around 4.5 percent of GNP. These assumptions seem reasonable.

9. Gross investments at current prices are expected to reach a level of close to Won 500 billion (US$1.8 billion) in 1969 or almost 26 percent of GNP. This would result in a resource gap of between 10 percent and 11 percent of GNP or roughly Won 200 billion (US$720 million) to be financed by the inflow of capital from abroad. Investment as a proportion of GNP is forecast to remain at the level of roughly 26 percent in 1970 and 1971, while domestic savings may go up to 16 percent of GNP in 1971 but hardly very much further. This would still leave a resource gap of between 9 and 10 percent of GNP in 1971 to be filled by external capital.

10. Receipts from exports of goods and non-factor services are expected to grow at an average rate of about 18 percent during 1969-71 compared with a 30 percent increase in 1968. The growth of imports is forecast to slow down from 30 percent in 1968 to an annual average of about 12 percent during 1969-71. These forecasts seem reasonable and imply that the proportion of current foreign exchange expenditures met by current foreign exchange receipts would increase from 58 percent in 1968 to 67 percent in 1971. The trade deficit estimated at $618 million in 1968 is expected to increase to $748 million in 1969, to remain at a level of slightly below $700 million until 1973, and thereafter to decline gradually until 1980 when it would become negligible.

11. The Government's medium-term development strategy was outlined in the Second Five-Year Plan for 1967-71. The Plan targets were considered reasonable and realistic; the 7 percent target for GNP growth compared with an actual growth rate of 6.3 percent per year during the First Five-Year Plan period. The targets turned out to be conservative and were consistently exceeded by wide margins. This led the Government to revise in 1968 the targets for the remainder of the Second Five-Year Plan; the growth rate of GNP in real terms is now planned to be 10 percent a year and the revised investment requirements for the whole second plan period are now estimated at Won 1,430 billion (US$5.3 billion) which is 46 percent higher than the original investment target.

Sector Priorities

12. The rapid expansion of industrial output, particularly of industrial exports, has been the main force of economic growth in Korea. Korea has not achieved much depth in her industrialization and dependence on raw material, component and capital goods imports is great. It is therefore important to promote import-substitution and exports in a more selective way, concentrating on products which require relatively high inputs of labor and skill and discriminating against capital-intensive and import-intensive industries.

13. The emphasis on industry and industrial exports has created structural imbalances which the Government is now attempting to overcome. Agricultural output and rural income have been lagging behind; the droughts in 1967 and 1968 have widened and highlighted the gap between agricultural and industrial development. The Government has raised the price of rice to increase farmers' income and to provide incentives for increased production. Agricultural investment is planned to increase more rapidly during 1969-71 than investments in other sectors (50 percent as against 17 percent for overall investment) and will go mainly into irrigation and land reclamation. Seed improvement, livestock raising, and cash crop production will be encouraged through better availability of credit and should contribute to a diversification of agricultural output.

14. Similarly, investment in power and transportation have tended to lag behind and have not kept pace with the rapid industrial development. Power shortage, a major problem in 1966 and 1967, is now disappearing thanks to a 40 percent capacity expansion in 1967/68. Substantial further investments are planned for 1969-71 to meet expected future demand. Transportation continues to be a bottleneck but is improving. Capital formation in the transport sector increased substantially in 1967 and 1968 and has added railway and road capacity; investments are expected to increase even further in 1969 and to remain high in 1970 and 1971.

15. Considering the estimated trade gap and necessary additions to foreign exchange reserves, net external capital requirements would be about \$800 million in 1969 and around \$700 million annually during 1970-73; assuming an average annual inflow of about \$200 million of net private transfers, official grants, and direct investments, net external loan requirements would be around \$600 million in 1969 and around \$500 million annually during 1970-73. On this basis the required gross inflow of foreign capital would increase sharply even under the most favorable assumptions about the terms of future debt from a level of about \$700 million in 1969 to \$1,000 million in 1974. The total gross inflow required over the five-year period would thus be in the order of \$4.0 billion.

Major Constraints on Investment

16. It is doubtful whether the agricultural sector will be able to absorb investments at the rate projected by the Government. Korean industry, however, has a high capacity to absorb capital which so far has been limited by the availability of capital. Korea has in the past been able to attract large amounts of foreign public and private capital; yet the terms of external borrowing have become more unfavorable and Korea has accumulated a large amount of short-term debt which will strain her debt servicing capacity and which makes further indiscriminate external borrowing highly inadvisable.

17. The debt service ratio increased from 2.6 percent in 1966 to 14 percent in 1968 and will reach 20 percent in 1970, not counting any service of future debt. In these circumstances, the projected rate of investments appears to be unreasonably high. Korea cannot realistically expect to fill the estimated resource gap with borrowings on long and concessionary terms. Inevitably the ambitious level of investments would therefore add further to the already heavy external debt burden. A slower growth of exports in the future, a possible decline of receipts from Vietnam and fewer foreign grants will accentuate the problem of debt service in the coming years and should have been taken into account in setting investment targets.

Creditworthiness

18. The Korean Government's economic policies have brought about one of the fastest economic rates of growth in the world under conditions of relative monetary stability. Savings, in particular public savings, are at a reasonably high level. Exports have been encouraged in an exemplary fashion and as a result their growth has continuously far exceeded the growth of GNP or even industrial growth.

19. As indicated above, the widening trade gap and the increasing shortage of foreign long-term funds have led Korea to accumulate a large amount of short- and medium-term debt. If Korea continued to contract short- and medium-term debt at the rate followed in the last three years, the debt service burden in the seventies would clearly exceed Korea's ability to pay even under the most optimistic assumptions about export earnings. The service of the existing debt will take up 20 percent of export earnings in 1970. Assuming an inflow of capital mostly borrowed, of the magnitude indicated in paragraph 15, and depending on the terms of future debt, the debt service ratio would rise more or less steeply up to 1980 when it would reach a peak of about 25 percent under favorable assumptions. However, if Korea continued to borrow on the present pattern, i.e. about 70 percent in the form of short- and medium-term commercial loans and 30 percent in the form of conventional and concessional loans, the debt service ratio would reach 30 percent by 1974 and over 33 percent in the late seventies.

20. In the circumstances, it is imperative that the Government control the accumulation of further short- and medium-term debt. Otherwise an acute liquidity problem within the next two or three years may necessitate refinancing or rescheduling of external loans. At present the Government exercises reasonable control over the level of Government-guaranteed loans; however, the degree of control over commercial bank-guaranteed loans is inadequate. The IMF has worked towards control of short-term foreign debt through its standby agreements. The present agreement, which expires April 10, 1969, imposes a limit on debt maturing within three years; the new agreement, which is now under discussion, will include ceilings on new debt contracted with maturities between one and three years and between three and ten years, thus reflecting the aggravated situation.

Bank/IDA Lending

21. As indicated earlier, the present investment program of the Government seems over-ambitious and is clearly out of proportion with the availability of financial resources on acceptable terms. It includes a number of projects, e.g. the proposed steel plant and the Seoul-Pusan expressway project, which could be postponed or scaled down without seriously affecting future growth rates. Similarly, private borrowing abroad and private investment could be restrained by applying cost-benefit comparisons more strictly in the selection of projects requiring foreign and budgetary funds. These measures would ease the problem of resource availability and should make it easier to contain the inflow of short- and medium-term funds.

22. The proposed lending by the Bank Group during the next five years is for a total of $350 million, equivalent to 10 percent of the estimated required net capital inflow of about $3.5 billion during that period. The lending program in its present form is designed to meet the foreign exchange requirements of high priority projects in sectors, primarily agricultural and transportation, where investments have been lagging and where financing from other bilateral and private sources will not be easily available. If the Government makes a determined effort to curtail the indiscriminate inflow of short- and medium-term funds and is willing to follow in its investment program a well-balanced policy of import substitution and further export promotion, there might be a case for substantially increasing Bank Group lending over and above the proposed lending program.

23. Even with the best efforts to limit the future debt burden, the debt service ratio would be well above the 20 percent mark throughout the seventies. For this reason, a substantial proportion of our lending to Korea should be on the easiest possible terms. The lending program provides for a total of $80 million of IDA credits which is less than one-fourth of the total but assumes that this is all that could be allocated to Korea. The proposed amount of Bank lending would be $270 million over the five-year period. It is desirable that Bank loans be for 25 to 30 year terms, including long grace periods so as to add as little as possible to the debt service problem during the

seventies. For this reason, concessional lending and extended terms and grace periods should if possible be concentrated in the early years of the program.

24. The existing and projected resource gap cannot be met entirely by financing only the foreign exchange costs of projects suitable for Bank consideration. Many of the projects having a high foreign exchange component, particularly in the industrial sector, are financed with funds from private and bilateral sources. For this reason, financing of some local expenditures by permitting the many competitive Korean contractors to participate in the bidding for Bank financed contracts, has in the past been recommended and would continue to be justified in appropriate cases to enable the Bank to make adequate contributions to the financing of high priority projects.

II. THE LENDING PROGRAM

25. The proposed lending program covers nineteen individual projects spread evenly over the five-year period. The total amount of Bank Group lending during the period would be $351 million, an average of $70 million per annum. The program aims at supporting the Government's efforts to correct the structural imbalances resulting from the extremely rapid economic growth. There are eight agricultural projects included in the program for a total lending of $96 million. Five projects in the transportation sector would receive $135 million, the largest share of the program; another $80 million would be for expansion and improvement of vocational education facilities and for power. In addition, we would continue to support industrial growth through loans to the Korea Development Finance Corporation; the proposed two loans of $20 million each represent a further step up of our lending to this institution.

26. The projects included in the proposed lending program for fiscal year 1970 and 1971 have all been identified and are in various stages of preparation. With the exception of the two power projects, the livestock project and the deep-sea fisheries project, all projects proposed for the last three years of the program would be repeater operations with borrowers of previous Bank loans or IDA credits. The estimates of loans required for these operations are based on our information about investment programs and our experience regarding the ability of our borrowers to implement projects and absorb capital investments. This is true in particular for the proposed railway and KDFC loans.

27. If the proposed lending program would have to be cut back for reasons unrelated to any of the individual projects, it is recommended to drop the proposed lending for thermal power projects. These could probably be financed, as in the past, from private and official bilateral sources, although on harder terms. If, on the other hand, the program should be increased on the conditions spelled out above, lending for power projects, port development, telecommunications, water supply and sewerage, and industry could be substantially stepped up.

III. OTHER BANK ACTIONS AND ISSUES

28. The next meeting of the Consultative Group will be held April 17/18, 1969 in Paris to review the economic situation and outlook and to discuss the Government's investment program. The Bank will on that occasion point out the deterioration of the debt situation and recommend to scale down investment targets.

29. The highway projects included in the lending program are being identified and prepared by consultants, financed under a $3.5 million IDA credit made for this purpose. Feasibility studies are expected to be completed by February 1970. Detailed engineering of a first road project is expected to be completed by the middle of 1970.

