# FOOD AID AND INDUSTRIALISATION:

## An Examination of the Role and Contribution of the United States Surplus Agricultural Commodities to the Economic Development of the South Korean Economy 1945-1975

John Cathie

The David Livingstone Institute of

Overseas Development

University of Strathclyde:

Ph.D. Thesis 1985

# Food Aid and Industrialisation: an examination of the role and contribution of the United States Surplus Agricultural Commodities to the Economic Development of the South Korean Economy 1945-1975.

Doctoral Thesis

David Livingstone Institute

of Overseas Development

John Cathie

University of Strathclyde

# PREFACE AND ACKNOWLEDGEMENTS

From my early contacts with food aid practice in Ghana in 1966, my interest in the subject has grown and developed. My first study of the subject was undertaken for a postgraduate degree at St Andrews in 1976 and in 1982 a study on the World Food Programme was published entitled, *The Political Economy of Food Aid*. My interest in the role of bulk commodity aid, its limitations and effectiveness largely arose from questions which remained unasked and unanswered in *The Political Economy of Food Aid*.

South Korea was chosen as a suitable country to investigate bulk supply food aid because of the importance of this form of aid to its spectacular economic growth and development success. Korea has been among a selected number of countries which have received large volumes of food aid and have achieved remarkable economic development. This study has as its purpose the investigation of the relationship between food aid and development through industrialisation with the aim of establishing what contribution was made by this unique form of development assistance.

I would like to record my gratitude and indebtedness to my undergraduate teacher and postgraduate supervisor, Dr Eric Rahim, for his constant encouragement and patient support over the years in which this study was under preparation. I would like also to thank the Director of the Agricultural Economic Unit, Mr I M Sturgess, and Professor G C Cameron, both of the University of Cambridge, for their financial support towards the typing of this thesis. Many colleagues at Cambridge, particularly Mr M C Murphy, have provided a test for my ideas and arguments, in addition to positive encouragement and support. But my deepest gratitude remains, as always, for my parents who have without reservation supported my academic endeavours through the good times and the bad.

## DECLARATION

I hereby declare that this dissertation is entirely my own work and includes nothing which is the outcome of work done in collaboration. It has not been submitted in part or in full for any other degree, diploma or other qualification at any other university.

John Cathie
.....
JOHN CATHIE

Date 17.5.85

# ABSTRACT

The South Korean economy has been among a few select developing countries which have experienced sustained, high and rapid economic growth through the export of manufactured goods in the world market. This remarkable economic growth performance was accompanied by an equally remarkable and sustained inflow of economic aid from the United States of America since the Korean war. As much as 40% of this economic aid was in the form of commodities (foodstuffs and industrial raw materials) donated under the United States PL 480 programme.

The purpose of this work is to assess the contribution made by commodity and food aid to the industrialisation and economic growth of the Korean economy. At least two distinctive sets of theories - laissez-faire and the theory of the state - have been proposed to explain the Korean development success. The laissez-faire view considers that the economic growth success has been predicated upon the adoption of liberal trading policies in pursuit of their comparative advantage. This school of thought argues that economic aid, including food aid, has not contributed directly to economic growth and industrialisation, but has provided a breathing space until such time as liberal policies were adopted which, in turn, underpinned the exemplary growth performance. One variant of this interpretation of the role of food aid considers it to have contributed only as a consumption good and, as such, was damaging to the prospects of the indigenous agricultural sector.

An alternative interpretation of Korean economic development argues that the State, through a form of planning,

has played a major role in the formulation of industrialisation and growth policies. The theory of the state view argues that foreign aid has made a positive contribution to Korean economic progress and, without this contribution, progress would have been retarded. The theory of the state view on the role of foreign aid in Korean development however, is not explained in terms of the nature of the aid, and the mechanisms for the contribution are unspecified. The central concern of this work is to examine, as comprehensively as possible, the role and contribution of food aid to South Korean industrialisation. South Korea has received a constant 1.9% of GNP from the PL 480 programme since the Korean war. The role of food aid can be explained within the theory of the state view of Korean economic development. The classical concept of the central importance of food and raw materials (as the basis of growth and industrialisation) is adopted and an empirical assessment is made which indicates that food aid has not been neutral to Korean economic growth. It is argued that food aid has made a unique and positive contribution to Korean industrialisation in so far as commodity aid has provided foodstuffs for the wage good and raw materials for industry, both having contributed directly to the industrialisation of the Korean Economy. In addition food aid has provided additional benefits by preventing bottlenecks in food supply, which may have resulted in the slowing down of the rate of economic progress through inflation. It is assessed that the overall impact of food aid on the Korean agricultural sector has not been adverse. Finally it is concluded that food aid has made a unique contribution to economic development and, particularly, industrialisation, in a society which by its culture regards the real wage (wage good) as a central concern of the State.

# CHAPTER OVERVIEW

Chapter one: Introduction

Chapter two: Foreign aid and food aid

Chapter three: The policies and programmes of bilateral food aid donors

Chapter four: Food aid and development

Chapter five: Food aid and industrialisation: the classical approach

Chapter six: Foreign aid to the South Korean economy: its role in the development and growth of the economy

Chapter seven: An analysis of the contribution of food aid to South Korean industrialisation

Conclusions

Bibliography

# CONTENTS

CONTENTS CONTD:

CONTENTS CONTD.

CONTENTS CONTD.

CONTENTS CONTD.

CONTENTS CONTD.

CONTENTS CONTD.

CONTENTS CONTD.

# ABBREVIATIONS/ACRONYMS

| | |
|---|---|
| ADB | Asian Development Bank |
| BOK | Bank of Korea (formerly Bank of Chosun) |
| CCC | Commodity Credit Corporation of the US Department of Agriculture |
| CCP/FAO | Committee on Commodity Problems |
| CGFPID/FAO | Consultative Group on Food Production and Investment in Developing Countries |
| CRIK | Civil Relief in Korea (US share 92%) |
| CSD/CCP | Consultative sub-committee on Surplus Disposal |
| CFA | Committee on Food Aid (formerly named the Intergovernmental Committee of the World Food Programme) |
| DAC | Development Assistance Committee of the OECD |
| ECA | Economic Cooperation Administration (United States) (Foreign Assistance Act, 1948) |
| EEC or EC | European Economic Community |
| FAC | Food Aid Convention of the International Wheat Agreement |
| FAD/FAO | Committee on Fertilizers |
| FAO | Food and Agricultural Orgasnisation of the United Nations |
| FAO/WFC | World Food Conference (1974) (III) |
| FFHC | Freedom from Hunger Campaign of the United Nations/FAO |

| | |
|---|---|
| FLC | Foreign Liquidation Committee of Surplus Materials |
| FOA | Foreign Operations Administration (United States) |
| FSDA | International Food Surplus Disposal Agency (Fisher Plan) |
| GATT | General Agreement on Tariffs and Trade |
| GARIOA | Government Appropriations for Relief in Occupied Areas (USAMGIK) |
| GSP | Generalised System of Preferences |
| IBRD | International Bank for Reconstruction and Development (World Bank) |
| ICA | International Cooperation Administration (became MSA then AID 1961) \|US\| |
| ICCH | International Commodity Clearing House |
| IDA | International Development Agency (IBRD) |
| IFC | International Finance Corporation (IBRD) |
| IFAD | International Fund for Agricutlural Development |
| IGC/WFP | Intergovernmental Committee of the World Food Programme |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| ISIC | International Standard Industrial Classification of All Economic Activity |
| IWA | International Wheat Agreement |
| KDB | Korean Development Bank (Formerly BOK) |
| MSA | Mutual Security Agency (USA) |

| | |
|---|---|
| MSA | Most Severely Affected less-developed countries |
| NIC | Newly Industralising Developing Country |
| OECD | Organisation for Economic Cooperation and Development |
| OPEC | Organisation of Petroleum Exporting Countries |
| PAC | Property and Claim (Japanese Compensation or Reparations) |
| PL 480 | Public Law 480. United States Food Aid Programme |
| PL 655 | Public Law 655. Mutual Security Act (USA) |
| UMRs | Usual Market Requirements |
| UN (GA) | United Nations (General Assembly) |
| UNCACK | United Nations Civil Assistance Command in Korea (also known as KCACK - Korean Civil Assistance Command) |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| UNEconSoc | United Nations Economic and Social Council |
| UNESCO | United Nations Educational, Scientific and Cultural Organisations |
| UNFPA | United Nations Family Planning Association |
| UNKRA | United Nations Korean Relief Agency |
| UNRRA | United Nations Relief and Rehabilitation Administration |
| UNWRA | United Nations Work Relief Administration |

| | |
|---|---|
| USAID | United States Agency for International Development |
| USAMGIK | United States Army Military Government in Korea (GARIOA) |
| VERs | Voluntary Export Restraints |
| WFB | World Food Board |
| WFC | World Food Council |
| WFF | World Food Fund |
| WFP | World Food Programme |
| WHO | World Health Organisation |

# LIST OF FIGURES, TABLES AND APPENDIX

# CHAPTER ONE

## INTRODUCTION

'South Korea is, of course, unique in many ways... nevertheless, it is an especially valuable laboratory to study development.'

D C Cole and P N Lyman (1971)

The South Korean experience with economic growth and development has been one of the most outstanding examples of high, sustained growth through exporting light manufactures on world markets. The reasons given for the economic success, or economic miracle, have ranged from that of a pure laissez-faire approach to development policy to that of a strong state, with clear economic objectives planning this exemplary economic performance.

The South Korean experience with economic growth and development, while unique, also provides an example of how policies and programmes, in relation to investment, trade employment and overall welfare and distributional aspects, go to make up the development experience.

## 1.1 CENTRAL HYPOTHESIS

South Korea has been among the foremost recipients of economic aid over a sustained period of 20 years. The role and contribution of this economic aid has only been partially investigated, and the reasons for its role have often been obscured by considerations of a military or political nature

rather than that of an economic resource per se. South Korea, while having received large volumes of general economic aid, has also received massive quantities of food aid and commodity aid. The central objective of this work is to investigate as comprehensively as possible, both theoretically and empirically, the role of food aid in the industrialisation and growth of the South Korean economy.

The purpose of this study is to reassess the role of aid and, particularly, commodity aid to the process of industrialisation in South Korea and attempt to discover what unique and effective contribution (if any) food aid made to the process of industrialisation in South Korea during the period 1945-75.

## 1.2 RELEVANCE AND PURPOSE

South Korea increased its per capita income from $146 in 1950 to $504 in 1975, with an average annual growth rate of 5.1%; ranked 54 in the world in 1950 and 33 in 1975 (Morawetz, 1977). During this 25-year span South Korea received political, military and economic support from the United States to a degree that few countries have experienced. The extent to which this support has contributed to South Korean development is often assumed to have been so great that its contribution is obvious, needing little further investigation or elaboration. The mechanisms and theories of the role of commodity aid will be explored and explained with a view to understanding and assessing its contribution to the Korean success.

## 1.3 THE STRUCTURE OF THE ARGUMENT

Foreign aid and food aid will be considered in Chapter Two, where the main features of the income transfer between rich and poor countries will be discussed. Chapter Three surveys the policies and programmes of bilateral food-aid donors over the period 1945-80. The question of the the role of food aid in development, and the policies, programmes and theories associated with this unique form of aid, are investigated in Chapter Four.

The question of the role of food aid and industrialisation is considered in terms of classical economic theories and policies towards the supply of food to the industrialisation process. This theoretical classical framework provides the basis for the detailed examination of the Korean experience.

Chapters Six and Seven explore within the classical paradigm the role and contribution of commodity aid to South Korean industrialisation, growth and development.

## 1.4 SCOPE AND LIMITS

This study has relied upon a wealth of statistical material, some unpublished, on a wide variety of questions to do with aid and development in South Korea. The period 1945-75 was chosen for a number of reasons: exceptionally high levels of food aid to the Korean economy over a sustained period; the absence of a comprehensive study of food aid in South Korea; and the writer's growing awareness over at least ten years that this form of commodity assistance (bulk supplies of commodity) had not been investigated or properly explained. Studies on food aid have tended to focus on a number of

relatively narrow, not unimportant, issues and problems, often to the neglect of a fuller understanding of the potential of food aid. The positive contribution of food aid to economic development may be better understood from the assessment of the longer term overall effects upon the recipient economy, and South Korea provides such an example of a country which has received significant volumes of this type of aid over a continuous thirty-year period. The interpretation of the numerous and multiple effects of food aid upon the growth, economic development and welfare of the Korean people is beset by problems of a methodological, practical and empirical nature. While the quantities of food aid given to South Korea have been large, the problem remains of explaining in what way this aid has contributed to the economy. In attempting to explain the effects of food aid upon South Korea it is necessary to establish cause and effect; which is not in turn easily or necessarily clearly accomplished. It is perhaps because of explanatory and methodological difficulties inherent in the study of the cause and effects of food aid policy that the subject matter should generally be regarded as a controversial area in development studies. While these limitations are recognised, they are not sufficient reason for not attempting an analysis of food aid policy. The study of food aid has generated a large and growing literature with many aspects that reflect the fundamental difficulty of establishing cause and effect. Nevertheless the experience with food aid in South Korea is unique. However, there are lessons to be learned from that experience which may be applied to food aid recipients with similar, though not

identical, development priorities and objectives.

## 1.5 ORIGINAL CONTRIBUTION OF THE THESIS

This thesis aims to provide a reinterpretation of the role of aid in South Korea and its contribution to economic growth and development. Empirical data will be presented from known sources and reinterpreted in the light of classical theories and assumptions in the development process. New data will be calculated and presented to indicate the contribution of commodity aid to South Korean development and growth. Overall, the contribution of this thesis will be to present an analysis and argument which will reassess the role of aid to the Korean economy and, particularly, indicate the mechanisms which have come into play to make food aid a unique contributor to a unique development experience.

# CHAPTER TWO

# FOREIGN AID AND FOOD AID

## INTRODUCTION: AID AND ECONOMIC DEVELOPMENT

Since the 1940s, international economic aid has become a feature of international economic and political relations. Starting in the 1940s with the advent of Marshall Aid from the United States of America for the reconstruction of war-damaged Europe, the giving of aid or the governmental transfer of resources, either as grants or loans to poor countries for their economic development, is an established practice particularly from countries with high per capita incomes to middle and low per capita income countries. Members of the Development Assistance Committee of the Organisation of Economic Cooperation and Development (OECD) make up the greater part of global aid donations. The Communist Bloc tend to give smaller amounts of economic aid although military and 'prestige project' aid - such as the Asswan Dam from the USSR to Egypt, or the Tanzam Railway from Communist China to Tanzania and Zambia - tends to be a special feature of communist country aid donations.

As 'developing countries' emerged in the 1940s, 1950s and 1960s economic resources were transferred to these newly independent countries from their former colonial masters. The strand of aid-giving from the former colonial metropolitan areas added another layer to the emerging consensus on the importance of economic aid from the rich to the poor countries.

In addition to the bilateral influence of the United States as the major Western aid donor, the emergence of the United Nations system and the allied international monetary, banking and trade institutions, namely the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD) and the General Agreement on Tariffs and Trade (GATT), provided another strand in aid and trade thinking. The multilateral approach to the aid and trade issues between developed and developing countries was further added to by the emergence of Third World policies as enunciated by the United Nations Conference on Trade and Development (UNCTAD) in the 1960s. The UNCTAD view placed a greater emphasis on trade policy and the inherent bias of the international trading system against poorer developing countries depending on single commodity exports as their major source of foreign exchange. 'Trade not Aid' became the battle cry for many Third World countries who saw aid as being a source of economic dependence and therefore undesirable as a continuing resource transfer from rich to poor. It was considered to be more important to alter the international rules of the game in regard not only to trade relations, but subsequently to international monetary relations and rules as well. The late 1960s saw the emergence of a European dimension to international aid policies focusing on trade relations which emphasised the Generalised System of Preferences (GSP), an UNCTAD concept, as well as the Lomé conventions with a distinctive aid element.

The transfer of economic resources between rich and poor countries does not contain only a pure gift element, although

a grant element is present in bilateral and multilateral aid donations. Such transfer of resources, both bilateral and multilateral, have produced among political theorists and economists a wide variety of theory and opinion on the purposes, usefulness and effectiveness of these transfers for the donor and recipient alike. The giving of aid to developing countries is, and has been, beset by problems of politics, economics, diplomacy and, indeed, a wider moral and ethical set of questions.

The giving of aid can be considered from the viewpoint of the self-interest of the donor, or more altruistic and humanitarian considerations. A study by Griffin and Enos (1970) demonstrated that the major element in the giving of bilateral aid was that of self-interest, masquerading in the form of international military and economic alliances. Their study concluded that the most consistent criteria for aid giving and receiving was membership of a political alliance, where cold war tensions were present and the recipient of aid was on the frontier of those tensions. In short, aid was a function of global politics and particularly of an East/West ideological conflict.

While much of the total economic aid given since the 1940s may have been motivated by global political considerations, the humanitarian element is also present in many aid programmes, both bilateral and multilateral. This mixture of self-interest and altruism adds further difficulty to any objective assessment of the role and effectiveness of aid policy.

## 2.1 REASONS AND MOTIVES FOR GIVING AID: THE CRITICS OF AID

In the immediate post-colonial era, aid was given to former colonies as a mild form of reparations and to set these newly-independent countries on a course of political self-management, if not economic prosperity. The giving of economic aid to some degree was expected from the rich countries for what they had done - exploiting politically and economically the poorer countries during their colonial era. Professor Bauer, for example, argues that economic aid has brought into being the concept of the Third World, which he claims has no meaning outside a framework of aid giving, ie without economic aid from the rich there would be no Third World (Bauer, 1984).

The moral obligation of former colonial powers to assist their ex-colonies can only be for a finite period of time and, as the years pass, so the obligation lessens. Professor Bauer also argues that aid is not beneficial to developing countries, indeed, it is positively harmful to these countries since it delays their capacity for self-help and improvement. The argument follows the pattern that newly industrialised countries (NICs) such as Hong Kong, Taiwan and South Korea have either had no economic aid or little economic aid or, indeed, if they have had economic aid it has not been significant to their economic improvement. The economic success of these countries has been due to their industry, ability for hard work and saving and, above all else, their reliance on using the market place and trade as the means for self-improvement. Aid is harmful because it is given on a government-to-government basis and thus strengthens the powers of the state in economic matters. For Professor Bauer the

state cannot out-perform the market place in economic decision-making; where it attempts to subvert market forces, inefficiency, confusion and corruption result.

This view of aid being positively harmful to the economic development and growth of recipients is also shared in a slightly milder form by Professor Schultz (1982). The major criticism of economic aid by opponents to this form of economic transfer is that it subverts the workings of the market and strengthens the role of the state to the detriment of individuals and individual freedoms. Furthermore, it is wasteful, since government cannot know better than the market place.

There is, however, another strand of thought which considers aid to be of importance, not only to the receiver but also to the giver. The Brandt Commission (1980) argues that aid is a source of growth and prosperity in an interdependent world. The linking of economies in the trade and monetary nexus ensures that resource transferred from the rich to the poor will benefit both parties through the expansion and growth of the world economy. Brandt emphasises not only the self-interest of the rich economies but also the humanitarian dimension in giving to the poor and needy. An earlier commission, Partners in Development headed by Lester Pearson (1969), argued the importance of the moral dimension in the giving of economic aid to the malnourished and poor. Pearson recommended that 1% of GNP of the rich countries should be given annually to the poor countries for economic development. This 1% target was also recommended by the Brandt Commission, but has not been achieved in the period since it

was suggested. Attempts to formalise aid commitments by earmarking a proportion of Donor-GNP have not met with success, as economic self-interest overrides humanitarian sentiments.

The reasons and motives for giving aid are a complex mixture of altruism and self-interest. Taking aid giving as a whole, from the period 1945 onwards self-interest has tended to have the upper hand although that is not to say that altruism has been absent. The effects of foreign aid on recipient developing countries have been as varied as the economic performances of those countries themselves. The economic assessment of the costs and benefits of foreign aid remain problematic in so far as these resource transfers can be assessed, estimated and analysed from a variety of theoretical standpoints. A major problem associated with the economics of foreign aid is how these resources can be objectively assessed to consider their impact on a variety of aspects of the recipient countries' economies. There are a number of methods and techniques for such assessments which embody both macro- and micro-economic aspects of economic development. Assessing humanitarian aspects of economic aid often embodies concepts and criteria which go far beyond the bounds of economic theory and embody nutritional, medical and other criteria.

## 2.2 TYPES OF AID, PURPOSE AND CONTRIBUTION: PROJECT VERSUS PROGRAMME AID

For a developing country the receipt of foreign aid implies additional resources in foreign currency or its

equivalent in goods over its capacity to import, generated by exports or financed from accumulated reserves, with the need of immediate repayment and at a cost lower than the prevailing rates of commercial market loans (see Kalecki, 1976). Kalecki considered that local currency accumulations resulting from the sale of food aid or commodity aid, if they remained inconvertible, were of no proper assistance. (See Chapter 3.5 for a fuller discussion of local currency proceeds and food aid policy.)

The criteria that Kalecki adopted for assessing and evaluating foreign aid was that (1) it should improve the external conditions of growth, and (2) it should be evaluated on a full knowledge of the general problems of economic development of the recipient economy.

This 'macro-economic' approach to aid assessment considers the role of foreign aid as being measured by a comprehensive analysis of the development problems (ie the plan) of the recipient country seen as a whole. The emphasis on the macro-evaluation of foreign aid implies that the recipient government should plan its economic goals and objectives with a view to rational utilisation of its foreign aid and other economic resources. Foreign aid, under this scheme, would allow an increase in investment without reducing consumption, or without risk of inflationary pressure choking off the growth process.

The donation of food aid or the concessional sales of grain or other agricultural commodities, if they would have been purchased in any case, amount to an indirect financing of purchases of equipment. Whether this will contribute to

investment or growth in the recipient economy, will depend on the use to which the government puts these resources. They can be spent on investment goods and raw materials, luxury goods, consumption goods, or on the military. Programme aid is generally given to the recipient government for uses within the context of the overall development plan and, as such, this type of aid donation need not necessarily be earmarked for specific purposes or uses. However, within the range and types of aid offered to some recipient economies, the constituent parts of the programme aid offered may in fact be earmarked for particular purposes and uses. Bilateral donors offer a wide range of aid in a variety of forms: military aid, financial aid, technical aid, commodity or food aid, and usually the aid package is a combination of all these types of aid. Programme aid is therefore generally concerned with the overall economic and social objectives of the recipient economy at the macro-economic level of macro-objectives. Of course, within the context of the programme aid there are micro-economic constituents which can be seen to make up the whole programme. However, as in economic theory generally, the immediate linking between macro- and micro-economic objectives, and particularly the instruments of government policy, are much more complex than the simple dichotomy suggests. J M Keynes noted that there was 'many a slip between cup and lip' in the matter of economic policy in regard to 'micro' and 'macro' phenomena.

Micro-economic aid (project aid) is, as the name suggests, more narrow or specific in purpose. Project aid is concerned with a particular sector of the recipient economy and a

specified number of objectives that are amenable to assessment using cost-benefit techniques. The use of cost-benefit or project-appraisal techniques to assess all the costs and benefits of a particular project, allows the donor and recipient a clear set of criteria with which to judge the suitability or feasibility of a particular investment. Unlike commercial financial and investment appraisal, cost-benefit analysis considers social criteria as part of the overall appraisal. The form of appraisal favoured by the IBRD and other multilateral and bilateral agencies is that of the Little-Mirrlees method (Little and Mirrlees, 1974). In estimating prices of goods that do not have immediate 'market prices' (so-called shadow price), this method of estimation favours the use of 'world prices' (so-called efficiency prices) as the surrogate market price. The emphasis in the Little-Mirrlees method on international prices is to remind national planners, in effect, that world markets are 'free markets' and therefore by definition more efficient. National planners should, according to Little-Mirrlees free trade criteria, plan with this in mind. An alternative method of cost-benefit assessment (the Unido method) argues that using 'world prices' as shadow prices in the appraisal would subvert national economic goals and objectives, both economic and social. The Unido method argues that, in any case, the use of world prices is mostly irrelevant to the final cost-benefit ratio (UNIDO, 1972).

In so far as programme aid represents planning of a comprehensive nature, project aid can be said to represent an approach that is nearer to the market, or at least the market

is given a more prominent place in the 'planning' framework of the recipient economy. Project aid, to some degree, represents a middle ground between total comprehensive planning and a fully fledged free market economic system.

A variant of project aid, using similar assessment techniques, is sectoral aid. This type of aid focuses on giving resources to the education sector, or electricity transport, agriculture or industry, and other sectors of the recipient economy.

Project aid, in theory, allows donors greater control over the aid resource given and, it is argued, are able to be more accountable to the legislature in the donor country. It is also argued that it is far easier to 'switch' programme aid to uses other than those intended by the donor. Project aid requires personnel with knowledge and ability to assess potential and actual projects, whereas with a planning system already in situ in a recipient economy, in theory, less outside expertise should be required in the aid-allocation process.

Professor Singer (1965) has argued that the difference between programme aid and project aid is overemphasised, given that all aid should be properly evaluated and assessed, regardless of its type, which is undoubtedly true. The possibility of fungibility also obscures this distinction, in Professor Singer's view. However, the argument between programme aid and project aid is an argument which involves proponents and opponents in their degree of commitment to the possibilities of a perfectable planning system, or their faith in the market, as the final efficient arbiter of resource allocation. In this matter it is unlikely that a resolution of the dilemma can be easily reached.

## 2.3 BILATERAL AND MULTILATERAL AID

Bilateral aid donors have dominated the foreign aid relationship since the 1940s. Bilateral aid has represented a wide spectrum of policy ranging from altruism to pure national economic self-interest. Donor national, economic and political objectives have more often than not determined the nature of aid given and the countries which have received it. In some donor-country cases, most notably the United States of America, foreign aid policy has complemented and supported wider foreign policy objectives. Indeed, it can be argued that United States aid policy is but one facet of foreign policy. Nation States have preferred to conduct aid policy on a bilateral basis rather than transfer these resources to multilateral agencies for allocation to recipient countries.

While it is true that the largest multilateral aid agency (the World Bank) commands considerable resources for economic development, the criteria for determining the allocation of these resources is effectively decided by the richer nations (Payer, 1982). The conditions for resource allocation decided by the World Bank and its sister institution, the IMF, are formulated on strict and narrow criteria which, more often than not, allow recipients little choice or flexibility over their own economic and political decision-making. Therefore, some degree of national economic sovereignty is subverted by the conditions laid down by these two institutions. As Senator Fulbright argued in 1965, 'It should be understood that, while the World Bank and the IDA are independent agencies, the influence of the USA on their policies is considerable because decisions on loans are made by votes weighted according to

contributions.' (quoted Kalecki, 1976).

The second largest multilateral agency, according to its Director James Ingram, is the World Food Programme of the United Nations and Food and Agricultural Organisation (WFP/ Government of The Netherlands 1983).The agency deals with food aid donations to a wide variety of countries over a wide range of policies and programmes. (For an analysis of the World Food Programme Agency and Operations see Cathie, 1982).

In theory, multilateral agencies should be able to allocate aid resources on the basis of objective criteria free from national economic and political influence, and in this way the aid would be both more efficient and more equitably given. However, in reality multilateral institutions are dependent on nation states for their resources and when multilateral policy involves a conflict of interest for a major contributing nation state, it is usual for the national interest to predominate and limit the scope of multilateral policy. In the case where a nation state has an insoluble conflict with a multilateral institution, resources are either withdrawn or a threat of withdrawal is often sufficient to modify multilateral policy. In the case of the International Labour Organisation (ILO), the United States actually withdrew support for policies it did not agree with. The United States Congress has also withdrawn resources from the International Development Agency of the IBRD (soft-loan section of the World Bank) because it was not in agreement with its 'liberal' lending policies.

## 2.4 AID-TYING: FUNGIBILITY

The giving of aid is not without strings attached by the donor. Foreign aid donors more often than not require the recipient to use resources given by the donor in a mutually agreed manner - which is not unreasonable. However, donors very often require recipients to purchase materials or use resources from the donor economy regardless of efficiency, cost or technical suitability. This practice of aid-tying is designed to benefit the donor economy, or sector, industry or region within the donor country, as well as benefiting the recipient economy. Where resource costs are higher in a donor country than on the world market then the recipient is obviously not getting the lowest cost input to development. If the donor had given freely exchangeable financial resources to the recipient, lower cost goods and services could have been purchased and the aid resource would have benefited the recipient by going further.

Commodity or food aid is, by definition highly tied by country source and commodity itself and would be regarded as good as financial aid in circumstances where the recipient would have purchased this aid in any case. Of course, it is not always possible to establish whether food aid is wanted or needed by the recipient government.

Fungibility, or switching, of aid resources to uses other than those intended by the donor is a phenomenon which pervades aid-giving. Switching is perhaps more likely to happen with untied convertible foreign exchange , although it

can and does happen with tied aid. For example, it has been reported that food aid given in Ethiopia has been resold on the world market and the revenue used for non-aid purposes. (See Cathie, 1982.)

## 2.5 THE BENEFITS OF FOREIGN AID TO RECIPIENTS

At the macro-economic level, foreign aid can benefit recipients by providing foreign exchange resources or by freeing foreign exchange for necessary purchases. Foreign Aid can therefore bridge both the 'foreign exchange gap' and the 'savings gap' which assists the economic growth and development of the recipient. Foreign aid allows the increased purchase of raw materials, consumption goods or capital goods. Whether the economy will benefit in terms of economic growth will ultimately be determined by the way in which the extra resources are allocated in the economy. The foreign exchange gap can be reduced without necessarily increasing investment or savings if aid is used purely for consumption purposes such as military expenditure.

In the case where foreign aid is allocated to productive investment rather than consumption, it is said that both the 'foreign exchange gap' and the 'savings gap' have been bridged. Where foreign aid is used for productive investment the economy has benefitted through a foreign exchange saving which is translated into an increase in domestic savings. The two 'gap' theories provide an explanation for the effects of foreign aid used purely for investment purposes and foreign aid used purely for consumption purposes (see Morawetz, 1977)

The degree to which foreign aid will benefit a recipient

will depend on the volume, extent and duration of the period aid is given, and on the framework or plan within the recipient economy.

## 2.6 FOOD AS A FORM OF AID

It has been argued that food aid is no different from other forms of aid. However, the circumstances under which this judgement can be passed requires a greater specificity.

In circumstances of famine or emergency which require food supplies, food aid has a clear purpose - namely to feed the hungry. The issue of supplying food aid becomes essentially that of logistics: how to supply this aid in the shortest period of time at reasonable cost. The issue of food aid for emergencies differs from the use of food aid for economic development and growth. Food aid for nutritional purposes, such as feeding children and preventing malnutrition, while of the utmost value, does not easily fit into evaluation criteria normally applied to economic projects. (See Cathie, 1982.) This, of course, does not imply that nutritional aid should not be given but that criteria other than economic must be used to assess such aid.

Food aid, when used in 'economic projects' such as infrastructure-building in a recipient economy, is amenable to familiar assessment criteria such as cost-benefit analysis, although it appears not to be practised by a number of agencies involved with food aid programmes, which include the WFP and the EEC Commission (Cathie, 1982). The WFP has recently established an Evaluation Division, recognising the need for a more comprehensive assessment of its development

programmes and projects. Under circumstances where the aid is not assessed or evaluated, it is not possible to estimate its contribution to the economic and social development, and is therefore open to criticism which may be unwarranted.