5 - YEAR ECONOMIC DEVELOPMENT PROGRAM

Korea, Republic of

			Actual Data						Projected Data						Period Growth Rates	
			1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1963-67	1970-74
Population - growth rate	%	1													2.7	2.1
birth rate	per 1000	2	39.4	38.7	37.3	35.4	32.8	30.7								
Price Change - c.o.l. index	%	3	21.9	28.9	13.4	11.3	10.9								17.1	
exchange rate (won)	per US$	4	130	255	271	270	274	281								
Means of Payment - change	%	5	6.6	15.4	52.2	62.2	60.7									
GNP at factor cost; 1964 prices - Total	$ mil.	6	3,039	3,294	3,534	3,986	4,299	4,862	5,431	5,974	6,571	7,162	7,807	8,510		
per capita	$	7	113	119	125	137	144								6.7	7.1
GNP at constant market prices - real growth rate	%	8	9.2	8.4	7.3	12.8	10.5	13.1	11.7	10.0	10.0	9.0	9.0	9.0	9.6	9.4
GDP at current market prices - Total	$ mil.	9					4,464									
Production Growth (real) - agriculture	%	10	12.4	25.7	-0.6	8.2										
food per capita	%	11	10.8	21.7	-3.7	4.9										
manufacturing	%	12	13.6	7.0	20.6	17.8	22.4									
GDP by Branch - agriculture	%	13	45.0	48.4	41.3	39.2	34.1									
mining	%	14	1.8	1.9	2.0	1.7	1.8									
manufacturing	%	15	13.6	14.8	17.2	17.1	18.7									
construction	%	16	3.2	3.0	3.6	4.0	4.5									
transport & communication	%	17	4.0	3.3	4.0	4.9	5.7									
public admin. & defense	%	18	6.2	5.1	5.3	5.7	6.0									
other branches	%	19	26.2	23.4	26.6	27.5	29.2									
Resource Gap	% of GDP	20	11.5	7.9	7.5	9.9	11.0	12.7	10.9	8.9	8.1	7.6	6.9	6.1		
Net Factor Payments	% of GDP	21	-0.7	-0.8	-1.0	-1.3	-1.8	-1.6	-1.3	-1.4	-1.3	-1.4	-1.3	-1.2		
National Saving - private	% of GDP	22	8.7	7.5	7.0	10.8	9.2	8.2	10.8	11.1	11.3	11.8	12.2	12.5		
public	% of GDP	23	-1.0	--	1.2	2.5	3.8	5.4	4.5	4.6	4.9	4.9	5.1	5.2		
Total	% of GDP	24	7.7	7.5	8.2	13.3	13.0	13.6	15.3	15.7	16.2	16.7	17.3	17.7		
Marginal Saving Rate		25													.16	.22
Consumption - private	% of GDP	26	82.4	84.7	83.8	79.1	79.6	78.2	75.0	72.6	71.3					
public	% of GDP	27	11.3	9.0	9.5	10.3	10.8	11.3	11.0	11.6	12.1					
Total	% of GDP	28	93.7	93.7	93.3	89.4	90.4	89.5	86.0	84.2	83.4	82.9	82.2	81.3		
Exports of Goods and Services	$ mil.	29	172.1	207.2	286.1	449.1	632.8	847.0	1032.0	1183.0	1380.0	1602.0	1827.0	2083.0	32.0	15.0
Imports of Goods and Services	$ mil.	30	577.6	430.3	481.7	772.7	1048.1	1465.0	1780.0	1850.0	2055.0	2288.0	2505.0	2744.0	18.2	9.1
Net Goods and Services	$ mil.	31	-405.5	-223.1	-195.6	-323.6	-415.3	-618.0	-748.0	-677.0	-675.0	-686.0	-678.0	-661.0		
Interest on Public Debt, Gross: Outflow (-)	$ mil.	32														
Other Investment Income, Net: Outflow (-)	$ mil.	33														
Net Investment Income: Outflow (-)	$ mil.	34	2.7	2.1	1.4	0.6	-1.8	-8.8	-9.1	-11.0	-11.0	-13.0	-13.0	-13.0		
CURRENT SURPLUS(+) DEFICIT(-)	$ mil.	35	-402.8	-221.0	-194.2	-323.0	-417.1	-626.8	-757.1	-688.0	-686.0	-699.0	-691.0	-674.0		
Long Term Private Capital, Net inflow	$ mil.	36	94.1	65.6	108.4	274.8	282.5	300.0	436.0	328.0	280.0	310.0	314.0	310.0		
Long Term Public Capital, Gross inflow	$ mil.	37	229.3	150.4	136.6	156.5	162.4	181.4	266.4	263.4	338.0	371.0	398.0	432.0		
less: amortization	$ mil.	38	0.2	0.3	--	0.3	0.7	31.4	87.1	91.9	117.4	102.8	89.5	81.6		
Net long term pub. cap. inflow	$ mil.	39	229.1	150.1	136.6	154.2	161.7	150.0	179.3	171.5	220.6	268.2	308.5	350.4		
Short Term Capital, Net inflow	$ mil.	40	18.9	-4.4	-23.1	6.4	85.9	37.0	25.0	12.0	17.0	10.0	11.0	12.0		
Other Capital, Net Inflow (incl. errors & om.)	$ mil.	41	11.7	7.4	-23.9	2.7	-55.8	192.8	163.8	190.5	218.4	162.8	111.5	61.6		
NET BALANCE	$ mil.	42	-49.0	-2.3	3.8	117.1	57.2	53.0	47.0	14.0	50.0	52.0	54.0	60.0		
IMF Drawings(+) Repayments(-)	$ mil.	43						12.5	12.5	12.5	12.5	12.5				
Foreign Exchange Reserves, Inc.(+) Dec.(-)	$ mil.	44	-49.0	-2.3	3.8	117.1	57.2	53.0	47.0	14.0	50.0	52.0	54.0	60.0		
Foreign Exchange Reserves, Net - Total	$ mil.	45														
Foreign Exch. Reserves, Gross - govt. entities	$ mil.	46	131.5	136.4	146.3	245.4	356.5	409.5								
comm. banks	$ mil.	47														
Total	$ mil.	48														
External Debt	$ mil.	49						1,165	1,494	2,136	2,856	3,576	4,331	5,129		
Debt Service Ratio	%	50						13.6	14.7	24.6	26.9	25.2	26.2	27.9		
Export Price Index	%	51	100	102	106	117										
Central Government - Current revenue	% of GDP	52	12.0	9.8	11.4	13.5	15.5	17.1	16.4	16.8	17.3	17.7	18.2	18.7		
Current expenditure	% of GDP	53	13.0	9.8	10.1	11.0	11.7	11.7	11.9	12.2	12.4	12.8	13.1	13.5		
Saving	% of GDP	54	-1.0	--	1.2	2.5	3.8	5.4	4.5	4.6	4.9	4.9	5.1	5.2		
Capital revenue	% of GDP	55		3.9	4.0	3.9	2.5	3.4								
Capital expenditure	% of GDP	56		4.6	5.1	7.4	7.8	10.4								
Surplus(+) Deficit(-)	% of GDP	57		-0.7	0.1	-1.0	-1.5	-1.6								
Military expenditure	% of GDP	58	4.2	3.6	3.7	4.0	4.1	4.2								
Education - expenditure (general government)	% of GDP	59	2.2	1.8	1.9	2.5	2.6	3.0								
school enrol., primary & second.	%	60		78												
literacy rate, adult/a	%	61	71													
Tax Revenue (general government)	% of GDP	62	9.3	7.6	8.9	10.8	12.4	14.0	12.9	13.1	13.4	13.8	14.1	14.5		
Public Saving (% of public fixed investment)	%	63			38.8	56.5										
Gross Investment - private fixed	% of GDP	64	10.2	9.0	11.5	15.7			16.5							
public fixed	% of GDP	65	3.9	2.6	3.2	4.5			9.7							
increase in stocks	% of GDP	66	4.4	3.0	0.1	1.7	0.7	0.1								
Total	% of GDP	67	18.5	14.6	14.8	21.9	22.2	24.8	26.2	26.1	26.0	26.1	26.0	26.0		
Finance of Investment - National saving	%	68	41.5	51.5	48.6	60.7	58.6	55.1	58.4	69.4	71.2	73.4	76.1	77.7		
Foreign capital	%	69														
private	%	70														
public	%	71														
Total/b	%	72	58.5	48.5	51.4	39.3	41.4	44.9	41.6	30.6	28.8	26.6	23.9	22.3		
Change in reserves	%	73														
Public Investment by Sector - agriculture	%	74														
industry	%	75														
power	%	76														
housing	%	77														
transportation	%	78														
telecommun.	%	79														
education	%	80														
health	%	81														
other	%	82														

/a 1960. /b Including change in reserves.

Form No. 49

IBRD/IDA 5 YEAR LENDING PROGRAM
FOR Korea (COUNTRY)

PROGRAM:	SECTOR PROJECT NAMES - UNALLOCATED 1/	Check one: IBRD	IDA	Amounts ($m.) Timing (FY) 70	71	72	73	74
Agriculture								
	Seed Production and Distribution	x		8.0				
	South West Irrigation		x	15.0				
	Agricultural Credit I		x		10.0			
	Agricultural Credit II		x				15.0	
	Marketing Center	x			5.0			
	Livestock	x				10.0		
	Deep-Sea Fisheries	x				8.0		
	All-Weather Farming II		x					25.0
Education								
	Education II		x			15.0		
	Education III	x						15.0
Power								
	Thermal Power I	x					25.0	
	Thermal Power II	x						25.0
Transportation								
	Railways III	x		20.0				
	Railways IV	x					20.0	
	Highways I	x			25.0			
	Highways II	x				35.0		
	Highways III	x						35.0
Development Finance Companies								
	KDFC III	x			20.0			
	KDFC IV	x					20.0	
		5 year total		43.0	60.0	68.0	80.0	100.0
TOTALS -	IBRD	271.0		28.0	50.0	53.0	65.0	75.0
	IDA	80.0		15.0	10.0	15.0	15.0	25.0

1/ Where projects not yet identified give total "unallocated" amounts indicating, in parenthesis, probable number of projects in appropriate amounts column.

Form No. 49A.

ANNEX IV

BANK/IDA LENDING PROGRAM

	FY1965 and prior	FY1966	FY1967	FY1968	FY1969	FY1970	FY1971	FY1972	FY1973	FY1974
Agriculture		1/								
Bank					1/45.0	1/ 8.0	1/ 5.0	2/18.0		
IDA						1/15.0	1/10.0		1/15.0	1/25.0
Communications										
Bank										
IDA										
Education										
Bank										1/15.0
IDA					1/14.8			1/15.0		
Maint. Imports										
Bank										
IDA										
Power										
Bank									1/25.0	1/25.0
IDA										
Transportation										
Bank						1/20.0	1/25.0	1/35.0	1/20.0	1/35.0
IDA	1/14.0			1/11.0	1/ 3.5					
Water Supply										
Bank										
IDA										
Tourism										
Bank										
IDA										
Dev. Fin. Cos.										
Bank				1/ 5.0	1/15.0		1/20.0		1/20.0	
IDA										
Industry										
Bank										
IDA										
Other & Unallocated										
Bank										
IDA										
Total										
Bank				1/ 5.0	2/60.0	2/28.0	3/50.0	3/53.0	3/65.0	3/75.0
IDA	1/14.0			1/11.0	2/18.3	1/15.0	1/10.0	1/15.0	1/15.0	1/25.0
Bank and IDA	1/14.0			2/16.0	4/78.3	3/43.0	4/60.0	4/68.0	4/80.0	4/100.0

1/ Each entry will show both the number of projects and the total dollar value for that year and sector, separated by a slash. Thus, for example, an entry of 4/57 would denote 4 projects with a total value of $57 million. If the exact number of planned projects for a year is not known, put an X where the number would otherwise be, e.g., X/57.