Programme, or bulk supply, food aid may be an equal contributor to the economic development and growth of the recipient economy as untied financial aid. Like project aid it is necessary, albeit using different macro-criteria, to assess the likely impact and contribution of this form of aid on the recipient economy. In theory, there are circumstances where food as a form of aid is equal in value to that of untied financial aid. However, the problem remains of estimating the contribution of food to national economic development.

Finally, the view that food aid is better than no aid is not tenable if it can be shown that this type of aid can actually be harmful to the overall social and economic development of the recipient. The following three chapters will examine the evolution, development, theories and evidence of the role of food aid in economic development, before proceeding to the analysis of the South Korean experience with food aid.

# CHAPTER THREE

## THE POLICIES AND PROGRAMMES OF BILATERAL FOOD AID DONORS SINCE 1945

'... Thus the face that the USA presented to the underdeveloped countries was a combination of that of a kind-hearted humanitarian, an anxious salesman and a hard-headed negotiator.'

(S R Sen, 1962)

### INTRODUCTION: OVERVIEW

Over the last forty years, food aid has represented some 15% of Development Assistance Committee (DAC) aid to the developing world (Cathie, 1982). The giving of aid in kind is now an accepted and permanent feature of the rich countries' gift-relationship with the poorer nations. Recently, the Brandt Commission has joined the long list of countries and institutions endorsing the idea of food as a form of aid. From 1946 to 1976 a significant proportion (28%) of the United States official development assistance was in the form of food aid. American food aid has accounted for some 30% of total US direct economic aid to developing countries since 1954. During much of the post-second world war period, food aid figured predominantly in the policies and programmes of the United States.

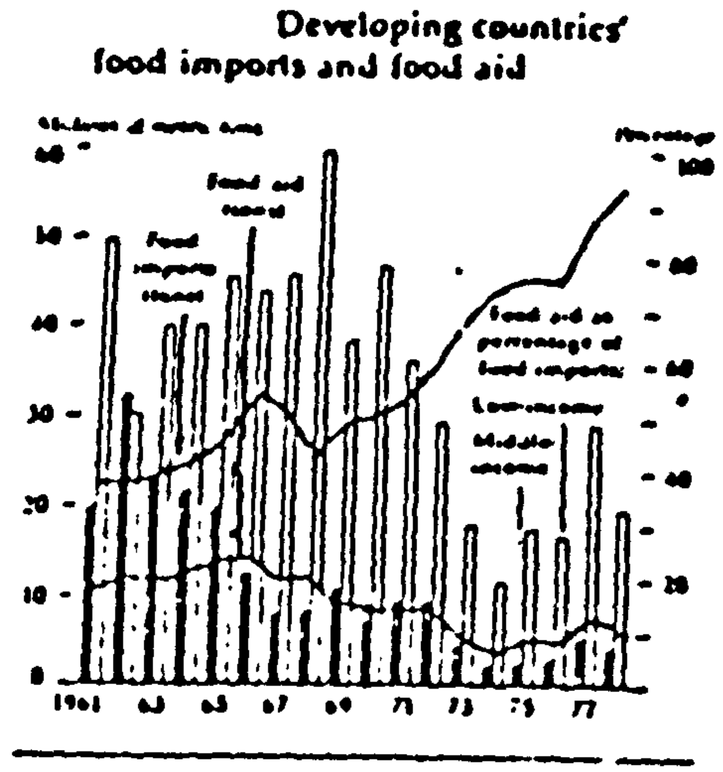
The dominance of the United States in the sphere of food aid policy is illustrated in Figure III.I. Total estimates of food aid by the IBRD differ from those of the OECD, as do International Wheat Council Statistics. This can be partly explained by the inclusion, or exclusion, of certain types of credit arrangements, or 'food aid', given under military programmes. Annual aggregate figures, therefore, do vary

Figure III.I

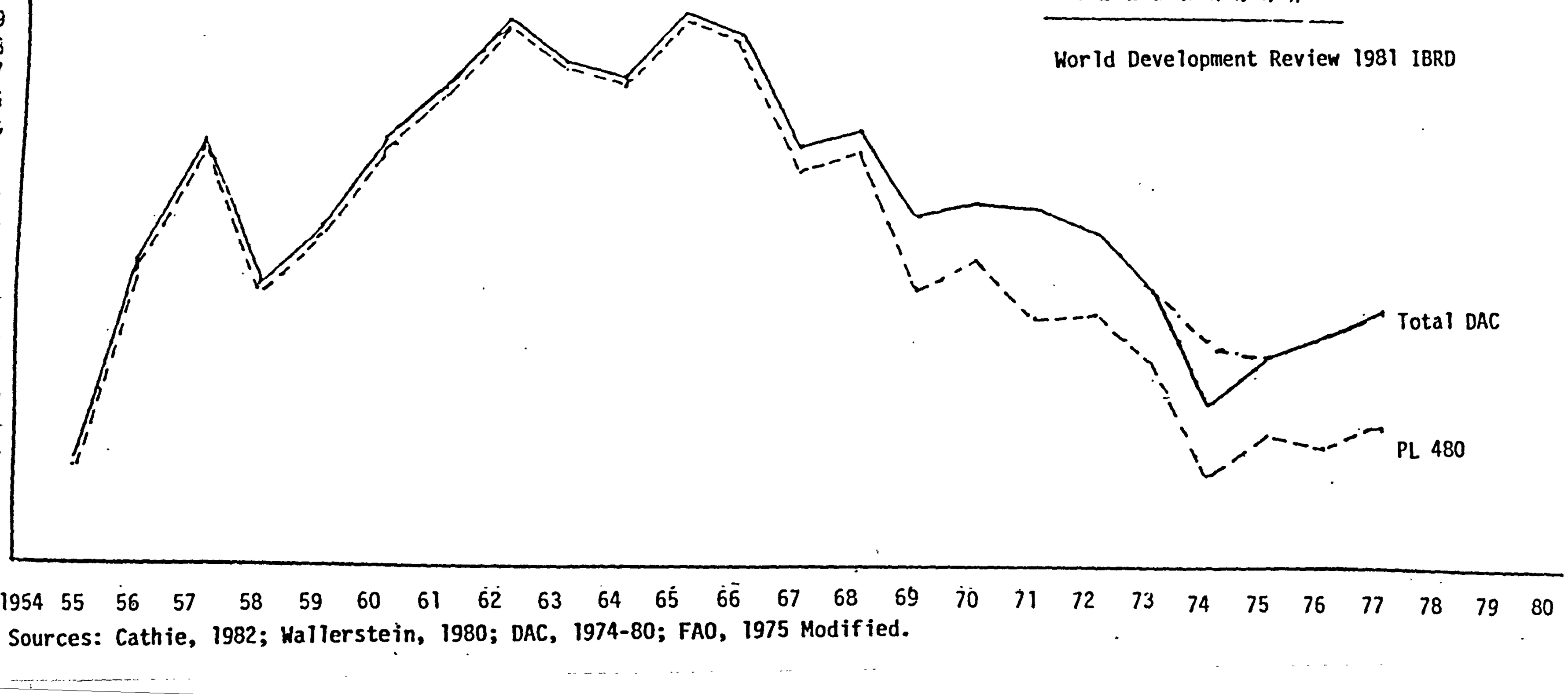
Total Food Aid 1954-78 (OECD/DAC)

million metric tons

'1973-75 USSR Food Aid)




World Development Review 1981 IBRD




Sources: Cathie, 1982; Wallerstein, 1980; DAC, 1974-80; FAO, 1975 Modified.

according to sources and definitions. From 1954 until 1969 international food aid policy was not only dominated by the United States, it was also the period in which total food aid volumes reached their zenith, with 1965 seeing 19 million metric tons shipped to developing-country markets. This overshadowing of total world food aid donations led one writer to conclude that, 'food aid means United States food aid' (Bard, 1972). The period from 1954-63 , while being dominated by the United States' 96% of total food aid, also saw other bilateral donors, most notably Canada. By 1973 the lack of balance in the proportionate distribution of food aid given by various countries was readjusted to the United States contributing 55%, a considerable reduction. In the mid-1970s the European Economic Community (EEC) contributed 23%, Canada 9%, Japan 9% and other countries 4% of world food aid. Countries with individual food aid programmes were Australia, Austria, Belgium, Canada, Denmark, EEC, France, Germany, Italy, Japan, Netherlands, New Zealand, Norway, United Kingdom, United States, Sweden and Switzerland. Outside the Development Assistance Committee (DAC) the USSR and China occasionally offer food aid; in 1973/75 the USSR provided food aid to India. (See Figure III.I, the line above total DAC for 1973-75.)

The 1960s saw the emergence of the EEC, Japan and the World Food Programme of the Food and Agricultural Organisation of the United Nations as major food aid donors. The Organisation of Economic Cooperation and Development (OECD) has deferred to European foreign policy aspirations and refers to the EEC as a multilateral food aid donor. However, in this

work, multilateral food aid policy refers exclusively to the World Food Programme. It may be held generally that multilateral aid has a narrower set of 'technical' objectives than those of bilateral aid whose objectives focus on enhancing the political role and position of national foreign policy objectives. Multilateral food aid programmes, in walking the international political tightrope, have emphasised their role in non-political terms - namely that of improving the social and economic development of recipient countries and alleviating poverty and malnutrition (Cathie, 1982).

The commodities available for food aid since the 1940s were overwhelmingly determined by being surplus to domestic and international effective demand. The major commodity surplus to effective demand was wheat and wheat flour, which dominated United States food donations. The EEC, while donating grains, has also provided surplus milk powder as a major food aid commodity. While under the United States food aid programme grains have been the major commodity, significant volumes of cotton have also been donated (see USDA.SDS-1-80, 1980).

Food aid and commodity aid are not entirely interchangeable terms, although in official American food aid documents the overwhelming impression is created that most of this kind of aid is for direct consumption as immediately edible food. In reality American food aid supplies are a function of the domestic surplus production from the agricultural sector. The agricultural commodity surplus is in excess of world effective demand and the supplies available from the United States food aid programme contain items such

as cotton, tallow, tobacco etc which would not normally be considered on a narrow definition of food. In this study American food aid to South Korea does include items such as cotton which are probably more appropriately described as commodity aid rather than as food aid *per se*. An examination of food aid donations from the United States to a number of recipient economies, most notably South Korea and Taiwan, on a first impression appears to be predominantly food rather than other agricultural commodities. The United States Department of Agriculture (USDA) generally refers to output from the agricultural sector collectively as food and fibre, although this distinction is not clearly carried over to agricultural surplus commodities generally available as aid. While wheat dominates the global food aid picture, individual countries may receive substantial non-food commodities under food aid programmes. The title of this work is 'Food Aid and Industrialisation', although a recognition of the important distinction between food and fibre given in the commodity aid programmes of the United States is contained in the full title of the work. Food aid, in so far as it provides raw materials for direct and indirect consumption by human populations, may be a term that is not entirely apt as it can obscure the nature and extent of commodities given under such donor surplus programmes.

The commodities available to the United States food aid programme to some degree reflect the domestic agricultural production pattern as a wide range of agricultural commodities and include food and fibre in the food aid programme supplies. While wheat is given for direct consumption to recipients,

feedgrains are also supplied for cattle and poultry sectors of developing countries under food aid programmes. The United States supplies feedgrains, and the European Community supplies surplus milk powder for the cattle or poultry sectors in recipient economies.

The definition of 'food aid' in this work is a broad one encompassing all commodities given under food aid programmes, rather than the narrower definition of food for immediate and direct consumption by the recipient. Aid given to South Korea under the United States food aid programme was not exclusively for immediate and direct consumption by Koreans, and it is important to bear in mind the distinction between food and fibre. The giving of agricultural commodities under food aid programmes is an important point often lost in discussions of food aid programmes and policies, and it is only through careful observation of the actual commodities given that it becomes apparent whether food or fibre predominates, or indeed whether bread grains or feedgrains predominate.

The four decades from the 1940s have seen the emergence of food aid as a major policy instrument in development assistance. During much of this time the United States of America dominated food aid policy and programmes. However, in the 1970s the United States, while still the major food aid donor, reduced her share of world food aid to almost half.

## 3.1 AMERICAN FOOD AID POLICY

### 3.1.1 The Objectives of United States Food Aid Policy

In 1954, the 'Agricultural Trade Development and Assistance Act', Public Law 480, was passed by the United

States Congress. The purpose of this act was to dispose of surplus agricultural commodities stockpiled by the government (E L Menzie et al., 1962) The rationale behind this legislation was that these costly-to-store surpluses could be 'married' to the hungry world's food deficit. United States food aid policy in its early years was referred to as a 'marriage of convenience'. By using agricultural surpluses to aid developing countries, the costs of storage could be reduced, agricultural trade could be promoted and, at the same time, hunger and malnutrition in the world could be reduced. The existence of a food gap and a foreign exchange gap in many developing countries could be overcome by providing surplus agricultural produce which would be paid for by recipients in their own inconvertible currencies. United States food aid legislation is regarded by distinguished economists as the 'most complicated ever produced in the United States' (E L Menzie et al., op cit). The objectives of PL 480 have changed over the years of the programme, although it has always been a stated objective to develop and expand export markets for US agricultural commodities, and to promote in other ways the foreign policy objectives of the United States. Food aid policy is a mixture of trade self-interest and humanitarian sympathy with foreign policy determining the exact balance between the two; over four decades, foreign policy has tended to favour American self-interest (Kust, 1960; Cathie, 1982).

### 3.1.2 The Origins of the US Food Aid Programme: Domestic Farm Policy and Agricultural Protection

The origins of a programme of United States food assistance can be traced to the period of the first world war

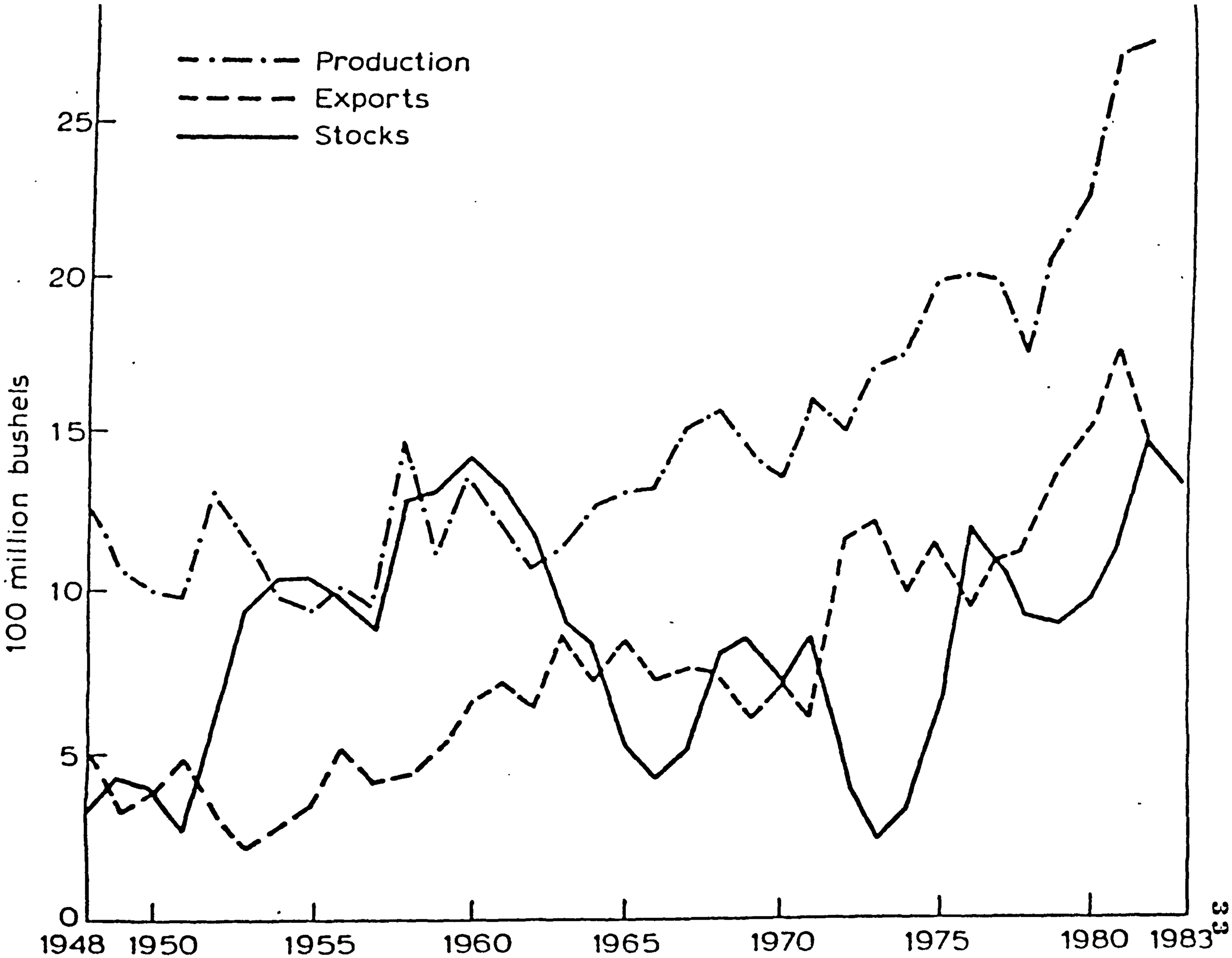
and liberal humanitarian concern for the victims of famine and natural disaster (Surface and Bland, 1981; S George, 1977). The concept of food aid has, however, a much older origin and probably can be traced to earliest recorded man. A good example of this is the account of Joseph in the Pentatuch, or Annona (food dole), of the Roman Empire, which lasted for centuries. In the nineteenth century food relief was provided by charities and governments for the victims of the Irish famine in the 1840s. Humanitarian organisations, charities and, to a lesser extent, governments, provided famine relief for major famines in India, China and Brazil in the late nineteenth century and early twentieth century, (Stanley, 1974).