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Form No. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 29, 1969

FROM: Raymond J. Goodman RJG

SUBJECT: Visit of Mr. C.P. Song

I understand that Mr. C.P. Song is paying you a courtesy visit on June 2 at 4.15 p.m. Following a two year tour as Alternate to Dr. R.C. Chen, Mr. Song was appointed early this year President of the newly formed Korea Highway Corporation. We have just received a copy of the "Korea Highway Corporation Law" of January 17, 1969; you may wish to thank Mr. Song for providing this information. According to the Law the purpose of the Corporation is "to establish and manage toll roads, thereby expediting the improvement of roads and contributing to the development of highway transportation."

Mr. Song will also meet with Messrs. Knapp, Rosen and myself. Apparently, Mr. Song does not have anything specific in mind but just wishes to discuss in general terms such matters as a possible financing of future highways in Korea and how he should go about capitalizing the new Corporation. We are not clear to what extent the Corporation has started to function; at the moment there are only two short stretches of toll road in operation: the Seoul-Inchon expressway, which was completed last year with ADB assistance, and an initial portion of the proposed Seoul-Pusan expressway. Construction of the Seoul-Pusan expressway is in the hands of the Ministry of Construction. As you know, the Seoul-Pusan expressway is expected to be completed by the end of 1969.

The Korean Government is hopeful that some of the roads at present studied by consultants financed by a $3.5 million IDA credit will turn out to be toll roads. The three consultant teams financed by our credit have just turned in Interim Reports, two reports dealing with the alignment and standards of the highways under study and the third report dealing with the organization of highway administration and transport coordination. We have not had time to study these reports in detail, but first indications are that the consultants are recommending mostly two lane highways and improvements to existing roads rather than brand new expressways which could be constructed and administered under the auspices of the Korea Highway Corporation.

President has seen

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Form No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: June 3, 1969

FROM: Raymond J. Goodman RJG

SUBJECT: KOREA: Visit of Mr. Hyok Pyo Yoon

I understand that Mr. H.P. Yoon will pay you a courtesy visit later today. Mr. Yoon was appointed President of the Union of Land Improvement Associations in early March. Before his present appointment Mr. Yoon was a General in the Army.

The Union of Land Improvement Associations (ULIA), the borrower of the recent $45 million Bank loan for the Pyongtaek-Kumgang Irrigation Project, is a semi-autonomous public organization within the Ministry of Agriculture and Forestry. ULIA was founded in 1940 and through its member associations now controls about 43% of Korea's total irrigated area. Under ULIA's guidance and supervision a considerable number of small-scale reservoirs and pump lift irrigation project have been completed. The project assisted by the recent Bank loan is by far the largest and most complex of the irrigation schemes so far undertaken by ULIA. For this reason, ULIA will appoint consultants to supervise construction of the project.

The purpose of Mr. Yoon's visit is to generally acquaint himself with the Bank and to discuss details of the procedures to be followed in selecting consultants and in withdrawing and utilizing Bank funds. Mr. Yoon is accompanied by Mr. Eun Jin Lim, who is in charge of the newly created department of ULIA entrusted with the implementation of our project. Messrs. Yoon and Lim will depart for Rome tonight for discussions with the World Food Program on the Government's request for WFP's assistance for the project amounting to 93,000 tons of foodgrain and flour, equivalent to about US$12 million.

President has seen

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Form No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 16, 1969

FROM: Martin M. Rosen

SUBJECT: Kyun Hi Tchah

Mr. Tchah, whom you are seeing this afternoon, is President of the Agriculture and Fishery Development Corporation and is here for the signing of the Honam Silk project in Korea.

He is a very able man, and, although still in his early 40's, has held many important jobs in Korea.

I first met him in 1961 when he was Deputy Minister of Economic Planning. Subsequently he has been in and out of the Cabinet several times and for quite a while was Minister of Agriculture. He is very close to President Park and, when I was in Korea, he was being talked about as being one of the contenders for the position of Deputy Prime Minister in replacement of the man who recently resigned.

President has seen

8

3.40 Mtg

FORM No. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 10, 1970

FROM: Raymond J. Goodman RJG

Confidential

SUBJECT: KOREA: Visit of Mr. In Sang Song

I understand that Mr. In Sang Song, Advisor to the Minister of Finance of Korea, is coming to pay a courtesy call at 3.40 p.m. on March 11, 1970. I am attaching a list of the positions Mr. Song has held in the Government, which was provided by the Embassy.

I met with Mr. Song last Thursday and from our discussion I concluded that the main purpose of his visit to the United States is to assess the credit rating of Korea and to convey his Government's determination to maintain Korea's creditworthiness. In the course of my discussion I mentioned your forthcoming visit to Korea and Mr. Song, one of the first fellows of EDI, suggested that you may want to meet with all our Korean EDI fellows when in Korea. I thought you might be interested in meeting at least a selection of them; they occupy important positions at the upper-middle levels in both Government service and private industry.

You should know that Mr. Song spent three years in prison after being Finance Minister in 1960. He was a protégé of Syngman Rhee but has now presumably been rehabilitated.

President has seen

MR. IN SANG SONG

Born March 6, 1914

1948-52	Director, Bureau of Finance Ministry of Finance
1956-57	Attended Second General Course Economic Development Institute, IBRD
1957-59	Minister, Ministry of Reconstruction and Economic Coordinator
1959-60	Minister, Ministry of Finance
1964-present	President, Korea Economic Development Association
	President, Korea Chapter for Society for International Development
	Member of Council, SID
1968-present	Member, Economic and Scientific Council to the President
1969-present	Advisor to the Minister of Finance

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OFFICE MEMORANDUM

TO: Mr. A. David Knox

DATE: May 19, 1970

FROM: Jochen Kraske

SUBJECT: KOREA: Transportation

(May 14, 1970)

During his visit to Korea last week, Mr. McNamara met with the Minister of Construction. The briefing by the Minister followed the attached brochure which had been prepared for Mr. McNamara's visit. The discussion centered around the role of the Ministry of Construction and the Government's investment program in highway and port development.

Mr. McNamara noted the substantial investment program considered by the Government and the Government's hope to receive large amounts of Bank assistance for highway and port projects. He agreed that the Bank would consider assistance for the proposed first highway construction project and the expansion of the port of Pusan. He told the Minister that the Bank was planning to appraise the highway project late this year with a view to processing a loan in FY 1971. Mr. McNamara was particularly impressed by the need for expanding the port of Pusan and promised that the Bank would give consideration to the Government's request for a loan for this project without delay. He noted that the Government had sent a reply to the Bank's questionnaire on this project and agreed that a reconnaisance mission would review the project at an early date.

As I was returning to Washington immediately following the meeting with the Minister of Construction, Mr. McNamara asked me to convey to you the outcome of his discussions.

cc: Messrs. Christoffersen
Goodman
Fontein/Street
Mackay
Carmichael
Hardy

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Form No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 25, 1970

FROM: William Clark WC

SUBJECT: Meeting with Deputy Prime Minister Korea

The D.P.M. began by a tour d'horizon which stressed the success of Korea, using the conventional statistics. He attributed this success to:

1. political stability of the Park regime;

2. good Government control of priority imports;

3. both the administration and the business community are very hard working and motivated towards expansion - at almost any cost.

In discussion the following points came clearer:

Agriculture. You prodded him about what was being done outside the manufacturing sector and the cities to improve the lot of the farmer. He admitted that the farmer was not doing as well as the metropolitan man; over 4 years farm incomes had risen by a total of 21%, but city incomes rose by 88%, both in real terms. As long as the farmers moved forward it did not matter too much that it was at a slower rate, he said.

Agricultural output had been increased by new seeds (a variant of the IRR 68), and soon they would increase the amount of land a farmer could have - at present 7 acres. This plus agribusiness would help to increase their standard of rural life. Government was also putting in medical and social centres at county level.

Furthermore the tax system was redistributed to farmers' benefit. They paid less taxes than city people and got a subsidised price for rice.

Exchange Rate. As usual the D.P.M. was very frank in admitting that their currency was overvalued, and that nothing could be done in election year. But he promised that something would be done very soon after the election (note that he did not regard the election as fundamentally riggable).

Debt. D.P.M. agreed that the future debt burden of Korea looked very serious, but the Administration was doing something about it. They would hold down new debt even if it meant a slowing down of growth.

Balance of Payments. Further proof was offered by D.P.M. of the sound policies of Administration in this field, e.g. there had been a 24% increase in imports in '68, kept down to 10% in '69 and

President has seen

perhaps even further in '70. Total imports were planned to fall in next few years (?five?) from $800m. p.a. to $590m. p.a. This partly done by import substitution especially in machinery. Amount of imports covered by exports was now 60% - should rise to 80%. Exports were planned to rise by 40% (over 5 years?). U.S. and Japan were increasing their imports from Korea, but Europe was an enigma. However the private investment by America, Japan and Germany showed their faith in Korea's economic future.

WDClark:sf

cc. Mr. R. Goodman

11

OFFICE MEMORANDUM

TO: Records DATE: June 2, 1970

FROM: Jochen Kraske JK.

SUBJECT: KOREA: Meeting with Mr. Duck Woo Nam, Minister of Finance

Mr. McNamara met with the Minister of Finance on May 14, 1970. Present at the meeting were Messrs. Jae Sul Lee, Vice Minister, Duck Chin Chang, Assistant Minister, and Sung Hwang Hong, Director, Foreign Exchange Bureau, as well as Messrs. R.C. Chen, Goodman, Clark, Christoffersen and Kraske.

The following subjects were discussed:

Exchange Rate Policy

The Minister agreed with the Bank that the won was probably over-valued. In the Minister's view, the main cause for the unrealistic exchange rate was the inadequate functioning of the floating exchange rate system. In response to Mr. McNamara's question why the system did not work, the Minister described the structural disequilibrium between supply of and demand for foreign exchange: of the sources of supply, foreign exchange earnings, foreign reserves, and foreign borrowing, only foreign exchange earnings entered into the system which left the exchange rate insufficiently determined. Nonetheless, the Minister agreed that market forces should be brought to bear on the exchange market more than heretofore. The Government will gradually relax quantitative import controls and the Minister thought that this would lead to increases of the exchange rate. The Minister agreed that a devaluation would help bring the exchange rate to a more realistic level. However, the Government had to consider the political impact of a devaluation, particularly the price effects. The Minister had taken some action on the exchange rate immediately after he took office; a further major devaluation would have to wait until after the election next year. In the meantime the Government was preparing such a move by working out measures such as coverage of foreign exchange risks of borrowers of foreign exchange loans.