While it can be said that the two major objectives of American food assistance have been the relief of famine overseas and the relief of the burden of overproduction at home, the introduction of a permanent and systematic food assistance programme arose mainly from the problem of excess supply, which in turn was a consequence of domestic farm price support programmes. Food aid policy can therefore be seen as an accommodating secondary policy outcome from the primary policy of agricultural protection (Cathie, 1982, 1985).

The origins of United States food aid policy can be traced to the internal agricultural policy of the USA from the 1930s onwards. During the inter-war years, the downturn in commodity prices of the 1920s, the general economic depression of the 1930s and the 'dust bowl' which resulted from imprudent agricultural practice, preceded the US government intervention on a massive scale in the agricultural sector. The protection

of American farmers' incomes and stabilisation of output were the primary functions of the Agricultural Adjustment Act(s) of the mid-1930s (Cochrane and Ryan, 1976; Cochrane, 1981). The second world war brought prosperity to US farmers, with output increasing to meet allied demand. The US government's financial and material assistance to the allies (Lend-Lease) provided an outlet for surplus agricultural produce.

The combination of government price support and increases in agricultural productivity, through the increased application of mechanical and chemical technology, caused the growth of vast stocks of cereals in the USA. United States domestic agricultural and trade policy in the post-second world war period was determined by three factors: (i) government support for domestic producers; (ii) the application of new technology (the exogenous technological treadmill thesis); and (iii) government support for the promotion of foreign demand for US agricultural output (see Cathie, 1985). Figure III.II shows the inexorable growth of both production and exports of American grain throughout the period 1948-84. Stocks of grain increased dramatically throughout the 1960s, in spite of the increase in foreign demand. These stocks (Figure III.II) mirror the growth of total world food aid illustrated in Figure III.I. In 1960, 6 years after the food aid programme had begun, there remained in storage 4 years annual production of cereals. At a given world market price, these stocks were far in excess of both domestic and international requirements. Professor Hopkins (1983) has written that knowing the change in US stocks from year to year would allow one to predict 82% of the change in




Source: Cathie, 1985.

food aid from the United States. Using a simple regression of US wheat surpluses and US food aid grain tonnage the following year, yields a regression coefficient (R2) of 0.82 for 1955-77. The surplus disposal element does not lose its statistical significance ( 5%) after the Food-for-Peace Reform of 1966. Professor Hopkins concludes his analysis by arguing that surplus disposal continues to be the working principle of US food aid policy (Hopkins, 1983, WFP/Government of Netherlands Seminar on Food Aid). The increasing costs and burden on the United States Treasury for storing, maintaining and administering these structural surpluses necessitated action for their disposal (Destler, 1980; Cathie, 1982).

In the absence of food aid programmes, and without the change of government price support policy and other agricultural support policies, the stocks of grain would have been larger still. Food aid donations and concessional sales, served a dual purpose. Surplus stocks could be disposed of and these stocks could provide foreign aid assistance to food deficit countries. The cause of the stock accumulations was rationalised from being a burden on the US taxpayer to providing an asset to food deficit countries, and a furtherance of US foreign policy.

In the 1930s, surplus commodities had been destroyed, but this policy became morally and politically unacceptable as a solution to surplus accumulations in the post-war period (FAO World Food Proposals, 1947). An alternative long-term solution to the problems of surplus capacity and large stockholdings was the adjustment of farm structure. However, allowing prices or the output of agricultural produce to be set by the free

market in the 1950s was unacceptable to the US authorities because of the lowering of farmers' incomes which would ensue. The possibility of raising farm incomes, through direct welfare payments to farmers rather than price supports and other government interventions, was not considered as an acceptable solution to the problem of agricultural adjustment during this time.

In the 1960s, the stockholdings were reduced by the introduction of incentives to farmers to 'set aside' productive land as 'soil banks'. The removal of productive land became a regular feature of domestic agricultural policy throughout the 1960s with as much as 42% of productive land being removed in one season in 1969 (see Table III.III).

It is the nature of protection that the policy instruments available to governments are seldom sufficient to achieve multiple and often contradictory objectives. The Tinbergen paradox indicates the need to introduce secondary or back-up policy initiatives if objectives are to be achieved (Tinbergen, 1952). So, it was with United States agricultural protection, domestic farm support policies begat stock policies, concessional sales and food aid policies, set aside conservation and diversion policies as well as internal domestic food aid policies in the form of food stamp policies (see below and Cathie, 1985).

### 3.1.3 The Evolution of United States Food Aid Policy

As already mentioned, the second world war brought prosperity to United States farmers with output for allied demand. In 1941 Lend-Lease shipped over $6 billion in agricultural commodities to Europe (Wallerstein, 1980). From

Table III.III Corn (Acreage in millions) Diversion 1948-73

| Year | Planted | Diverted | Diverted as a percentage of planted |
|---|---|---|---|
| 1948 | 85.5 | | |
| 1949 | 86.7 | | |
| 1950 | 82.8 | | |
| 1951 | 83.3 | | |
| 1952 | 82.2 | | |
| 1953 | 81.5 | | |
| 1954 | 82.2 | | |
| 1955 | 80.9 | | |
| 1956 | 77.8 | 5.3 | 6.8% |
| 1957 | 73.2 | 5.2 | 7.1% |
| 1958 | 73.3 | 6.7 | 9.1% |
| 1959 | 82.7 | | |
| 1960 | 81.4 | | |
| 1961 | 65.9 | 19.1 | 28.9% |
| 1962 | 65.0 | 20.3 | 31.2% |
| 1963 | 68.8 | 17.2 | 25.0% |
| 1964 | 65.8 | 22.2 | 33.7% |
| 1865 | 65.1 | 24.0 | 36.8% |
| 1966 | 66.3 | 23.7 | 35.7% |
| 1967 | 71.1 | 16.2 | 22.7% |
| 1968 | 65.1 | 25.4 | 39.0% |
| 1969 | 64.3 | 27.2 | 42.0% |
| 1970 | 66.8 | 26.1 | 39.0% |
| 1971 | 74.1 | 14.1 | 19.0% |
| 1972 | 67.0 | 24.4 | 36.4% |
| 1973 | 71.9 | 6.0 | 8.3% |

Source: Cochrane and Ryan, 1976
(Modified Cathie, 1985).

1945 exports of agricultural commodities, under government support, increased dramatically from 56 million bushels to 318 million bushels in 1946, 367 million bushels in 1947, to 479 million bushels in 1948, and peaked at 505 million bushels in 1949.

The European Recovery Programme (the Marshall Plan), was a major part of the United States post-war agricultural export drive. Half the United States' assistance to Europe was given in the form of food grants (Bairoch, 1975). The systematic provision of food as aid began during, and continued after, the second world war to recipients both in Europe and Japan. In many respects the Marshall Plan provided 'a model' for subsequent thinking on development aid. Until recently it has been generally accepted that the Marshall Plan was an unquestionable success in the post-war recovery of Europe and, ultimately, in the world economy (see for example T W Schultz, 1982). However, recent analysis of the German post-war recovery claims that Marshall aid played only a minor part in the German Recovery (Abelshauser, 1982). This analysis is based upon a faulty, inadequate and erroneous interpretation of the value of the currency proceeds from the sales of food aid in the German economy. An analysis of the likely local currency effects on post-war Germany was not part of the author's criticism and therefore his conclusion may be hasty in its dismissal of Marshall aid.

The value of Marshall aid is illustrated in Figure III.IV, where the food component is compared with subsequent American food aid up to 1979. It is clear that the volumes of food aid going to Europe in the period 1948 to 1952 were substantial

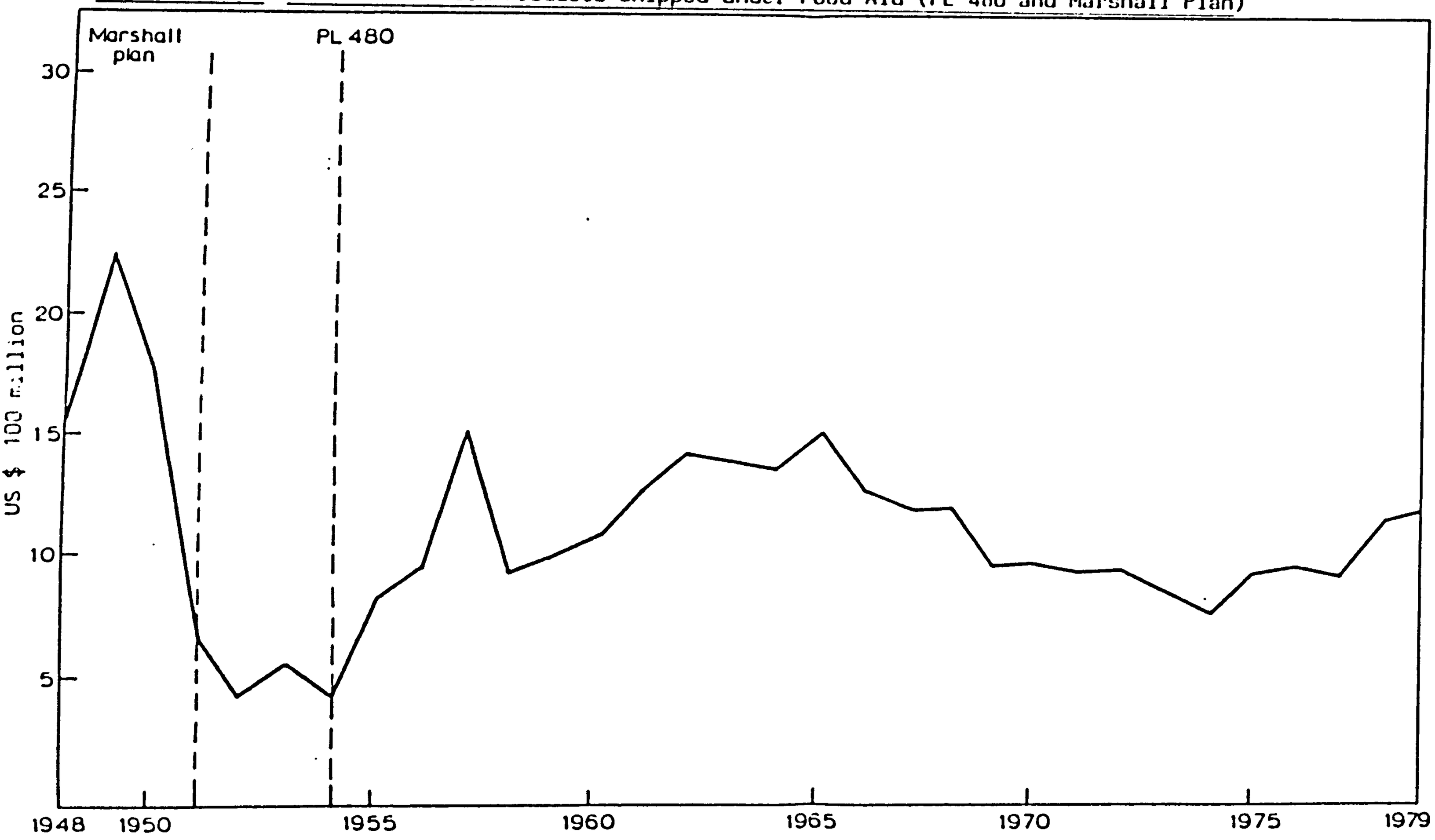
and indeed certain countries (United Kingdom, France, Italy, West Germany and Greece) received the lion's share of the benefits of this aid (Adams, 1968).

The United States also provided food surpluses in this period to Japan and the Far East. Early post-war food aid programmes provide a good example of the combination of donor foreign policy and domestic agricultural policy objectives. Food aid played a major part in the post-war reconstruction of recipient countries in Europe and elsewhere. The giving of aid in the form of food also provided export market outlets for the increasing productivity of the United States Agricultural sector. With the cessation of Marshall Aid the stocks of American grain began to increase dramatically rising from 250 million bushels in 1951 to 1020 million bushels in 1954 (see Figure III.II). The United States had a post-war surplus production problem which was growing at a very fast rate - either domestic agricultural policy had to change or new markets for surplus production had to be found in a world of inconvertible currencies. American agricultural productivity and domestic agricultural support policy provided the background to the introduction of food aid programmes and policies. Food, as a form of aid, is highly tied and US food aid is not only tied to commodities but also to American shipping transporting this aid (see Cathie, 1982).

## 3.2 PUBLIC LAW 480 (PL 480): TERMS AND CONDITIONS

Senate Bill 2475 was passed on 10 July, 1954, becoming Public Law 480. Under this law, foreign nations could purchase United States farm commodities with non-convertible currency.

Figure III.IV Value of US Farm Products Shipped under Food Aid (PL 480 and Marshall Plan)




Source: PL 480 Annual Reports 1954 and Cathie 1985

PL 480 stated that, 'the policy of Congress,... was to make maximum efficient use of surplus agricultural commodities in furtherance of the foreign policy of the United States... by providing a means whereby surplus agricultural commodities in excess of the usual marketings of such commodities may be sold through private trade channels.' (FAS No 65, 1970).

The payment for food aid in local non-convertible currency could be made to the PL 480 administration, or to a number of other US aid agencies which were involved with the food aid programme (Srivastava et al., 1975).

PL 480 is divided into four categories, or titles, I-IV. Concessional sales of food aid known as title I sales have comprised 75% of all US food donations. While title I sales contain a grant element which has varied from recipient to recipient, repayment is made to the representative agency of the United States. Title I sales include (i) local currency sales, (ii) long-term dollar credit sales to foreign governments and private trade entities, and (iii) convertible local currency credit sales. The repayment period on these sales can extend to a maximum of 40 years.

Second in importance to concessional sales of food aid are title II donations, which have represented approximately 20% of PL 480. Title II donations of food are given entirely as grants, usually for emergencies, famines and relief purposes. For example, the US food aid contributions to the World Food Programme came from title II donations (Cathie, 1982).

Title III transactions provided for the barter or exchange of agricultural commodities for (i) strategic or other materials, (ii) materials, goods or equipment required in

connection with foreign economic and military aid and assistance programmes, and (iii) materials or equipment required for off-shore construction programmes. Title III transactions were usually carried out through private trade channels, but were largely discontinued in the late 1950s after complaints from competing wheat producers that these were 'unfair' trading arrangements and that competition was being undermined.

Title IV transactions were a general provision category which was intended to serve both humanitarian objectives and the national interest of the United States. Title IV transactions provided a loophole for uses of food aid that were not adequately covered by the other three titles. The introduction of the new PL 480 of 1971 saw titles I and IV merged.

## 3.3 THE THREE PHASES OF PUBLIC LAW 480

Public Law 480 has, in practice, been altered by Congress every year since its inception in 1954, with major alterations made to the programme in 1958 when barter agreements were discontinued. A major change was made in 1966 when the 'self-help' clause was introduced. This clause required recipients of PL 480 to demonstrate that they have undertaken 'self-help' in respect to their economic policies. A population planning programme would be considered as one example of self-help. In 1977 a 'new directions' mandate was introduced into PL 480 title III which was revised to allow for the use of funds to finance mutually agreeable programmes of agricultural and rural development, nutrition, health

services and population planning (Deaton, 1980).

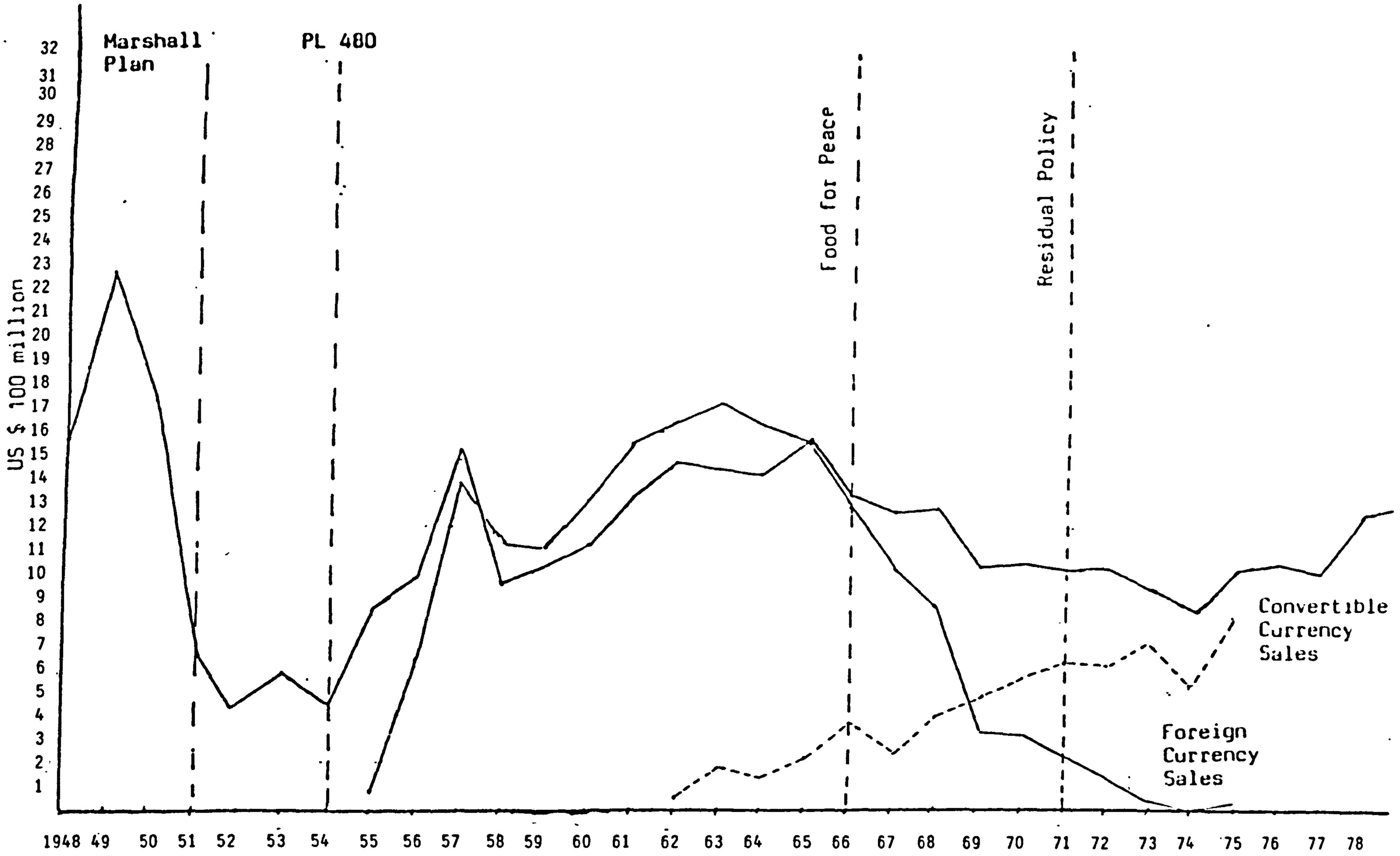
Three distinctive phases in American food aid policy can be identified over the years 1954-80, and these may be characterised as:

| | | |
|---|---|---|
| (i) | Surplus disposal policy | 1954-66 |
| (ii) | Surplus utilisation policy | 1966-71 |
| (iii) | Residual policy | 1971- |

Figure III.V illustrates these phases in US food aid policy. From the introduction of PL 480 in 1954 through to 1966 the overwhelming determinant of policy was that of surplus disposal. During this period US food aid reached a peak in 1963. The surplus disposal years for food aid policy were not without critics in the United States and overseas.

A number of major problems began to appear with food aid policy. As already mentioned, third party competitors, especially Canada, the Argentine and Australia, began to complain about certain aspects of PL 480 which they regarded as unfair competition (Dovring, 1968). PL 480 was in fact unable to solve the mounting grain stock problem in the United States (see Figure III.II); agricultural productivity was outpacing concessional sales programmes. The costs of storage and the administration of PL 480 began to increase significantly in the late 1950s. In spite of PL 480, the 1961 rates of carryover stocks of wheat to domestic use (including feed and seed) stood at 2.3 years. The corresponding ratio for 1954 had been only 1.5 years. In addition to these problems, local currency proceeds began to receive attention and the feeling grew in the United States Congress that this was 'money we can't spend', and was therefore wasteful (Mason,

Figure III.V Value of US Farm Products Shipped under Food Aid (PL 480) - The Three Phases




Source: PL 480 Annual Reports, 1954 and Cathie, 1985.

1960).

Surplus disposal was becoming a 'bottomless pit' and a change of emphasis began in the nature and purpose of food aid policy (Wallerstein, 1980). It had been proposed by Senator Humphrey in 1958 that the programme's name be changed to 'Food and Fibre as a Force for Freedom'. However, in 1966 the programme changed its name to 'Food for Peace'. The food-for-peace change in PL 480 emphasised that surplus disposal was not to be the major purpose of food aid policy. Food as a form of aid was now to be considered as a positive tool for economic and social development in the recipient countries. Local currency (foreign currency sales) were to be phased out by the 1970s, and recipients were to demonstrate their ability to self-help or to self-economic improvement. Food aid was now being considered in the United States as a burden in both domestic and foreign policy terms. Food aid policy was coming under academic and public scrutiny and found to have serious shortcomings; indeed, evidence was emerging that its effects on developing countries' agricultures could be positively harmful (Schultz, 1960).

The new food-for-peace, or surplus utilisation, period lasted for 5 years and was characterised, among other things, as a period when food-for-peace was increasingly used as 'food-for-war' (Wallerstein, 1980) - that is, food aid was a means of providing resources to Vietnam when Congress had not wished to increase material support for the war there.

In 1973 and 1974 the Nixon Administration diverted nearly three-quarters of the food-for-peace programme to Vietnam and Cambodia (Morgan, 1977). Both Presidents Johnson and Nixon

used PL 480 legislation to subvert the will of Congress. The food-for-peace era provided additional problems for food aid programmes, most notably in India where, as part of the 'short tether' policy of President Johnson, leverage was being applied to the Indian Government to change economic policy in line with US thinking. This proved unacceptable to the Indian Government and food aid was given on a month-by-month basis, rather than on the normal annual means. The use of leverage by the US government finally resulted in food aid being discontinued to India on a regular basis in the 1970s (Wallerstein, 1980; Cathie, 1982). The food-for-peace era also saw the introduction of harder terms for food aid with the growth of convertible currency sales and the phasing out of local currency proceeds and non-convertible currency sales.

The third phase of United States food aid policy, residual policy, can be identified from 1971 with the noted reduction of the US role as food aid donor and with the growth of the WFP and EEC food aid programme. Food aid was now regarded by the USA as a "residual" from its commercial agricultural sales. That is to say, food became less important to agricultural trade growth than commercial sales.

The new terms of PL 480 title I had two types of long-term credit sales:

(i) repayable in dollars over a period of up to 20 years with a grace period of up to 2 years, a minimum interest of 3%, and 2% during the grace period.

(ii) repayable in convertible currency, where repayment can be made in either dollars or local currencies at an agreed rate of exchange over a period of up to 40 years, with a grace period of up to 10 years, and at the same rate of interest as those applying to dollar credits (PL 480 Concessional Sales,

1970).

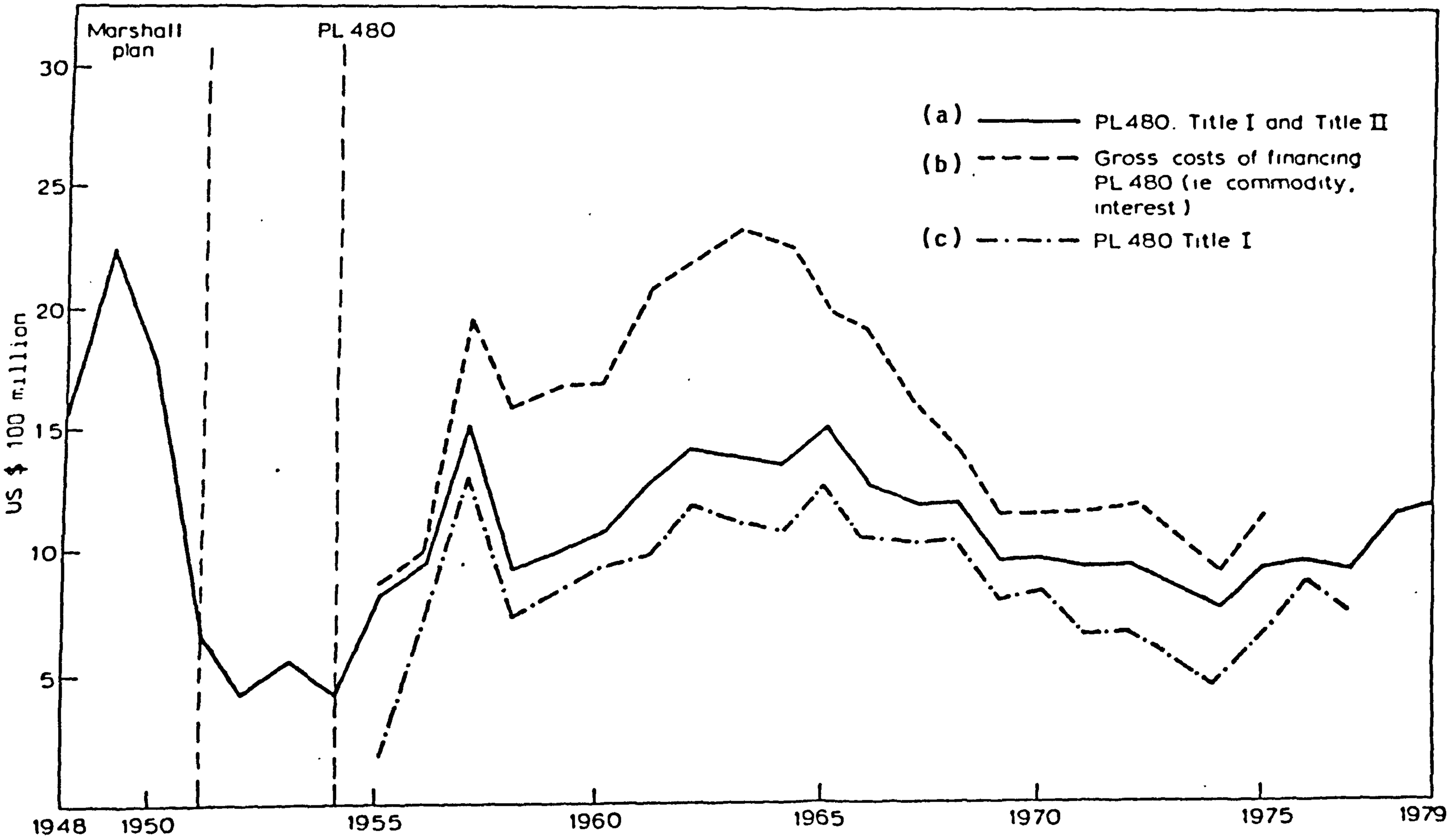
The volumes of food aid donations began to decrease from the late 1960s and the United States became increasingly disenchanted with food aid policy.

### 3.3.1 The Magnitude of PL 480

From 1954 through to 1980 the United States donated under PL 480 a (cumulative) total of $30,254.1 million of food aid. The donations under title I comprised $12,291.8 million sales for local currency, and $9,061.6 million long-term credit sales. Under title II, $2,612.6 million were given government-to-government and to the WFP; voluntary relief agencies received $4,556.0 million of food. Title III donations under barter arrangements amounted to $1,732.1 million.

Figure III.VI, line marked (c), indicates the values of major sales title I on an annual basis over the period 1948-79. The line marked (a) indicates both titles I and II - the actual value of the food component in the food aid programme over the same period. The full costs of the programme, however, are indicated by line (b) which is the gross costs of financing PL 480, including commodity and interest costs and transport costs which fell upon the administration of the programme. The burden of administrative costs, interest and transportation were a heavy and highly significant part of funding PL 480 during the period 1954 to 1968. In 1963 the value of the food component in the total costs of the programme was $1,400 million; the total cost of the programme for that year was $2,400 million. In other

Figure III.VI Value of US Farm Products Shipped under Food Aid (PL480 and Marshall Plan)




Source: PL 480 Annual Reports 1954
Cathie 1985.

words, 58% of the programme can be attributed to the actual food commodities, and 42% of the gross cost of the programme to non-food costs. The worst year for non-food costs being 1963 compares with that of 1974 where 15% of the gross cost was attributed to non-food costs. The rising costs of administering and maintaining PL 480 during the 'surplus disposal era' played a major part in the United States' disenchantment with overall food aid policy.

### 3.3.2 The Major Recipients of PL 480

Over 130 countries have received PL 480 since its inception in 1954. Table III.VII shows the 16 major recipients of PL 480. India has received the largest share of the programme, 19.5% of total PL 480, with four countries receiving over 5.0% of programme donations. In addition to concessional and grant aid food being supplied under PL 480, other US programmes also supply surplus food to developing countries. PL 665, the Mutual Security Act; PL 82-165, PL 83-77 and PL 83-266 have all supplied substantial quantities of food as military aid. As can be seen from Table III.VII, Israel has received food aid from both PL 480 and the Mutual Security Program. However, 63% of food has come through the latter program; 86.5% of United States agricultural surplus has come through PL 480, and the remainder through mutual security programs.