External Debt

The Minister regarded the external debt problem essentially as a short-term one. He said that debt service of all debt with maturities beyond one year would reach a peak of 22% of foreign exchange earnings in 1970; thereafter, the debt service ratio would go down to 20% in 1971, 16% in 1972 and then be well below 15% by the mid-1970's. In his view, the present peak of debt service obligations was brought about by the droughts of 1967 and 1968 which had led to an excessive amount of short-term borrowing.

President has seen

The Minister was confident that Korea would be able to borrow sufficient foreign funds to meet her requirements while at the same time improving her debt profile. Against a current account deficit of $592 million for 1970 he expected gross borrowings of $673 million. Repayments of loans would amount to $111 million, including $54 million of short-term debt. As regards short-term funds, Korea had recently been able to borrow in the Japanese market and he expected this source to become more important as time went on. In addition, Kuhn Loeb jointly with Lehman Bros. were presently floating a first bond issue of $20 million maturing between 5 and 12 years in the New York market.

Mr. Goodman pointed out that there was apparently a divergence of views on the extent of the debt service problem between the Bank and the Government. According to our projections, debt service was expected to absorb well over 20% of foreign exchange earnings throughout the next decade. This was obviously due to different assumptions about export earnings, domestic savings, and the terms of future foreign debt. The Minister said that in his view the debt problem was less a question of the absolute amount of foreign debt but rather a problem of managing foreign debt within the context of the rapidly growing economy. The productivity of capital was still very high in Korea which prima facie justified foreign borrowing. If Korea succeeded, as was expected, in achieving substantially faster export than import growth the service of her external debt would seem to be assured. There was no doubt that the proportion of investments financed by savings had to increase but he felt the increase of the savings rate from 13% of GNP in 1966 to 18% in 1969 indicated a sound trend. The savings performance should further improve as a result of tax measures to encourage savings, especially business savings, measures to encourage the development of the stock market, introduction of new forms of private savings, such as a combination of savings and insurance schemes, and last not least as a result of improved financial stability.

<u>Price Stability</u>

The Minister emphasized his determination to check further increases of the price level. In 1969, the wholesale price index had increased by about 8% and the GNP deflator for that year was slightly above 10%. The source of price increases in the past had been the credit expansion to the private sector. To stabilize prices, credit expansion had to be sharply curtailed; in addition, increased commodity taxes by simultaneously keeping Government investments more or less constant should lead to a balanced budget and should have further stabilizing effects. He expected that prices would begin to settle in the latter part of 1970, following the pattern of the stabilization policy of 1964/65 which took about eight months to take effect. Adverse effects are at the present time resulting from the rising trends of world market prices for Korea's major imports. While the Minister was being increasingly criticised for his rather firm policy, he assured Mr. McNamara that he would stand fast and stay within the ceiling for domestic credit expansion agreed with the IMF.

The Government's tightening of domestic credit was beginning to show effects. Korean businesses traditionally and for want of a functioning stock market relied heavily on debt financing. As credit restrictions now made it difficult to raise funds to finance expenses and debt service, many enterprises were running into financial difficulties. The Minister felt that this was a rather undesirable effect of his monetary policy. He said he was at the present time still trying to find a way to strengthen the financial structure of productive and efficient enterprises. It was not possible for the Government to provide funds on better terms to Korean enterprises to enable them to refinance their existing commitments. In the long run private savings would have to cover the financial requirements of Korea's growing industry, but it was difficult to envisage that an active savings campaign could generate the necessary funds within a short period of time. A conceivable solution to the present problem would be the issuance of 22% Korea Development Bank bonds which would be sufficiently attractive to be accepted by present creditors in lieu of debt repayment by the enterprises. The Minister thought that the shortage of domestic financial resources as compared to the relatively easy supply of imported capital was a fairly common problem of less developed countries. He wondered therefore whether this situation could be considered as a reason for the Bank to lend for the financing of local currency expenditures. Mr. McNamara replied that the Bank was agreeable to consider the financing of local currency expenditures in certain circumstances and had done so in the case of Korea in the past; however, the problem described by the Minister would appear to be a short run problem of monetary policy and would appear to be a subject for assistance by the Fund rather than the Bank.

JKraske:rk

cc: Messrs. McNamara
Knapp
Friedman
Goodman
Clark
Christoffersen

12

OFFICE MEMORANDUM

TO: Records DATE: June 2, 1970

FROM: Jochen Kraske JK

SUBJECT: KOREA: Meeting with Mr. Shi Hyung Cho, Minister of Agriculture and Forestry

Mr. McNamara met with the Minister of Agriculture on May 14, 1970. Present at the meeting were Messrs. B.H. Chin, Vice Minister, Y.H. Kim, Assistant Minister, D.Y. Lee, Assistant Minister, B.S. Han, Planning Coordinator, and Messrs. R.C. Chen, Goodman, Clark, Christoffersen, Kraske.

The Minister expressed his appreciation for Bank assistance received for the important Pyongtaek-Kumgang project. The project was proceeding smoothly; 76% of the population of the Pyongtaek and Kumgang areas had already expressed their agreement to participate in the development. The Minister mentioned a number of projects in the agricultural sector which the Government would like the Bank to consider: livestock development, seed production and distribution, agricultural credit, Yong San Gang irrigation, and a warehouse project. Altogether these projects would require about $50 million of Bank Group assistance.

Mr. McNamara asked the Minister about the Government's long-range plans for the development of the agricultural sector; specifically, he wondered what the Government was going to do to bring the growth of incomes on the farm to a level comparable with GNP growth given the small average size of Korean farms.

The Minister agreed that the possibilities for extensive growth were limited. The total cultivable area was about 2.3 million hectar or about 23% of the total land area of the Republic. Through double-cropping of barley and rice, especially in the south of the country, the effectively cultivated area is approximately 3 million hectar. The Minister thought that the intensity of cultivation could be further increased by introducing double-cropping practices of suitable crops in the northern provinces of the country. For this reason and to increase the value of output it was planned to encourage diversification of production into cash crops, livestock, etc. At present 57% of the cultivated area was producing rice and barley, 35% cash crops and the balance was used for livestock raising and miscellaneous. The Minister said that agricultural incomes had increased during the last two years through increases of the rice price. However, further price increases for rice or other staple products would be difficult as they have a direct effect on the price level. There was still considerable scope to raise the effective farm income through measures aiming at a stabilization of the considerable seasonal fluctuations of the rice price.

Mr. McNamara then asked what the trend of population growth was in agriculture and how the share of agricultural incomes had developed recently.

President has seen

The Minister explained that the share of the agricultural population had declined from slightly over 50% five years ago to 49.6% in December 1969; in absolute terms the population had remained more or less constant. The number of farm households had increased from 2.35 million in 1960 to 2.546 million in December 1969; as a percentage of the total number of households the share of farm households had declined from 53.7% in 1960 to 47% in 1969. The Minister admitted that farm income relative to non-farm income had declined in recent years, although 1969 had brought some improvement. Total farm income measured against non-farm income was 60% in 1967, 58% in 1968 and 65% in 1969. The increase in 1969 was attributable primarily to the increases of the rice price of 17% in 1968 and 22.6% in 1969.

Mr. McNamara wondered what further measures the Government was contemplating to close the widening gap between urban and rural incomes now that the possibility of further price increases was exhausted.

The Minister admitted that it would obviously be very difficult to solve this problem in the near future. But the Minister was confident that the Government's agricultural policy would bring about substantial improvements in the long run. Firstly, the Government was increasing investments in irrigation facilities. As against an annual level of investments of Won 1-2 billion in the past, the Government had allocated Won 16 billion in 1969 and Won 13 billion in 1970. Agricultural production was still heavily dependent on rain. While the average annual rainfall of 1,000-1,200 mm was sufficient, the distribution through the year caused problems and affected the level of output. Against Korea's present requirements of rainfed crops of 9 million metric tons output was only about 7-7.5 million metric tons on the average, leaving a shortfall of 1.5-2.0 million metric tons. Increased irrigation could not only reduce this shortfall and increase agricultural income but would also eliminate sharp fluctuations from year to year. As of the end of 1968 only 58% of the total paddy land of 1.3 million hectar was irrigated. The investments, primarily in well irrigation, in 1969 had brought about an increase of 17%; the aim was to raise the share of irrigated paddy land to 85% by the end of the Third Five-Year Plan. At this point, Mr. Goodman expressed concern about the speed with which the Government was pushing the installation of wells; experience in other countries showed that without careful study of hydrological conditions installation of wells might prove harmful by lowering the watertable unduly or by causing salination. The Minister emphasized that he was aware of these dangers and that attention was being given to drainage and other problems related to increased irrigation.

Secondly, the Government is encouraging diversification of agricultural production away from rice and other traditional staple crops. Farmers would be encouraged to grow higher value cash crops and thereby increase their income. Farmers in the upland areas with rainfed agriculture would be stimulated into growing crops less susceptible to fluctuation of rainfall than rice.

Thirdly, the Government was speeding up a program of land consolidation. Experience has shown that yields increase by 10-20%, depending on the soil fertility and on the crops planted as a result of land consolidation. In the past, land has been consolidated at the rate of 10,000 hectar per annum. At this rate it would take about 300 years to restructure Korea's cultivable land area. The Government is planning to consolidate about 20,000 hectars this year and substantially more in future years.

Finally, the Government made every effort to increase yields and thereby raise farm incomes through more extension work, increased supply of fertilizer, and improved seeds. For example, the Office of Rural Development in Suwon was carrying out research and experimentation with IR667, a rice variety adapted to Korea's climatic conditions. It was hoped that this would result in a major breakthrough of rice production in the near future.

The Minister concluded by thanking Mr. McNamara again for the Bank's assistance for the Pyongtaek-Kumgang project. This project played an important part in the Government's agricultural policy as a demonstration of what could be done to substantially improve the agricultural situation. The Minister expressed the hope that the Bank would be able to extend assistance to other projects in the agricultural field in the future.

JKraske:rk

cc: Mr. McNamara
Mr. Knapp
Mr. Evans
Mr. Goodman
Mr. Clark
Mr. Christoffersen

13

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files **DATE:** May 27, 1970

FROM: Raymond J. Goodman RJG

SUBJECT: Mr. McNamara's Visit to Korea, May 1970
Interview with Chung Hee Park, President of Korea, on May 15 at the Blue House

After an exchange of courtesies, President Park thanked Mr. McNamara for the help which the Bank continued to give to Korea. He thanked him particularly for the Bank loan and IDA credit which had been signed that morning and also for the valuable discussions which had taken place at the recent meeting of IECOK in Geneva. He greatly appreciated the advice which the Bank and the IMF gave to Korea and Mr. McNamara could be assured that this advice was always carefully considered by himself and his associates.

Mr. McNamara said that he was aware of the remarkable record of Korea and was familiar with the basic statistics of growth but that he had hardly been prepared for what he had seen. Everywhere there were signs of growth and economic progress. It was not too much to characterize Korea as another economic miracle. He had been struck by the attitude of the people of Korea and he felt that everyone took great pride in the accomplishments of the country. He thought that the high literacy rate had contributed to this sense of pride but that perhaps the main cause of Korea's success was strong and able leadership, not only that of the President himself, but of his group of ministers. He noted in particular the excellent guidance on the economic front which was being given by the Deputy Prime Minister.