As has already been mentioned, in the final years of US military involvement in South East Asia the then US Secretary of State, Kissinger, provided material support to Vietnam by increasing food aid donations to that country, in spite of

Table III.VII

16 Major PL 480 Recipients 1954-80 |Cumulative Total Value by Country in million dollars| extracted from PL 480 Annual Report 1980

| Rank (1)+(2) | Country | (1) Total PL480 | (2) Mutual Security Program | (1) + (2) Underspecified Programs (Concessional Food Imports) | % of Total PL480 Programme | (3) Population (1980) IBRD (World development Report) 1982 millions | Per caput Food Aid (1) + (2) / (3) dollars | Rank |
|---|---|---|---|---|---|---|---|---|
| 1 | India | 5,905 | 122.2 | 6,027.3 | 19.5% | 673.2 | 8.9 | (15) |
| 2 | Egypt | 2,147 | 622.1 | 2,769,2 | 7.0% | 39.8 | 69.5 | ( 3) |
| 3 | South Korea | 1,944.2 | 339.9 | 2,284.1 | 6.4% | 38.2 | 57.1 | ( 4) |
| 4 | Pakistan | 2,044.4 | 68.6 | 2,113.0 | 6.7% | 82.2 | 25.7 | ( 8) |
| 5 | Israel | 717.1 | 1,260.4 | 1,977.5 | 2.3% | 3.9 | 507.05 | ( 1) |
| 6 | Indonesia | 1,637.8 | 26.1 | 1,663.9 | 5.4% | 146.6 | 11.34 | (12) |
| 7 | South Vietnam | 1,464.5 | 102.6 | 1,567.1 | 4.8% | 19.8 | 79.1 | ( 2) |
| 8 | Yugoslavia | 1,020.5 | 79.5 | 1,100.0 | 3.3% | 22.3 | 49.3 | ( 5) |
| 9 | Brazil | 897.6 | 2.6 | 900.2 | 2.9% | 118.7 | 7.5 | (16) |
| 10 | Bangladesh | 766.2 | 52.0 | 818.2 | 2.5 | 88.5 | 9.2 | (14) |
| 11 | Spain | 622.2 | 189.5 | 811.7 | 2.0% | 37.4 | 21.7 | ( 9) |
| 12 | Turkey | 673.7 | 52.3 | 726.0 | 2.2% | 44.9 | 16.1 | (10) |
| 13 | Taiwan | 394.9 | 267.4 | 662.3 | 1.3% | 15.4 | 43.0 | ( 6) |
| 14 | Poland | 567.6 | 0.0 | 567.6 | 1.8% | 35.8 | 15.8 | (11) |
| 15 | Morocco | 489.8 | 72.5 | 562.3 | 1.6% | 20.2 | 27.8 | ( 7) |
| 16 | Philippines | 400.3 | 106.2 | 506.2 | 1.3% | 49.0 | 10.3 | (13) |
| | GRAND TOTAL | 21,692.4 | 3,363.9 | 25,056.3 | 71.7% | | | |

(131 countries have received PL 480 since 1954.)

opposition in Congress to committing further resources to that war. Title I donations were sold on the open market in Vietnam and the proceeds were used for military procurement. It has been suggested that food-for-peace became food-for-war by Wallerstein (1980), although it can be seen from Table III.VII that, in the case of total food aid, the Vietnam episode accounts for 4.8% of total food aid use. To generalise from the Vietnam period that food aid had become 'food-for-war' may be a misleading overstatement. The greater part of food aid has been donated to countries which have not used this form of aid for war purposes, although the army may have had their resource supplemented by counterpart funds from the sale of food aid. The general budget of the recipients has been supplemented and supported by counterpart sales, and these revenues have also contributed to their general economic and social development. A case has been made for the overriding objective of foreign assistance (not only food aid) being determined by military and political objectives in global politics. Aid is seen as a by-product of the cold war and military alliance (Griffin and Enos, 1970). There is some plausibility in this argument if one considers that, of the total, 71.7% of PL 480 has gone to countries where the military are the government (Kennedy, 1974) or to countries that have been involved in war during the time they received aid, or were part of global cold-war and military concerns. However, it is equally significant that recipients of aid and food aid in this list have also had remarkable economic growth, most notably South Korea, Taiwan and Brazil. The measurement of total share of food aid gives only a partial

indication of the significance of its contribution to recipients. A per caput measure alters the significance ranking; whereas India has had the highest proportion of the PL 480 programme it has the second lowest on a per caput measure. Israel stands head and shoulders above all recipients with an astounding $507.1 per head contribution from food aid to her economy. Five countries have received at least $50 worth of food on a per caput basis. Although PL 480 has been given throughout the world to many countries, at different periods in their economic development, it has also been concentrated in programmes to relatively few countries. In the case of the 16 major recipients of PL 480 aid, its role and contribution require a more detailed analysis of its effects and consequences on their economic and social development. This study is concerned with the role, effects and contribution of PL 480 to the development of the South Korean economy. However, each of the major recipients requires a country-by-country analysis of the role of food aid on their respective economic development and social progress. Major studies have been completed on the role of food aid in India, Israel, Turkey and Pakistan (see Bibliography). However, other recipients have not had a detailed analysis that such absolute

and relative volumes of this form of aid should warrant.[1]

---

Table III.VII shows that sixteen countries have been major recipients of US food aid and these countries account for 71.7% of donations. India has received the largest share of the programme although when measured on a per caput basis this share ranks fifteenth, or second-last. Ranking food aid recipients on a per caput basis alters the significance of the role and magnitude of the contribution from the PL 480 programme. It can be suggested that those countries which have received a high per caput contribution from PL 480 warrant as close, if not closer, scrutiny as those who have received a lower per caput contribution. The higher the per caput contribution of food aid to an economy, the more significant its role has been to the economic progress of the recipient. To study the effects of food aid only on the basis of its proportion of the total PL 480 programme is to ignore the importance of how much the food aid contribution has differed between recipients.

Studies have been undertaken on the economic and developmental effects of food aid on recipients such as India (per caput (pc) 15), Egypt (pc 3), Pakistan (pc 8), Israel (pc 1), Brazil (pc 9), Turkey (pc 10). The role of food aid, and its effects on these recipients, has determined views and opinions on the nature of its contribution, both positive and negative. However, among the sixteen major recipients, comprehensive studies have not been undertaken on the ten other major recipients of food aid: South Korea (pc 4), Indonesia (pc 12), South Vietnam (pc 2), Yugoslavia (pc 5), Bangladesh (pc 14), Spain (pc 9), Taiwan (pc 6), Poland (pc 11), Morocco (pc 7), Philippines (pc 13) and have not had their food aid contribution investigated in any depth, or indeed at all.

Major studies on the impact of PL 480 account for some 30.4% of the total programme:

| % of total PL 480 (from Table III.VII) | Major Studies of food aid |
|---|---|
| 5.4 eg | Ginor (1963), Israel |
| 4.8 | Aktan (1965), Turkey |
| 3.3 | Coutsoumaris (1965), Greece |
| 2.5 | Rath Patavdhan (1967), India |
| 2.0 | Isenman and Singer (1977), India |
| 1.3 | Grissa (1973), Tunisia |
| 1.8 | Gavan and Changdrasekara (1979) Sri Lanka |
| 1.6 | Hall (1980), Brazil |
| 1.3 | Stevens (1979) |
| 30.4% of programme | |

(See Bibliography for full Title of Studies.)

Seventy per cent of the PL 480 programme have not received close scrutiny of analysis, and this includes most of the major food aid recipients in the top sixteen countries which have received this form of aid.

### 3.3.3 A Costless Programme?

During the late 1950s and early 1960s, the question of the value and costs of PL 480 to donor and recipient was much discussed and analysed (eg Schultz, 1960). What should the cost of PL 480 be, given that government in the United States had already paid the farmer in order to remove the surplus commodities from the market place? In determining the question of aid emphasis, should the value be charged against the foreign assistance programme as well as against the agricultural support programme? Should these commodities be priced according to the amounts paid to farmers by the Department of Agriculture, Commodity Credit Corporation (CCC costs), or according to the estimated 30% or 40% lower world prices?

The question of the costs and value of PL 480 divides into three parts: the costs to the United States taxpayer through various domestic and foreign programmes; the costs and value to the recipient economy which is country specific; and, finally, the costs to third party interests, ie third-party producers and traders. The effects of PL 480 will be considered in Section 3.4.

The administration and allocation of the costs of PL 480 to the American taxpayer are illustrated in Table III.VIII. While it has been argued that PL 480 is an accommodating secondary policy outcome from primary agricultural support policy (that food aid policy resulted from domestic agricultural policy objectives), it can be suggested that it matters little whether taxpayer contributions are allocated to either foreign aid or domestic policy. The taxpayer has paid

Table III.VIII US Government Farm Related Costs (in million dollars)

| | Foreign Aid | PL480 | Food Stamps | Total All Programmes | TOTAL EXPENDITURE ON PROGRAMMES Feed Grains | Wheat |
|---|---|---|---|---|---|---|
| 1948 | 761.50 | | | 1,147.97 | 37.75 | 428.93 |
| 1949 | 1,492.20 | | | 4,197.55 | 702.97 | 1,176.39 |
| 1950 | 1,326.30 | | | 3,353.20 | 838.95 | 679.39 |
| 1951 | 1,084.50 | | | 323.65 | 203.86 | 185.19 |
| 1952 | 664.20 | | | 1,077.71 | 248.23 | 327.07 |
| 1953 | 345.70 | | | 3,099.16 | 357.62 | 1,065.05 |
| 1954 | 344.70 | | | 3,956.33 | 608.02 | 1,107.12 |
| 1955 | 450.65 | 215.79 | | 3,141.14 | 538.40 | 877.40 |
| 1956 | 354.47 | 708.24 | | 4,130.74 | 750.92 | 716.87 |
| 1957 | 394.33 | 1,482.40 | | 3,926.59 | 717.98 | 915.14 |
| 1958 | 227.40 | 1,205.01 | | 3,793.30 | 920.78 | 1,141.55 |
| 1959 | 209.85 | 1,184.58 | | 5,599.81 | 835.74 | 1,682.08 |
| 1960 | 167.17 | 1,372.74 | | 3,950.35 | 977.58 | 1,369.99 |
| 1961 | 186.03 | 1,709.58 | .66 | 4,860.53 | 1,325.54 | 1,683.16 |
| 1962 | 73.66 | 1,858.91 | 14.29 | 5,445.80 | 988.46 | 1,180.54 |
| 1963 | 13.42 | 2,015.96 | 20.25 | 6,350.54 | 1,249.08 | 1,976.27 |
| 1964 | 23.46 | 1,911.23 | 30.45 | 6,186.69 | 1,408.00 | 1,367.31 |
| 1965 | 25.69 | 1,862.62 | 34.40 | 5,924.65 | 1,157.14 | 1,762.54 |
| 1966 | 42.65 | 1,784.95 | 69.49 | 5,851.22 | 1,277.40 | 2,034.86 |
| 1967 | 37.33 | 1,624.91 | 114.10 | 4,841.98 | 1,173.05 | 1,180.37 |
| 1968 | 17.45 | 1,478.12 | 184.73 | 6,056.28 | 1,495.74 | 1,793.23 |
| 1969 | 11.48 | 1,231.42 | 247.77 | 7,873,49 | 1,999.67 | 1,776.51 |
| 1970 | 12.42 | 1,244.27 | 576.81 | 7,593.15 | 2,073.30 | 1,837.34 |
| 1971 | 55.63 | 1,244.60 | 1,567.77 | 6,942.63 | 1,300.94 | 1,433.03 |
| 1972 | 66.52 | 1,291.29 | 1,909.17 | 9.037.15 | 1,931.14 | 1,823.92 |
| 1973 | 83.78 | 1,138.33 | 2,207.53 | 7,752.06 | 1,393.16 | 944.57 |

Source: Cochrane & Ryan, 1976.

for the total programme (see Cathie, 1982 for treasury costs). Farm related costs fell substantially upon foreign aid and PL 480 from the 1940s through to the 1960s, providing an export growth outlet for American agricultural produce. The meshing of domestic farm policies and foreign assistance policies provides a curious example of 'donor fungibility' - the ability of the donor to switch the budgetary allocations of one programme (domestic policy) to that of another (foreign policy) and continue to maintain a basic objective, in this case, to increase the overseas sales of US agricultural produce.

With the change of US food aid policy in the mid 1960s, additional demand for agricultural produce was created by an internal food aid policy through a food stamp programme. Food stamps are part of a domestic welfare programme, and therefore allocated under domestic welfare headings rather than farm support.

It is to some degree arbitrary whether the costs of agricultural support are allocated to foreign aid, internal welfare or to agricultural support. Without agricutlural support it is unlikely that secondary programmes would exist; this could include a substantial part of stock policy set aside,[1] welfare and food aid policies. To have sold farm produce on the free market at free market prices, ie what the market would bear, would only have defeated primary agricultural price and income support policy. American gross

---

1 'Set aside' is a policy to withdraw productive land from production by paying farmers not to grow produce on the land. The policy has as its purpose the reduction of overall output.

farm income was becoming export-dependent, with 30% of income derived through foreign sales (Cathie, 1985).

In addition to the value of the food component of PL 480 the gross costs of the programme grew (see Table III.VI), and were large in the 1960s. As much as one third of the programme costs were a non-food component which could be attributed directly to PL 480, the remaining two thirds of programme costs can be either attributed to CCC costs or some proportion of them. Schultz suggested that their value should be some 50% of CCC costs. However this is arbitrary, as it depends whether one views PL 480 as an export promotion programme or a full foreign aid programme - arguments can be produced to justify either view. In each case the costs fell upon taxpayers and third party exporters and importers (see below).

The value to recipients depends on the volumes received and whether they were loans or grant-aided PL 480. The food aid received was, however, at a lower cost than the world market price. The value to the recipient could be measured by the difference between the world market price and the terms and payment for the food imports received. By its very nature, food aid is highly tied and the recipient may have preferred untied financial aid to commodity aid but that does not justify the assessment of Schultz that the value of the food imports should be estimated at one third of CCC costs. The value to the recipient must be estimated at the value of the foreign exchange foregone in the purchasing of food imports, had that occurred.