Mr. McNamara continued that he was diffident to offer comments based on a very brief stay in Korea, but that he thought the President would be interested in his impressions of the problems that faced Korea in the coming period.

Firstly, growth had been achieved at the cost of a good deal of price inflation. In this connection he thought that the lag in adjusting the foreign exchange rate had been unfortunate, particularly in its effects on the balance of payments. He recognized that in the short term this imbalance had been mitigated by various administrative measures but in the long term these tended to introduce rigidities and distortions. Mr. McNamara said that he understood the political problem that faced the government in dealing with this situation but he hoped that the President would tackle it immediately after the 1971 elections.

Secondly, he thought that the growing unfavorable trade balance of Korea would require continuing attention.

President has seen

Thirdly, and connected with point #2, there was the problem of the rising level of foreign indebtedness. He noted that a higher proportion, perhaps as much as 50%, of Korea's investment was financed by foreigners whereas in the typical developing country, about 15% of its investment needs were met by foreign resources. He thought that the indebtedness would create growing problems for Korea and demanded an early solution. The lines of attack on the problem should be (a) to limit the ability of corporations to assume debt, (b) to screen investment projects more carefully to make sure that those that were permitted to borrow had a high rate of return and (c) to increase savings.

Fourthly, Mr. McNamara pointed to the rapid increase in non-farm incomes which had created problems for the farmers. If this continued, it would presumably create a political problem for the Government. It would be necessary to raise farm output, to improve the terms of trade of agriculture, to reduce the number of farms and hence the farming population, and to increase the off-farm income of farmers. Fifthly, while he had been much encouraged by the achievements of the population planning program in Korea, he thought that it would be more difficult in future than it had been in the past to achieve further declines in the birthrate. He felt that some modest increase in budgetary funds for the program was needed. It was also important to maintain an objective evaluation unit which should be separate from the responsible ministry. He also thought that Korea could use better vital statistics than were presently available.

Lastly, Mr. McNamara said that he had great confidence in the continued success of Korea under good leadership and given the strong will of the Korean people for development.

President Park thanked Mr. McNamara for his comments and repeated that he and his colleagues would give them the most careful consideration. The meeting was adjourned for lunch.

cc: Mr. McNamara
Mr. Knapp
Mr. Clark
Mr. Christoffersen

14

To:
Files

From:
R.J. Goodman

May 27, 1970

Mr. McNamara's Visit to Korea, May 1970.

Interview with Jae Mo Yang, Director of the Family Planning Center at Yan Sae University, on May 15.

In answer to Mr. McNamara's question why Korea had been so successful in its family planning activities, Mr. Yang made the following points:-

1) There had been strong Government support for the program from the beginning.

2) Special full-time family planning workers had been appointed with no other duties than family planning. Health workers, of course, also in many cases gave part of their time to family planning.

3) There had been active cooperation in the program from the voluntary agencies. The Family Planning Center had given guidance to the program, particularly by concentrating on methods, but also in other ways. For example, it had recommended concentrating on the distribution of condoms rather than foam tablets although there was a larger local production of the latter. They had also advised the use of small jeeps to get around the countryside rather than relying on big trucks.

Mr. Yang acknowledged that the family planning program was running into a number of problems, most important of which was the lack of funds. Funds were provided in the budget on an annual basis and it was a yearly struggle to get enough even to carry on at the present level. He thought that the Government should agree either to go over to a 5-year budgetary arrangement or provide the program with a reserve fund which could be drawn on as needed and replenished.

Secondly, he thought that there were a number of organizational problems; for example, there were too frequent changes of administrative responsibility as between the Government and provincial authorities on the one hand and the voluntary agencies on the other. Family planning workers were paid very low salaries and allowances. Since the program functioned through health centers this meant reliance on the Ministry of Public Health and on the corresponding provincial bodies which were among the weakest units in government. For all these reasons there tended to be a high turnover of personnel.

Lastly, Mr. Yang felt that a medically oriented program could not succeed by itself in bringing down the crude birthrate to 17 per thousand, which would be necessary if the population growth was to be reduced in due course to unity. It would be necessary to legalize abortion and to get at the problem of motivation. That is to say, it

President has seen

.../...

was important to find out what decided family size and if possible to change current notions about the ideal family size. An educational campaign was needed and there would have to be efforts to change social institutions, laws and so on which tended to favor large families, for example by limiting allowances to smaller families.

Mr. Yang agreed with Mr. McNamara that constant evaluation of family planning programs was essential and that it must be done objectively; that is to say, outside the government machine which as he had already indicated was medically oriented. Lastly he agreed that a successful family planning program must be based on good vital statistics and he did not feel that Korea's statistics were nearly good enough in this respect.

cc: Mr. McNamara
Mr. Chadenet
Mr. Clark
Mr. Kamarck
Mr. Christoffersen
Mr. Knapp

15

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: May 27, 1970

FROM: Raymond J. Goodman RJG.

SUBJECT: Mr. McNamara's Visit to Korea, May 1970
Interview with Professor Jin Hwan Park, Professor of Economics with Special Reference to Agriculture, on May 15

Professor Park said that in the First Plan there had been an emphasis on agriculture but the policy guidance from government had been poor. In the Second Plan (1967-71), the government found itself with much reduced foreign aid and had had to rely on foreign loans, mainly commercial loans, which could most easily be obtained by industry. Since the bad harvest of 1967 and 1968 there had been a renewed emphasis on agriculture under pressure from the President, but he agreed that there was still a considerable disparity of growth rates as between the agricultural and industrial sectors. He thought that a growth rate in agriculture of 4-5% was the best that could be achieved and indeed this was not too bad. However, it would certainly leave an income gap as compared with industry which could only be narrowed (a) by changing the terms of trade of agriculture, and (b) by attracting labor out of agriculture into other sectors. However, (a) was difficult owing to the effect of such a policy on domestic prices.

Professor Kim characterized the problems which would face agriculture in the Third Plan, which starts in 1972, as follows:

1) To maintain a stable supply of food. This would mean more irrigation and also a more rational price policy for the main commodities. There was a particular need to increase the supply of protein food which of course meant increasing feed for animals. Fisheries represented a cheap source of protein which would help to offset the high price of meat. However, fisheries had been relatively neglected in the past.

2) In order to increase agricultural incomes it would be (a) necessary to increase the productivity of foodgrain production. However, this in itself would not solve the problem since the size of farms would likely remain small. Therefore (b) the farmers would have to be enabled to earn off-farm incomes as had happened in the case of Japan. This meant decentralizing industry and/or enabling farmers to commute readily to nearby factories. The improvement in the transport system which was now taking place would be a great help in this connection.

President has seen

3) It was necessary to diversify production. There would have to be more of a commercial bias since commercial crops tended to yield higher incomes than foodgrains. In this connection, Professor Park would emphasize the importance of feeder roads, rural electrification, mechanization of farming methods, and in general bringing farmers closer to urban markets.

4) There was a need to increase the supply of credit for farmers, both long and medium term. It was also important to encourage savings by the farmers. Indeed, this was a sine qua non of agricultural development.

cc: Mr. McNamara
Mr. Clark
Mr. Evans
Mr. Christoffersen

Mr. Knapp

TO: Files

May 27, 1970

FROM: Raymond J. Goodman RJG

Mr. McNamara's Visit to Korea, May 1970

Interview with Man Chae Kim, Professor of Economics, on May 15

Invited by Mr. McNamara to comment on Korea's success in achieving a high rate of growth, Professor Kim made the following points:-

1966 had been the turning point. Prior to that year there had been a very heavy dependence on aid which had provided some 90% of funds for investment and 60% to 70% of imports. The function of government had simply been to act as an intermediary for the introduction of aid resources into the economy. From 1966 the Government savings turned positive.

In addition there were the following factors:

1) the Normalization Treaty with Japan;
2) the Vietnam war which had meant windfall earnings for Korea;
3) the interest rate reform which had encouraged savings through the banking system. Both deposit and loan rates went up, the former to 30% and the latter to some 27% although both had come down a fraction since that time;
4) the devaluation of the won in 1964; and finally
5) the fact that there had been some improvement in the tariff system.

According to Professor Kim the beneficial effects of these policies had now been dissipated. Moreover, some of the problems which had been hidden in the 1960's were now beginning to emerge into the light. For example, good harvests in the early 1960's had disguised inflation. There had been no substantial increase in prices and the inflation had expressed itself in the deficit in the balance of payments, which of course had been covered by foreign aid. Government, in Professor Kim's opinion, has yet to demonstrate its ability to contain inflation. Since the main instruments of such a policy had not been effective, the Government had had to resort to others. For example, it had had to stimulate exports by a complex system of subsidies, tax exemptions and tariff exemptions.

In Professor Kim's opinion, the availability of foreign exchange was now the key factor in the situation and in this connection he agreed that the growth rate selected for the future would be important. In general he felt that Korea had great potential for further development provided sound policies were followed.

cc: Mr. McNamara Mr. Knapp
Mr. Clark
Mr. Kamarck
Mr. Christoffersen

President has seen

16

TO: Files

May 27, 1970

FROM: Raymond J. Goodman RJG

Mr. McNamara's Visit to Korea, May 1970

Interview with Yong Joo Kim, President, Spinners and Weavers Association on May 15.

Mr. Kim confined his remarks to the textile industries and made the following points:

1) At present there was little chance for the female population in Korea to work outside agriculture. There was a need for light industries, particularly textiles, which could be established in the rural areas and would offer opportunities for women workers.

2) In general he thought that textiles were a logical industry in Korea to absorb idle labor and that it was too early for Korea to go into heavy industry. He thought there was also an opportunity for the further development of silk production, both to increase exports and to exploit the slope-lands in Korea.

3) As to textile exports he agreed with Mr. McNamara that import restrictions, either statutory or voluntary, were quite likely to be imposed by the US and that there should be a shift of textile exports to other markets. He thought that Japan offered good opportunities owing to its labor shortages. In this connection he explained an apparent contradiction between the fact that Japan was itself an exporter of textiles, and was indeed running into the same restrictions in the United States as Korea, by saying that Japan's exports were largely of snythetic materials, whereas it tended to import cotton goods in which Korea specialized.

cc: Mr. McNamara Mr. Knapp
Mr. Gaud/Mr. von Hoffmann
Mr. Clark
Mr. Christoffersen

President has seen

17

To: Files

From: R.J. Goodman [handwritten initials]

May 27, 1970

Mr. McNamara's Visit to Korea, May 1970.

Interview with Yong Wan Kim, President of the Federation of Korean Industries, on May 15.

Mr. McNamara said that he had been deeply impressed by the dynamism of the Korean economy and asked if Mr. Kim would care to comment on the factors underlying this rapid rate of growth.

Mr. Kim said that in his opinion there were a number of factors that had contributed to this growth: Firstly, President Park's own drive; secondly, American aid and more recently the normalization of relations with Japan which had meant not only that substantial funds had been available but also technical assistance; thirdly, Korea's ability to raise foreign capital in the form of commercial loans and with that the active participation of the business community in economic growth; fourthly, the high level of education in Korea and, in particular, the widespread military training which had given Korea a disciplined labor force. On a more general plane, Mr. Kim noted that the Korean people had suffered badly during many decades of Japanese occupation, the Second World War and the Korean War and that economic development appeared to offer a way out of their difficulties. He thought that in any country the will of the people and its leaders were the prime mover in development.