## 3.4 FOOD AID AND THE AGRICULTURAL INTEREST

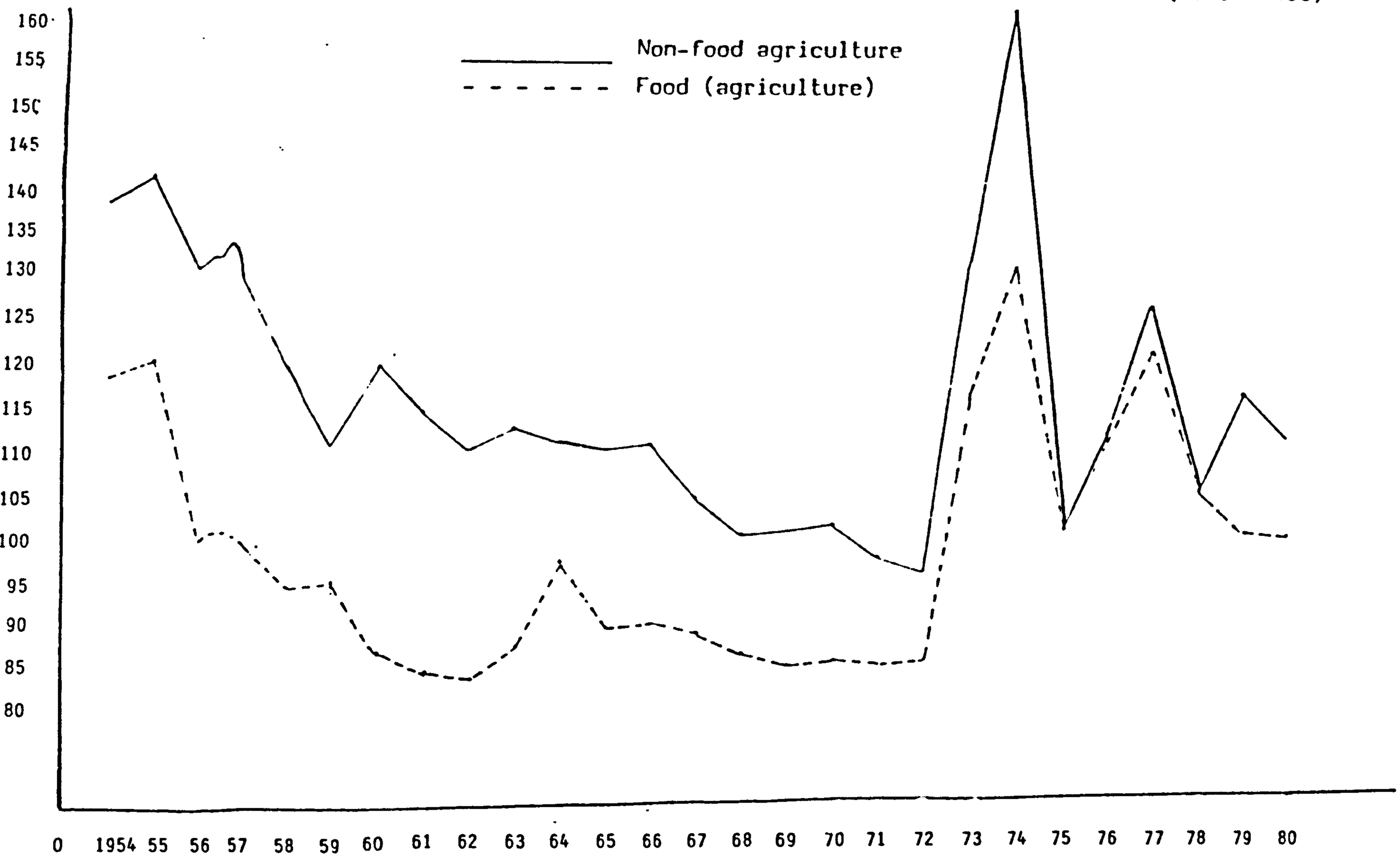
Since the second world war American economic policy, both domestic and foreign, tended to shape international markets and influence economic policies in many developing countries. For example, the economic policies of South Korea were largely determined by United States officials and advisers throughout the 1950s and 1960s. This kind of influence has led observers of events to consider this period of history as one of a 'new imperialism' with many countries being dubbed 'client states of the United States' (eg Magdoff, 1969).

The effects of American domestic farm policy and stock holding policy undoubtedly played a part in the depression of world prices for competing agricultural traders. The existence of two or three years' grain production held in stock, combined with increasing concessional sales of grain, was disadvantageous to competing grain traders.

Figure III.IX(a) shows the price of primary commodities by major component 1954-80. The period from the Korean War commodity price boom, through to 1972, saw a continued pressure on all primary commodity prices. Given that 70% of the world's agricultural exports originate in industrialised countries, and that the United States is the major agricultural trader, the influence of American domestic policy on prices and trade is a major factor in the pressure upon the prices of primary commodities in the world economy. In 1980 the total value of world agricultural exports was $289 billion; of this the developed countries accounted for $207.9 billion, and the developing countries the remaining $81.6 billion. While there are numerous factors which have been

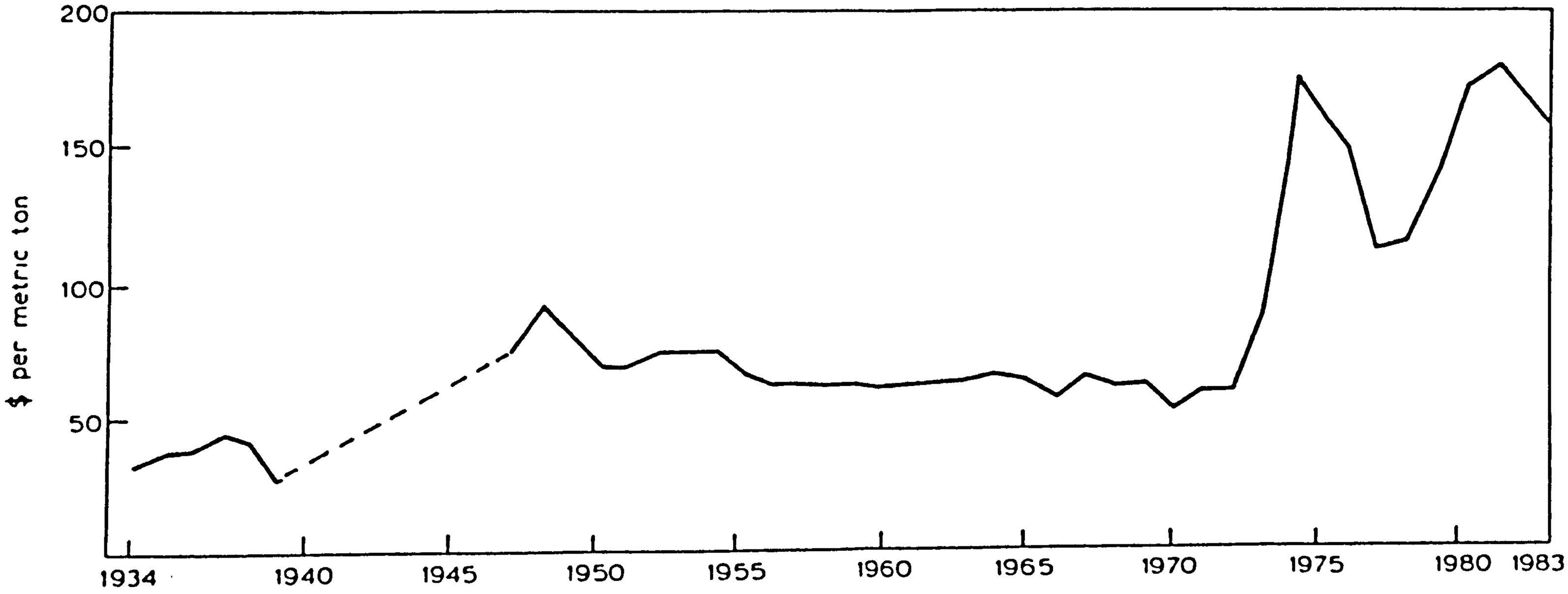
Figure III.IX(a)

Price of Primary Commodities, by Major Component 1954-1980
(1975 = 100)




(Source: UN Department of International Economics & Social Affairs: Monthly Bulletin of Statistics)

Figure III.IX(b) The Price of United States No. 2 (Hard Red Winter, Gulf) 1934-1984




Source: World Wheat Statistics 1984
International Wheat Council
(Cathie, 1985)

attributed as the causal source of price decline in the period 1954-72, American farm policy has had a major effect on depressing agricultural, food and fibre prices (see Figure III.IX(b). This argument does not, however, exclude other explanations and effects on international primary commodity prices or attribute all primary commodity price changes to that of agricultural policy.[1]

The growth of American agricultural production and exports is explained as the dual outcome of government price support and technological progress. Some theorists contend that production would have increased regardless of government support. In short, technological change was the driving force (Benedict and Bauer, 1960). A deus ex machina theory of technological change is no theory at all and, besides, it does not explain the role of government in export promotion.

Table III.X shows that the United States had a 15% share

---

There are at least 22 theories or causes of the great inflation of the 1970s, which include inter alia: monetarist; Keynesian; exchange rate induced; commodity speculation; supply disruptions; exhaustion of resources; leadership crisis in the United States; decline of aid; falling rate of profits for multinationals; rise of cartels, particularly OPEC; declining productivity in industrialised countries; inflation induced by Vietnam war; collapse of Bretton Woods; international monetary causes; downward synchronization of the business cycle; rise of new protectionism; Soviet intervention in the grain market; cattle cycles; fertilizer cycles; abortion in pigs; anchovy catch collapse; ecological; weather; neo-malthusian; and the rise of the newly industralising countries in South East Asia. The theories proposed to explain the changes in the world economy, whether based on the general equilibrium approach or a partial equilibrium approach, have numerous flaws based on unrealistic assumptions that are often not empirically verifiable. They often have no theory of technological progress and cannot accommodate the degree of monopoly. Prices are infrequently accurate because of government policies and restrictions, and because of the existence of trading pricing. Trading pricing can exist where oligopolies control markets, prices are not based on the lowest cost of production but on other criteria such as market share, market growth etc.

of the world grain trade in 1934-38 which rose to 50.6% over a period of 40 years. Figure III.XI shows the growth in the United States' share of that trade from 15% in the 1930s to 70% in 1979/80.

The American farm economy and, indeed, the American economy, have become more and more dependent on farm income support and balance of payments support throughout the post-war period. To increase export market shares the government of the United States has subsidised agricultural export sales through PL 480 and other concessional sales programmes. From Lend-Lease, the Marshall Plan, through PL 480 and up to 'blended credit' sales in the 1980s, successive American governments have sought to promote greater and greater sales and shares of the world agricultural grain trade. In 1948-49, as much as 60% of exports were on a concessional basis and throughout the 1950s and 1960s an average of a third of sales were government-supported. During this period American dominance of grain trade became apparent (Morgan, 1976). Figure III.XII illustrates the importance of concessional sales as a proportion of overall exports. The period 1970-71 saw the reduction of the concessional element in export sales and the conversion of this into 'normal commercial markets'.

### 3.4.1 Turning aid to trade

The early 1970s saw a rapid reduction of stockholding, a major change in food aid policy, and a reduction of volumes of grain for aid. The 1970s was a period where the United States traded-up its concessional markets (weaned in the previous decades) to a $48 billion market and benefit to the balance of payments. The United States Department of Agriculture, in its

Table III.X Pattern of World Grain Trade, Annual Averages for Selected Periods 1934-75, and Annual Data for 1976 and 1977 (net exports (+), net imports (-) in million metric tons).

| Region | 1934-8[a] | 1954-6[a] | 1960-2[b] | 1968-70[b] | 1972-3[b] | 1974-5[b] | 1976[b] | 1977[b] |
|---|---|---|---|---|---|---|---|---|
| USA ) | 5 | 13 | 31 | 34 | 71 | 69 | 76 | 83 |
| Canada) | | 9 | 10 | 11 | 16 | 15 | 17 | 19 |
| Western Europe | -24 | -21 | -26 | -22 | -20 | -19 | -31 | -20 |
| Australia and New Zealand | 3 | 3 | 6 | 9 | 7 | 11 | 12 | 13 |
| Eastern Europe) | 5 | -4 | -7 | -6 | -6 | -8 | -12 | -10 |
| USSR ) | | 2 | 7 | 6 | -13 | -13 | -7 | -16 |
| Africa | 1 | 0 | -4 | -7 | -5 | -6 | -8 | -11 |
| People's Republic) of China ) | 2 | 1 | -5 | -4 | -7 | -4 | -4 | -9 |
| Japan ) | | -4 | -5 | -14 | -19 | -19 | -21 | -23 |
| Other Asia ) | | -2 | -7 | -9 | -18 | -22 | -19 | -32 |
| Latin America | 9 | 2 | 1 | 5 | -3 | -1 | 3 | 0 |
| Total Exports of Countries and regions listed above[c] | 25 | 30 | 55 | 65 | 94 | 95 | 108 | 115 |
| Total world Exports | 33 | 49 | 75 | 100 | 129 | 135 | 146 | 156 |

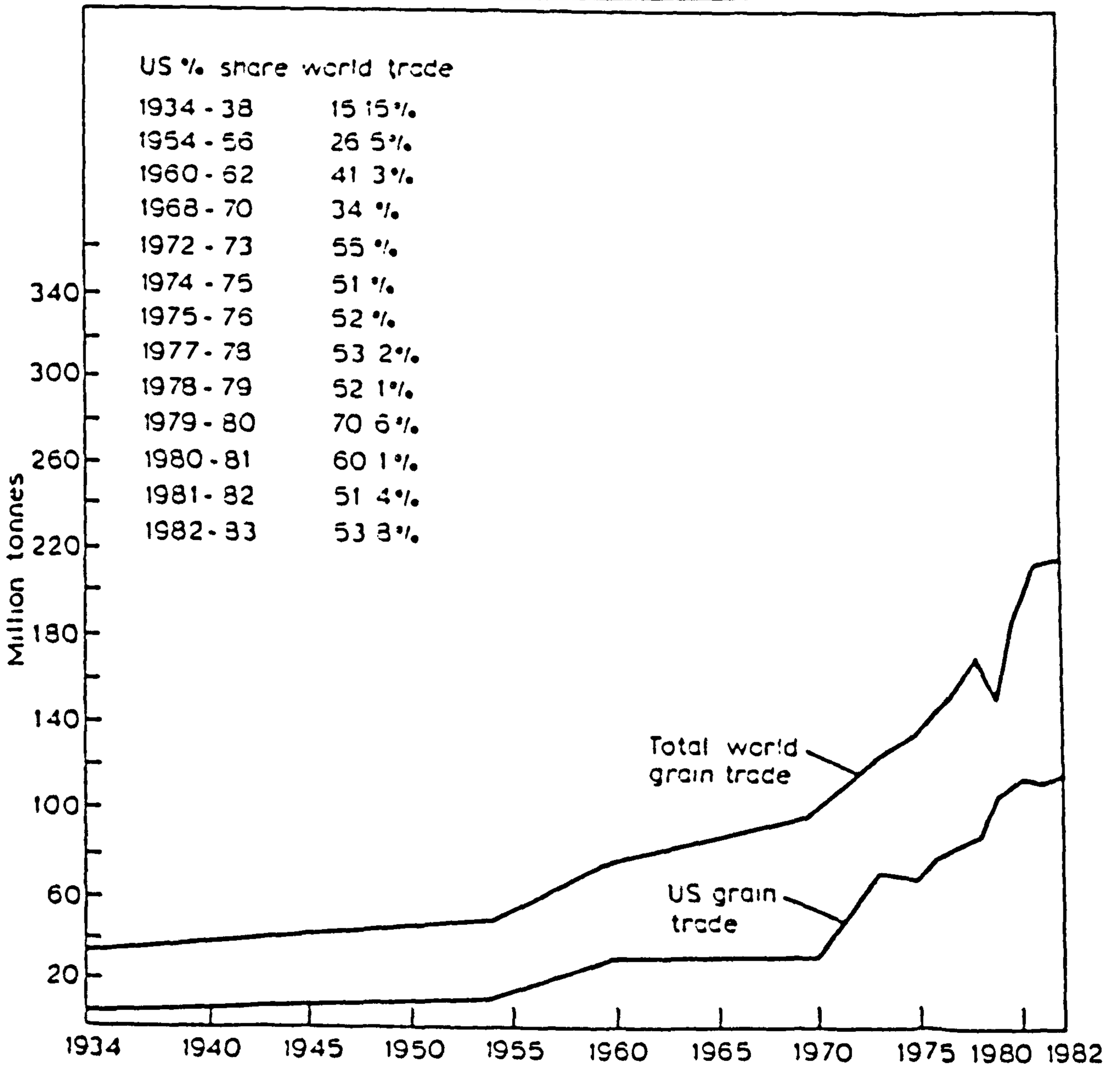
Source: US Department of Agriculture

a Calendar Year

b Year beginning July 1 except 1960-2 and 1968-70 for Argentina, Brazil, Australia, and New Zealand, for which year begins the following December or January.

c Total imports and total exports do not balance because of variations in reporting periods.