Kim noted that the past rate of growth, which he said had been too fast, had resulted in some problems, notably the heavy accumulation of short-term loans and the lack of local resources to match the inflow of foreign capital. He personally supported the Government's stabilization program and felt that government and industry must cooperate in order to implement this program.

Although an industrialist, Mr. Kim acknowledged the importance of the agricultural sector. This sector had lagged behind owing to a number of causes including the US surplus disposal program, which had in practice hindered the development of agriculture in many countries. He thought that Korean farmers were diligent, but that the price policy for main commodities had tended to penalize them in the past. It was important that they should be allowed to have better incomes both as an inducement to produce more and in order to create a market for industrial goods.

In answer to a question by Mr. McNamara, Mr. Kim said that he thought the Government's credit squeeze would certainly limit the rate of expansion of the economy, and that in general the main constraint would be the shortage of local funds for investment. As to interest rates he considered the Government had been correct to provide concessional interest rates for the export industries but felt that the Government's support of these industries had tended to become too complex and could well be simplified.

cc: Mr. McNamara
Mr. Gaud
Mr. W. Clark
Mr. Diamond
Mr. Christoffersen
Mr. von Hoffmann
Mr. Knapp

President has seen

18

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: May 27, 1970

FROM: Raymond J. Goodman RJG

SUBJECT: Mr. McNamara's Visit to Korea, May 1970
Interview with C.H. Kim, President of KDFC, on May 15

Mr. Kim said that KDFC's operations were moving faster than had been expected. Some $8 million of sub-projects which were to be set against the latest Bank loan of $20 million had already been approved by KDFC's Board. A further $12 million of sub-projects were already in the pipeline and were expected to be approved by the end of 1970. KDFC would therefore need another loan from the Bank in the first part of 1971 and at the latest by June.

In response to my question Mr. Kim said that he thought KDFC could use approximately $15 million a year which, to cover a two-year period, would therefore mean a loan of $30 million. Mr. McNamara confirmed that we preferred to make funds available for such a period for a variety of reasons and that we would therefore consider a loan of $25 or $30 million if the need could be demonstrated.

Mr. Kim said that the principal reason for the more rapid pace of operations was the Government's squeeze which was making it more difficult for business to obtain foreign loans and was forcing them to turn more to KDFC.

In general Mr. Kim thought that Korean businessmen were becoming a little more conservative. That is to say, they were placing greater emphasis on expansion and less on new ventures. This on the whole meant that the economic returns were better and Mr. Kim personally considered the trend to be healthy.

Korea's export growth was continuing, which was necessary owing to the limitations of the domestic market. The most serious constraint on growth was the lack of local resources and there was a need to induce private funds into investment. Mr. Kim was thinking of setting up an investment company to invest in shares and do underwriting, financed by a mix of foreign and local capital. He thought there would be no difficulty with the former; First National City Bank had already expressed an interest. The problem would be to raise the local funds and in this connection he noted that private lending rates, the so-called usurers rates, were as high as 3 - 3½% per month. The new company should be able to earn 15% on capital, although he acknowledged that with inflation running at about 10% a year this was not very high; but he thought that with stock dividends it should be possible to improve the yield to over 20%. This should be attractive to foreign investors and he hoped would be sufficient to attract local funds too. After 2-3 years of operations, the company might consider starting a mutual fund as another means of attracting Korean savings.

President has seen

Mr. Kim was thinking of equity capital for the new company in the order of US$2-3 million plus say $5 million of loan capital. In answer to Mr. McNamara's question he said he had not yet approached PICA although he intended to do so. He also intended to discuss the idea with Mr. Diamond in due course.

cc: Mr. McNamara Mr. Knapp
Mr. Gaud/Mr. von Hoffmann
Mr. Clark
Mr. Diamond
Mr. Christoffersen

Mr. McNamara

May 20, 1970

Mr. C. H. Kim
President
Korea Development Finance Corporation
12th Floor, The Cho Heung Bank Building
14, Namdaemoon-Ro 1-Ka, Chung-Ku
Seoul, Korea

Dear Mr. Kim:

I have just received your very interesting letter of May 15 concerning your meeting with Mr. McNamara and Mr. Goodman. The discussion must have been an interesting one, certainly the attachments to your letter provide considerable food for thought.

You will hear our reactions to both papers soon but I wanted you to know without delay that the papers have arrived and are being studied here.

With kind regards,

Yours sincerely,

William Diamond
Director
Development Finance Companies

WDiamond/ib

cc: Messrs. McNamara ✓)
Goodman) with attachments
Y. L. Chang)
R. Jones)
Gulhati)

President has seen

MAIL NUMBER 4108

6

Korea Development Finance Corporation

Twelfth Floor, The Cho Heung Bank Bldg.
14, Namdaemoon-Ro 1-Ka, Chung-Ku
Seoul, Korea

Telephone; (24) 2 2 9 1~5
Cable Address; KODEFINCO

May 15, 1970

Mr. William Diamond
Director
Development Finance Companies
International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington, D. C. 20433
U. S. A.

Dear Mr. Diamond:

This morning I was very happy to have the opportunity of talking personally with Mr. McNamara and Mr. Goodman, and thought you would be interested in a brief outline of our discussion. In addition to an exchange of views on various economic factors, we discussed two aspects of direct relevance to KDFC.

The first was a brief outline of the study and thinking we have been doing following your letter of November 21, 1969 concerning the possibility of our assisting in an improvement of the money market here. (You already have our two study reports on the stock market.) We have been thinking of the ways in which KDFC might apply its expertise and resources in this area. Just prior to Mr. McNamara's arrival, we had evolved a generic approach. This was mentioned briefly to Mr. McNamara, and a broad outline of it was handed to Mr. Goodman. A copy of this outline is attached.

Many possible combinations of the plan could be considered, and we are attaching, for your perusal, one alternative. If you feel this approach has merit we would much appreciate your assistance in working out a tentative structure and program of action. If you wish, I could discuss it in Washington at your convenience, or proceed in any other way you feel would be appropriate.

The second subject touched upon in my discussion with Mr. McNamara was our second loan from you as well as the timing and amount of a proposed third loan. In this, I indicated I felt our second loan of $20 million would be committed well in advance of the originally projected two year period, and that it might be almost committed by the end of this year. I also indicated that a projected third loan, if it were to cover needs for the next two years, might well be of the order of $30 million. This figure was mentioned in response to Mr. McNamara's query concerning the amount which might be appropriately committed annually, to which I had replied that it could be some $15 million.

I was greatly impressed with Mr. McNamara's grasp and knowledge not only of broad trends but also specific details of the Korean environment. It was indeed a very real pleasure to talk with him.

I shall look forward with interest to your ideas on the above two subjects we discussed.

With warm regards,

Sincerely yours,

C. H. Kim
President

Korea Development Finance Corporation

Summary of
Presentation by President C.H. Kim
to Mr. Robert S. McNamara

1. Although Korea's private enterprises have shown a remarkable growth in the past several years, they have not been supported by the services of an organized capital market for long-term financing, but rather by the inducement of foreign loans, both commercial and public.

2. In the absence of an effective market mechanism, funds have tended to flow through public channels and through an unorganized (usurious) private curb market, the latter impinging severely on business profits.

3. Such rapid expansion has resulted in:

   (1) A mounting external debt.

   (2) A still chronic shortage of funds.

   (3) High financial leverage in Korean enterprises.

4. High financing costs probably have resulted in more failures of businesses than has their inherent weakness. Their access to loans has been limited by such factors as high debt-equity ratio and the lack of loan security in terms of mortgages, as capital assets have been largely pledged to previous lenders. Extension of loans on the strength of cash flow and earnings prospects, though desirable in the long-run, presents some problems because of business managements' lack of sound forward financial planning and control.

5. In these circumstances there is need for:

   (1) More investment in Korean enterprises in the form of equity rather than loans (by domestic sources as well as by overseas investors).

(2) More short term credit based on other than fixed asset security.

(3) Better financial planning and control.

6. As an approach to this area of problems KDFC now proposes, in principle, to organize a private Korea Investment Corporation which would:

(1) Establish and manage a mutual fund for Korean equities.

(2) Underwrite new private company (listed) issues.

(3) Buy commercial paper.

(4) Offer advisory services on financial planning and private investment.

7. Confidence of private investors in the proposed Korea Investment Corporation would be enhanced by the participation of IFC and possibly other outstanding international financial institutions.

8. KDFC proposes, therefore, that IFC consider participating with KDFC in the concept, planning and organization of the proposed Korea Investment Corporation.

9. Successful results would:

(1) Widen the domestic ownership of Korean private companies.

(2) Encourage oversea investment in Korean private company equities.

(3) Provide new short term financing sources through commercial paper operations.

(4) Apply KDFC's accumulated expertise to a broader scope of assistance to the economy.

Korea Development Finance Corporation

Proposed
Korea Investment Corporation

Functions

1. Manage and distribute a mutual fund

    A. Build a portfolio of Korean equity investments

    - Buy private company shares on Korean stock market

    - Underwrite new (listed) issues

    B. (Later) Distribute participation certificates*

    - In Korea

    - Abroad

        - Contract with one or more experienced fund distribution organizations abroad.

        - Obtain overseas expertise in setting up local distribution activities.

    C. Redemption of participation certificates at portfolio market less selling load.

    D. Management of fund

    - By KDFC under contract

    - X % of asset value as annual fee

2. Buy commercial paper

    A. Normal commercial paper operations.

    B. Elicit interest (or participation) by overseas financial institutions in Korean commercial paper market.

3. Offer financial management advisory services

   A. Assist private companies in planning new issues.

   B. Advise private companies on financial management, control and forward planning.

   C. Offer financial investment advisory services to private investors.

   D. Above advisory services at fee covering cost plus reasonable profit.

<u>Capitalization</u>

1. Equity shares

   - KDFC and other Korean sources 60%

   - IFC and other overseas sources 40%

2. Borrowing capacity

   - Three times equity and reserves

<u>Management</u>

1. Corporation - by elected board of directors representing all equity investors.

2. Mutual fund - under contract with KDFC.

* Distribution of participation certificates in the equity portfolio would begin only when an adequate size of equity portfolio had been acquired.

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OFFICE MEMORANDUM

TO: Files

DATE: May 27, 1970

FROM: Raymond J. Goodman RJG

SUBJECT: Mr. McNamara's Visit to Korea, May 1970
Interview with Professor Jin Hwan Park, Professor of Economics with Special Reference to Agriculture, on May 15

Professor Park said that in the First Plan there had been an emphasis on agriculture but the policy guidance from government had been poor. In the Second Plan (1967-71), the government found itself with much reduced foreign aid and had had to rely on foreign loans, mainly commercial loans, which could most easily be obtained by industry. Since the bad harvest of 1967 and 1968 there had been a renewed emphasis on agriculture under pressure from the President, but he agreed that there was still a considerable disparity of growth rates as between the agricultural and industrial sectors. He thought that a growth rate in agriculture of 4-5% was the best that could be achieved and indeed this was not too bad. However, it would certainly leave an income gap as compared with industry which could only be narrowed (a) by changing the terms of trade of agriculture, and (b) by attracting labor out of agriculture into other sectors. However, (a) was difficult owing to the effect of such a policy on domestic prices.

Professor Kim characterized the problems which would face agriculture in the Third Plan, which starts in 1972, as follows:

1) To maintain a stable supply of food. This would mean more irrigation and also a more rational price policy for the main commodities. There was a particular need to increase the supply of protein food which of course meant increasing feed for animals. Fisheries represented a cheap source of protein which would help to offset the high price of meat. However, fisheries had been relatively neglected in the past.

2) In order to increase agricultural incomes it would be (a) necessary to increase the productivity of foodgrain production. However, this in itself would not solve the problem since the size of farms would likely remain small. Therefore (b) the farmers would have to be enabled to earn off-farm incomes as had happened in the case of Japan. This meant decentralizing industry and/or enabling farmers to commute readily to nearby factories. The improvement in the transport system which was now taking place would be a great help in this connection.

3) It was necessary to diversify production. There would have to be more of a commercial bias since commercial crops tended to yield higher incomes than foodgrains. In this connection, Professor Park would emphasize the importance of feeder roads, rural electrification, mechanization of farming methods, and in general bringing farmers closer to urban markets.

4) There was a need to increase the supply of credit for farmers, both long and medium term. It was also important to encourage savings by the farmers. Indeed, this was a sine qua non of agricultural development.

cc: Mr. McNamara Mr. Knapp
Mr. Clark
Mr. Evans
Mr. Christoffersen

20

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files DATE: June 17, 1970

FROM: Jochen Kraske JK

SUBJECT: KOREA: Visit by Mr. Kim Tai Dong
Minister of Health and Social Affairs

Mr. Kim, the Minister of Health and Social Affairs, called on Mr. Goodman this morning. He was accompanied by Mr. Ho Yoong Choi, Economic Counselor of the Embassy. I was present at the meeting.

The Minister referred to the suggestion made by Mr. McNamara during his recent visit that any family planning effort should be evaluated on a continuous basis, if possible by a body not itself involved in the promotion and implementation of a family planning program. Mr. Kim said that the Government was about to set up such a body in the form of a foundation whose task would be to monitor the effects of the Government's family planning program and the family planning efforts by non-Government institutions. The plan was to set up a $1 million fund - $400,000 each contributed by the Government and from AID counterpart funds, $100,000 to come from the U.N. and another $100,000 possibly from SIDA - which would be held in trust at an interest rate of 26%. The administration of the fund, the question of who would elect or appoint the trustees, etc., were still to be determined. Technical advice and basic demographic data were to be provided initially by the East West Center in Hawaii.

Mr. Goodman thought that the idea of providing for independent evaluation of the extensive family planning efforts in Korea seemed like a very good one. This should make available eventually to a wider public the experiences gained with family planning in Korea. He told Mr. Kim that he would be happy to support the Government in obtaining U.N. assistance for the project. He also asked Mr. Kim to let him know if in his view the Bank might be able to provide some advice.

JKraske:rk

cc: Messrs. Goodman
Kanagaratnam
Hawkins

President has seen

21

Korea

OFFICE MEMORANDUM

To: Files DATE: September 22, 1970

From: Gordon M. Street

Subject: Korea - Delegation Meeting with Mr. McNamara at 3 p.m. September 19, 1970

Present for Korea: D.W. Nam, Minister of Finance, Y.J. Chang, Vice Minister of EPB, S.W. Kim, Governor of the Bank of Korea, and S.H. Hong, Director, Foreign Exchange Bureau, Ministry of Finance. Present for the Bank: Messrs. McNamara, Knapp, Goodman and Street. The Minister opened the meeting by conveying greetings to Mr. McNamara from President Park, Premier Chung and other ministers whomMr. McNamara met in May. He went on to thank Mr. McNamara for receiving him and to say that he had nothing to report.

In answer to Mr. McNamara's question, the Minister briefly outlined the economic development in Korea since May. He has been able to maintain a restrictive tone with fairly good results and so far he has every confidence they will be able to live up to their commitments to the IMF. The IMF agreement limits the increase in total domestic assets to 27% for the full calendar year 1970. Through August 30 the increase had amounted to only 12%. Prices have been reasonably stable increasing only 3.5% since the beginning of the year and they actually declined slightly from March until August when they increased due to consumers expenditures in preparation for the Moon Festival, September 15. Exports are increasing at the rate of 40% and he is optimistic about reaching the $1 billion target for the full year. Imports, on the other hand, have increased only 13% through the first six months, and imports financed with Korean foreign exchange were especially low, increasing only by 8%. The Minister is optimistic that he can hold the line next year despite elections and concluded his remarks on the economy by saying that his major theme of stabilization will be successfully upheld.

The Minister asked that Korea's share of IDA funds be increased to, say 3% of the total because the Government will be bearing an additional burden the next couple of years. US concessionary aid is phasing out and US military aid will be reduced. Consequently, Government defense expenditures now amounting to 4% of GNP will have to increase, particularly to finance the production of small weapons and other defense industries. He also pointed to the increased population requiring increased social services and finally to the obvious advantage of IDA funds for Korea with debt service projected to increase over the next few years. Mr. McNamara stated flatly that no increase would be possible this year, simply because IDA funds are not available. He also noted that the element of grant financing now in Bank loans and IDA credits made to Korea was already very high and considerably above the average. On a per capita basis the grant element in the Bank Group lending to Korea is twice that of Bank Group lending to India. Mr. McNamara went on to urge the Minister to examine the basic economics of defense expenditures very carefully as there is a lot of waste and water in defense expenditures, particularly in defense production. He pointed out that the two countries which have not had much defense expenditures, Japan and Germany, have had the most successful economic growth and he urged the Minister not to spoil a good record of economic management built up over the last five or six years by going overboard on defense. Mr. McNamara emphasized, however, that he recognized and understood the defense problem of South Korea and the related political and psychological problems. Nevertheless he urged the Minister to hold the line.

Mr. Chang stated that Korea had established an institute for development and he queried whether it would be possible for EDI to set up a branch in Korea associated with the new Korean institute in order to bring greater expertise to the Korean institution sooner. Mr. McNamara replied that he was not familiar with this problem but promised that he would look into it.

The meeting ended with the Minister thanking Mr. McNamara for the very great help Korea had received from the Bank Group and Mr. McNamara assured him that we were anxious to help Korea and to be associated with Korea's successful development efforts.

c.c.: Messrs. McNamara
Knapp
Cope

22

October 5, 1971

MEMORANDUM FOR THE RECORD

SUBJECT: Korea

Mr. Duck Woo Nam, Minister of Finance, met with Mr. McNamara in the Sheraton Park Hotel on Thursday, September 30, 1971 at 9:10 a.m. Minister Nam was accompanied by Mr. C.H. Kim, Director, Foreign Exchange Bureau, Ministry of Finance, and Mr. B.H. Shin, Alternate Executive Director of the World Bank for Korea. Mr. Knapp, Mr. Chenery, Mr. Goodman and Mr. Dunn also were present.

Korea's Current Economic Situation: Mr. McNamara commended Minister Nam for his vigorous pursuit of firm credit and monetary policies since he took office. Mr. McNamara went on to ask, however, for Minister Nam's evaluation of the current position. Mr. McNamara referred to disturbing reports about levels of imports and increases in short-term debt this year, which were far in excess of those hoped for at this time according to the Plan targets. Minister Nam said that there were, indeed, some difficulties; partly, these were a result of increased defense spending, but the Government felt that it could cope with that. Beyond this, the new economic policies announced by the U.S. on August 15 had been a setback for Korea's hopes. Mr. McNamara said that in fact the trends to which he referred had been evident before August 15 -- he was referring to data for the first half of the calendar year 1971.

Minister Nam then said that he and the Government also were concerned at these trends and intended to take measures to currect them. He referred to plans to reform the tariff system, to keep the exchange rate at a realistic level, and to revise internal tax laws. He said that in the balance of payments situation, Korea's trade relation with Japan might offer some scope for help; Japan was in the position of having too much foreign exchange and Korea had too little at a time when Korea's trade balance with Japan was very much in deficit. He hoped that the two countries could achieve a more equitable position by working together.

The Minister thanked Mr. McNamara for the kind remarks in his opening address to the Annual Meeting, about Korea's good economic performance in recent years, and in particular about the welcome developments in exports of manufactured goods. The U.S. position on import quotas, however, was hurting the export efforts of Korea and other developing nations. Mr. McNamara agreed, and said that developed countries like the U.S. would have to learn how to adjust themselves to the situations caused by increased imports of goods which competed with local industries.

Minister Nam mentioned that Korea was exploring new markets for exports; in particular, "non-hostile" countries such as Yogoslavia were becoming trading partners. He noted that it took time to diversify exports and that to do so demanded some diversification of imports as well, which could be painful in the short run.

IDA Lending: Minister Nam said that the next two or three years were critical to Korea's economic development and he hoped that the Bank group would continue to help his country, especially by increasing the amount of IDA funds which could be made available. Mr. McNamara said that some increase would be possible, assuming that the third replishment was successful, but that this increase could not be as much as Korea hoped because of the demands of countries which were poorer than Korea. Mr. Knapp pointed out that the difficulties of the debt situation influenced IDA lending, as well as Bank lending, because good performance was one of the criteria of "IDAworthiness". In response, Minister Nam said that he recognized the concern of the World Bank officials about the potentially difficult balance of payments position, but that he felt his country was quite correct in taking what he called a "calculated risk". Mr. McNamara and Mr. Knapp said that they very much appreciated the results achieved as a result of policies adopted by Korea's economic planners, and they wished Minister Nam success in his efforts to sustain that progress in spite of many difficulties.

Economic Research Institute: Mr. Chenery mentioned the Development Research Center, a very promising new Economic Research Institute in Korea, and said he hoped to visit Korea early in 1972 to see how the World Bank and the new institution could work together. Minister Nam and Mr. McNamara welcomed this initiative.

DADunn
David A. Dunn
October 5, 1971

cc: Messrs. McNamara
Christoffersen
Knapp
Chenery

cc: Messrs. Goodman
Fontein
Street

23

October 12, 1972

MEMORANDUM FOR THE RECORD

SUBJECT: Korea

Mr. Duck Woo Nam, Minister of Finance, met with Mr. McNamara in the Sheraton Park Hotel on Tuesday, September 26, 1972 at 2:10 p.m. Minister Nam was accompanied by Mr. J. S. Lee, Vice Minister, Economic Planning Board, Mr. B. K. Choo, Chief, International Finance Division, Ministry of Finance and Mr. B. H. Shin, Alternate Executive Director of the World Bank for Korea. Messrs. Raymond J. Goodman and David A. Dunn also were present.

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Korea's Current Economic Situation: Mr. McNamara asked Minister Nam to explain the emergency economic measures taken by his government in August. Minister Nam explained that before the emergency measures were taken Korea had suffered from three sources of inflation: external influences, such as the continuing rise in international oil prices; internal factors such as increases in prices of agricultural products; and an overvalued exchange rate. A strong inflationary cycle and an inflationary psychology had built up over a period of years. President Park personally had made a decision to end this inflationary cycle. Two of the principal measures to be used were monetary and fiscal austerity and a price freeze. Since these measures would hurt the financial situation of companies, many of whom were already in distress, it had been necessary to take steps to aid them, including a reduction in interest rates, a conversion of old curb market debts at unfavorable terms to official registered debts on much better terms, and provision of additional funds from government sources. The target was to hold inflation to 3 percent over a twelve month period. Minister Nam said the key to this would be to make people believe that the government really intended to achieve its goal. He noted that after a period of floating the Won, a static exchange rate of 400 to the dollar had been adopted and said if the inflation target was met there would be no further need to devalue. In contrast with large increases in recent years, the price of rice would be allowed to increase by only 5 percent this year. Minister Nam said he was confident of success and that the President himself was personally committed to the program.

Mr. McNamara asked Minister Nam what he thought would be the rate of inflation for the next six months. Minister Nam replied that the price index had gone up by only .08 percent in the first month of the program and that he expected the rate of increase to be the same until the end of the year. Mr. McNamara asked what rate of growth the Minister expected to achieve under the stabilization program; Minister Nam said he thought the rate would be somewhere between 7 and 7.5 percent for calendar year 1972. He added that people were unhappy at this low rate of growth and said they hoped to achieve a higher rate next year.

President has seen

Project Preparation: Mr. McNamara noted that Korea would continue to need to borrow substantially from foreign sources including the World Bank, and said he was concerned about the future of the lending program for Korea. The pipeline was not too full, especially in the agricultural sector, and he told Minister Nam that the government would have to place more stress on project preparation.

New Community or "Sae Maeul" Movement: Minister Nam took the opportunity of Mr. McNamara's remarks about preparing agricultural projects to take up the topic of the new community movement. President Park had given his personal backing and commitment to this movement. Minister Nam said that, having given some stimulus to farmers to improve their position, it was necessary to sustain the momentum which has been achieved. The movement had started with relatively small programs which gave farmers subsidies for such things as putting new roofs on their houses, or by giving cooperating villages free cement and steel for making improvements in such things as roads and projects by contributing their own skills and labor. The program had been enlarged now to incorporate all aspects of agriculture and large expenditures were being planned for eight "projects" for which the government sought external assistance. Minister Nam said that the new community movement was being incorporated into the framework of the Third Plan. The Japanese government has been receptive to the idea and would give loans to help and he hoped the Bank also would support the Sae Maeul projects.

Mr. McNamara replied that the Bank was glad to support such programs but he wished to re-emphasize the necessity to do adequate technical project preparation of the kind necessary for appraisal by aid agencies such as the Bank.

cc: Messrs. McNamara
Ljungh

cc: Messrs. Cargill
Goodman

DA Dunn

David A. Dunn
Chief, Country Programs/
Division 1E, Asia.

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OFFICE MEMORANDUM

TO: Files **DATE:** June 6, 1973

FROM: David Loos, Chief, Division 1E, East Asia and Pacific Department

DLoos

SUBJECT: KOREA: Mr. McNamara's meeting with H.E. Wan-Son Tae, Deputy Prime Minister and Minister, Economic Planning Board (EPB)

1. Mr. McNamara met with H.E. Wan-Son Tae at 8:30 a.m. on Wednesday, May 30, 1973. The Deputy Prime Minister was accompanied by Ambassador Kim, Mr. B. H. Shin (Alternate Executive Director), Mr. B.T. Hwang of the EPB and Mr. Chung of the Korean Embassy. Messrs. Knapp, Hablutzel and Loos were also present for the Bank.

2. The DPM conveyed to Mr. McNamara President Park's good wishes and his appreciation of and admiration for Mr. McNamara's leadership and the Bank Group's contribution in support of the efforts of the developing countries. Mr. McNamara expressed his gratitude for these remarks and requested that his good wishes be conveyed to President Park.

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3. The DPM outlined the development strategy Korea had employed over the last decade. Since 1961, under the first two Five Year Plans, industrial development, particularly of light industries, had been emphasized, thereby laying the foundation for further economic growth. They now wished to adopt a strategy which would provide a balance between the agricultural/rural and the industrial/urban sectors, and within the industrial sector, between light and heavy industry. They have set up study groups to consider how such a strategy could be implemented most effectively in the Fourth Plan, due to commence in 1977, and would request the Bank to send specialists to Korea to assist in working out meaningful programs, particularly in the fields of heavy and chemical industry. Mr. McNamara said he would like to respond positively to this request, but that the extent of the Bank's assistance would depend on the staff position, which would have to be examined.

4. With regard to agricultural development and particularly the "Sae Maeul" Movement, the DPM expressed his thanks for the support the Bank had agreed to provide to the extent of about $300 million in the next five years. It would strengthen their endeavours to reduce the imbalance between the rural and urban areas.

5. The DPM referred to the decision to terminate IDA lending to Korea and to the efforts that had been made to convince the Bank of the need to continue such lending. However, President Park had decided not to pursue the matter further. In order to mitigate the effects of the decision to provide only Bank loans in the future, they wished to request an increase in the proportion of Bank financing above 50 percent and also longer grace and repayment periods, particularly for agricultural projects.

President has seen

6. Mr. McNamara explained that the provision of local cost financing could be justified in the context of the Articles of the Bank only in special circumstances. The shortage of local currency in a country was not a justification for local cost financing as it raised the question of domestic resource mobilization. However, he very much favored the efforts being made to develop the rural areas and to raise the standard of living of the rural population so as to reduce the existing disparity between the rural and urban areas. This may justify the provision of some local cost financing. Mr. Knapp pointed out that many agricultural projects involved foreign exchange expenditures of well below 50 percent so that the financing of half the total cost would provide a substantial element of local cost financing. Furthermore, it had been agreed to increase the grace period to seven years for most loans, although the construction schedules would perhaps justify grace periods of four to five years.

7. The DPM informed Mr. McNamara that they were reaching the final stages of discussions with the Japanese who were expected to provide some $135 million towards the financing of the second stage of the Pohang Steel Project. They were hoping that $50-60 million would be forthcoming from the Bank and the rest from European suppliers' credits. They intend commencing construction in December and wished to have a firm decision by the Bank by October so that the question of the financing package could be settled.

8. Mr. McNamara stated that a definitive assessment of the project could not be made until it had been appraised and that no commitment could be given until the Board had approved a loan for the project. It was unlikely that the Board would have an opportunity of considering it until about the Spring of next year as the appraisal was scheduled for around October. He would, however, have the matter looked into further and inform the Korean authorities as promptly as possible of the Bank's position in regard to the further processing of a loan for the project.

Cleared with and cc: Mr. Hablutzel

cc: Messrs. McNamara
Knapp
Cargill
Goodman
Ljungh

DLoos/pme

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 25, 1973

FROM: Raymond J. Goodman RJG

SUBJECT: KOREA: Meeting with His Excellency Tae, Wan-Son

Attached is a brief which has been prepared for your meeting with His Excellency Tae, Wan-Son, Deputy Prime Minister of Korea and Minister, Economic Planning Board, at 8:30 a.m. on May 30.

Attachments:

cc: Messrs. Knapp
Cargill

David Loos:sk

President has seen

A BRIEF FOR
MR. MCNAMARA'S MEETING
WITH
HIS EXCELLENCY TAE, WAN-SON
DEPUTY PRIME MINISTER OF KOREA
AND MINISTER, ECONOMIC PLANNING BOARD

Issues

We understand that the Deputy Prime Minister intends raising the following matters at the meeting:

A. Amounts and Terms of Bank Loans

The Korean authorities have evidently decided not to reopen the question of IDA lending. However, they wish to have the proportion of total project costs financed by the Bank increased. This matter was raised earlier by Mr. Shin and Mr. Knapp has agreed that, in respect of FY 74 projects, the Bank loans should finance 50 percent of total project costs, except when the foreign exchange component is larger (the Seeds Project), or when the contribution expected from the Bank is smaller (the Pohang Steel Project), or when the loan is to a financial institution (Korea Development Bank). In several of the other cases, this will involve a substantial increase in the sizes of the loans, thereby increasing the Operations Program from the CPP figure of $170 million to $220 million. Furthermore, in order to alleviate Korea's debt service problem, it has been agreed that the grace period for repayment of loans, except for the Pohang Steel Project and to the KDB, should be seven years instead of the four or five years that would normally have been provided. This means that in the majority of cases no repayment of principal would be due until 1980 by which time Korea's debt service burden would be substantially easier than it is now.

B. The Pohang Steel Mill - Stage II

The first stage of the project, which involved the expenditure of a little under $300 million for an initial plant capacity of 1.0 million tons annually, is about to be completed. External finance and technical assistance was provided almost entirely by Japan. The second stage is intended to increase the capacity to about 2.6 million tons a year and is estimated to cost about $220 million in foreign exchange out of a total estimated cost of $325 million. A possible financing plan would include a Japanese investment of $135 million, a Bank loan of $60 million, and $25 million from other sources.

A Bank mission which discussed the expansion project in Korea last April expressed the view that further action on processing a loan for the project should await the completion of a more adequate market study and of the revised feasibility study, which the Pohang Steel Company (POSCO) is presently undertaking to bring its expansion plans in line with revised growth and export targets, and also to take account of the recent currency revaluations. Representatives of POSCO and the Economic Planning Board (EPB) will be in the Bank on May 29 for further discussions.

Meanwhile, we have been informed by Mr. B.T. Hwang, Vice Minister of the EPB, who is in Washington in connection with the DPM's visit, that the Government and POSCO had decided to implement Stage II in two phases. Construction of the first phase is scheduled to commence in December. It is estimated to cost about $40 million which would be financed by suppliers' credits arranged through the EXIM Bank of Japan. This is a new development the implications of which would have to be considered in the light of the information we expect to receive at the May 29 meeting with representatives of POSCO and the EPB.

CURRICULUM VITAE

His Excellency Tae, Wan-Son was born in 1915 and graduated from the College of Law of the Seoul National University in 1936. Details of his career are as follows:

1936	Joined Korea Industrial Bank
1943	Korea Electric Company
1950	Elected member of National Assembly (four year term)
1953	Adviser to Daihan Coal Corporation
1958	Adviser to Industrial Development Committee, Ministry of Reconstruction
1960	Elected member of National Assembly (four year term)
1960	Parliamentary Vice Minister, Ministry of Reconstruction
1960	Chairman of Unified Korea Electric Company
1961	Minister, Ministry of Reconstruction
1961	Minister, Ministry of Commerce and Industry
1965	Secretary General of Democratic Party
1966	Chairman, Minjung Party
1968	Member, Guidance Committee of New Democratic Party
1969	Member, Political Committee, New Democratic Party
1970	Counselor, Economic and Scientific Advisory Committee to the President
1970	President, Daihan Coal Corporation
1971	Minister, Ministry of Construction
1972	Deputy Prime Minister and Minister of Economic Planning Board

He is married and has five children.