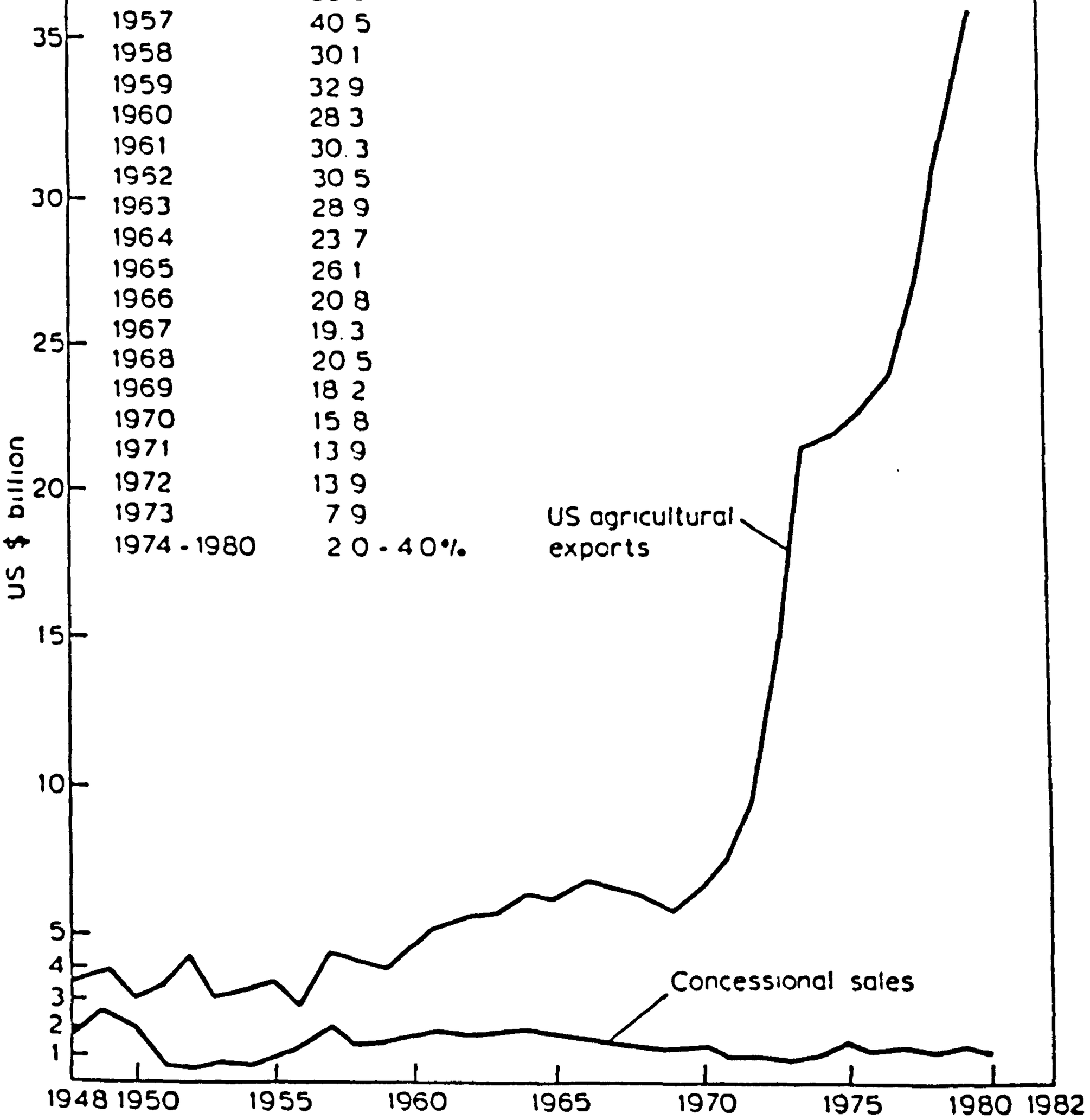
Figure III.XI World Grain Trade 1934-1982 and US Share of the World Grain Trade




Source: Cathie, 1985.

Figure III.XII The Value of United States Agricultural Exports and Concessional Sales 1948-1980

| | Concessional sales as % of exports |
|---|---|
| 1948 | 44 9 |
| 1949 | 59 2 |
| 1950 | 58 1 |
| 1951 | 18 2 |
| 1952 | 11 0 |
| 1953 | 21 0 |
| 1954 | 15 3 |
| 1955 | 26 5 |
| 1956 | 53 6 |
| 1957 | 40 5 |
| 1958 | 30 1 |
| 1959 | 32 9 |
| 1960 | 28 3 |
| 1961 | 30.3 |
| 1962 | 30 5 |
| 1963 | 28 9 |
| 1964 | 23 7 |
| 1965 | 26 1 |
| 1966 | 20 8 |
| 1967 | 19.3 |
| 1968 | 20 5 |
| 1969 | 18 2 |
| 1970 | 15 8 |
| 1971 | 13 9 |
| 1972 | 13 9 |
| 1973 | 7 9 |
| 1974 - 1980 | 20 - 40% |




Source: Calculated from Cochrane and Ryan, 1976 and USDA/FAS, 1980 and Cathie, 1985.

export promotion, refers to target markets as 'billion dollar markets'. The top ten markets for US agricultural products in 1983, with the exception of Canada, were all encouraged and developed by concessional sales and PL 480. The countries in the 'top ten' are: Japan, $5.6 billion; West Germany, $2.2 billion; Netherlands, $2.1 billion; Korea, $1.7 billion; Mexico $1.7 billion; Taiwan £1.3 billion; Spain, $1.3 billion; UK, $1.1 billion; and USSR, $1.0 billion.

Food aid has played a major role in US agricultural market promotion and can be seen as a form of export dumping. The post-war era can be viewed as a classic case where below-cost-of-production sales can be turned into profitable markets, as happened in many countries who benefited from PL 480. These countries were able, on self-sustained development to purchase at commercial prices their food import requirements and South Korea falls into this category. While many countries were able to purchase food on hard commercial terms in the 1970s, when the dearth of food aid arrived, many had to make painful adjustments and find convertible currency for imports.

### 3.4.2 Additionality, Usual Market Requirements, the Principles of Surplus Disposal and Export Dumping

If there were free trade in agricultural commodities, there would be little need for the regulation of the disposal of surplus agricultural commodities. Since protectionist policies in agriculture are the prime reason for surplus production, the abolition of protection would also reduce surplus holdings. However, if there were such a reduction in the volumes of surplus holdings, this would result in a reduction of the size of food aid programmes - as indeed

happened in the 1970s.

It became apparent from the beginning of food aid programmes that there was a real danger of concessional sales of food becoming a means of unfair competition, and a source of inter-country trade dispute. It was considered prudent to have some form of international arrangement to focus agricultural trade practice.

The principles of surplus disposal were formulated in 1954 to safeguard commercial agricultural transactions against displacement by dumping practises and by food aid and concessional sales transactions. The principles were designed as a working procedure to curtail the overt and blatant dumping of surplus agricultural commodities such as those donated through food aid transactions (FAO, 1954, 1972). On the recommendation of the 7th Session of the FAO Conference, the Committee on Commodity Problems (CCP) established a working party to consider the most suitable means of disposing of agricultural surpluses. To this end the Consultative sub-committee on Surplus Disposal (CSD) was given its terms of reference: 'That the disposal of surpluses be made without harmful interference with the normal patterns of production and international trade' (FAO, 1954, Annex A). Consultative machinery in the form of monthly meetings in Washington at the permanently established Committee on Surplus Disposal, was an accepted proposal of the working party. The monthly meetings of the Committee provided a forum where the interests of third party exporting countries could be discussed in advance of disposal agreements between donor and recipient of food aid.

Aspects of surplus disposal are also dealt with by other

FAO bodies: the Conference Council, the Committee on Commodity Problems, the United Nations, and by the contracting parties of the General Agreement on Tariffs and Trade (1955). The Food Aid Convention (FAC) of the International Wheat Agreements (IWA) from 1967 onwards was also concerned with surplus disposal.

The original working party on surplus disposal was composed of eight members: Argentina, Egypt, France, India, the Netherlands, New Zealand, the United Kingdom and the United States of America. The Committee decided that national price support policies were a permanent feature of agricultural trade and outwith their terms of reference, as was the closely linked phenomenon of recurrent stock accumulation. The CSD produced general principles which had three main objectives for formulating disposal programmes. They have subsequently been accepted by over 50 countries (UNCTAD, 1964). The principles were expressed in broad terms and subject to interpretation by the members agreeing to them. The three concepts which make up the principles are: additionality, orderly disposal and voluntary consultation.

**Additionality:** The first principle concerned cases where surplus agricultural commodities were given in such a manner as to increase consumption in poor countries without damaging commercial interests or commercial exports. That is, food aid should be additional to commercial sales. This principle of additionality was held by the committee to be the foremost policy for the absorption of excess supplies of food, and they sought to achieve this in 'courageous policies' for increasing consumption in poor countries by raising general/external

purchasing power. In short, countries would be sold food concessionally and non-convertible currency would be accepted in payment. The principle of additionality aims to benefit both commercial interests and poor countries. However, without specifying this concept further, in practice it is not always possible to say if food aid has been additional. A country may have purchased food (wheat) at world market prices, but because food aid is offered at lower prices this may be preferred. Clearly what constitutes additional agricultural imports in developing countries is not easily determined in the form defined by the CCP. The definition of additionality was to be decided between donor and recipient. Consultation with third party exporters who might have been affected by a food aid agreement was not obligatory. Consequently, the additionality principle only offered a partial safeguard for commercial interests.

The second principle, that of orderly disposal of agricultural stocks, was considered desirable to prevent wide fluctuations in prices and output of producing countries, especially in a downward direction: 'That member governments which have excess stocks of agricultural products should dispose of such products in an orderly manner so as to avoid any undue pressure resulting in sharp falls of prices in world markets, particularly when prices of agricultural products are generally low.'

The third principle, voluntary consultation, considered 'That where surpluses are disposed of under special terms, there should be an undertaking from both importing and exporting countries that such arrangements will be made

without harmful interference with normal patterns of production and international trade.' Voluntary consultation between members agreeing to the principles was considered appropriate to the observation of the objectives embodied in these principles. The CSD had difficulties in deciding an acceptable definition of 'surplus' and resolved to fall back on 'commonsense pointers' in a given market situation (see Cathie, 1982 for further discussion of the definition of 'surplus').

The principles are a guide to surplus disposal and food aid operations. However, in practice the fulfilling of these rules raises difficulties. Difficulties arise when food aid, designed to augment the recipient's economic development, is considered in the light of a case for additional consumption. In its strictest form the additionality principle operates when food aid is used to combat famine or to improve the diets of children. Food aid strictly adhering to the additionality principle is beyond criticism, since programmes would be designed for increasing the food consumption of poor people. However, if distributed through open market sales in the recipient economy, it will not necessarily improve the diets of the poor unless specific measures are taken by governments to increase their purchasing power.

About three quarters of the United States food aid did not satisfy the additionality principle, if this principle is strictly applied, which would include almost all PL 480 title I donations. Professor Farnsworth writes:

'Despite humanitarian claims to the contrary, such wheat is not used to "feed the hungry" in the poorer countries. It

is true that it goes to LDCs. But rather typically it is sold through ordinary market channels to the well to do, who can afford this luxury cereal.' (Farnsworth, 1961).

Whether open market sales of food aid have caused the displacement of commercial sales or indigenous production of staple foodstuffs, is an empirical question requiring a country-by-country analysis assessing each programme on its purpose, results and impact.

Concessional sales of surplus commodities contain an element of both commercial promotion and aid, indeed these were two of the major goals of PL 480. Additionality as a principle provided a reminder to participants in food aid transactions of the potential displacement effects at both local and international levels. But as a means of measuring these potential effects, additionality is very imprecise.

The weakness of the additionality principle as a practical measure to safeguard commercial trade against displacement by food aid transactions was recognised by the CSD. It was observed that a 'grey area' was being created between commercial and concessional trade which made the additionality principle even more difficult to apply. Two reasons for the emergence of these grey areas can be given. First, adjustments were being made in the US PL 480 programme, and the concessional element was being replaced by a more commercial element - the terms of PL 480 were becoming harder. Second, surplus accumulations in countries such as the EEC were bringing about a liberalisation of credit terms in transactions which were otherwise commercial (FAO, 1963). An example of this would be US and EEC sales of agricultural surplus at concessional rates.

In response to the complexity of extra-commercial transactions and special deals, the CSD recommended the introduction of the Usual Marketing Requirements (UMRs) to add more precision and practical definition to its principles. UMRs are the amounts of a commodity which the food aid agreement requires the recipient nation to import on a commercial basis. The CSD report of 1968 recognised that additionality was very difficult to express in practical terms because it was almost impossible to determine how much of a particular commodity a country would have imported in the absence of a transaction on special terms (FAO, 1968). UMRs were introduced into the PL 480 programme to safeguard its own commercial exports and it is normally based on the country's historical and commercial imports of the commodity. The decision on UMRs is made between donor and recipient with third party exporters being consulted. Under UMRs, recipient countries must continue importing from their normal commercial sources the same kind of commodities that are included in an agreement. The specified quantity to be purchased was normally based on the quantity actually imported commercially, subject to the modification of the country in question having the ability to import. Commercial imports could include commodities supplied under barter or short-term credit sales (USDA, 1970).

If UMRs are tied to the donor, third party exporting countries may in fact be worse off than if no UMRs were used. UMRs represent a formal recognition of tied sales and, as such, did not necessarily benefit third party competitors. Similarly, the practice of 'tied offsets' requires aid

recipients to match excess imports with additional purchases. Offsets, like UMRs, did not safeguard commercial competitors.[1] The growth of concessional sales and the enlargement of its commercial share of the grain market by the United States coincided with the development and attempted refinement of the principles of surplus disposal. American agricultural export market growth was not impeded by the principles of surplus disposal but judging from complaints from Argentina, Canada and Australia to the sub-committee, they felt that the United States, while not necessarily breaking the principles, was engaged in unfair trade practises to their disadvantage. The use of concessional sales and food aid played a major part in US agricultural market expansion and the principles of surplus disposal provided a forum for competitor complaint. But because of the imprecision and unclear definition of surplus and trading concessions, the principles proved ineffective as a means of introducing free trade into agriculture and therefore the possibility of fair competition. It is possible to define trading, food aid and concessional transactions as a form of export dumping and under such definition much of the 1950s and 1960s agricultural trade practice can be seen as a form of export dumping (see Dovring, 1968; Davis, 1960).

## 3.5 LOCAL CURRENCY PROCEEDS AND COUNTERPART FUNDS

The pre-1971 concessional sales of PL 480 produced local currency proceeds or counterpart funds in recipient countries.

1. A wide variety of 'countertrade' measures have been introduced in the 1980s. All countertrade measures are effectively designed to exclude third party competitors and undermine competition.

These local currency proceeds were to be used to assist US Government expenditure within the recipient country and to be loaned or granted to the recipient for use in that country for agreed development projects. The PL 480 procedure of making a food aid agreement with the recipient government before having reached agreement on which development priorities counterpart funds could be used for, actually caused friction between a number of recipients and the US authorities. In the early 1960s the USA made three- to five-year food aid agreements with large recipients such as India, Pakistan and Brazil. The 1966 emphasis on food-for-peace, that developing countries should demonstrate 'efforts of self-help', was taken by some food aid recipients as an unwarranted leverage by the US Government on their development priorities. The 'short-tether policy' of 1965-66 was an attempt by the US Government to influence and determine Indian development priorites, which only resulted in a bitterness over food donations. (Short-tether also applied to the policies of US food aid in Egypt (Kalecki, 1976.)) President Johnson attempted to apply pressure on India by authorising food aid on a month-by-month basis rather than on the three- to five-year agreement. Short tether resulted in 'short shrift' by the Indian Government and the eventual cessation of US food aid to that country.

During the 1960s, counterpart funds accumulated in a number of recipient countries, since they could not be or were not used to finance development programmes or projects. On receipt of title I aid the recipient government paid for this aid and the proceeds were usually placed in a special food aid account in its central bank. The account is held in the name

of the donor, who may either loan these funds or grant part or all of them to the recipient government for particular development projects or programmes. If the funds were not loaned or granted to the recipient government they could be borrowed by the central bank who would have paid interest for the loan of these funds. The funds were loaned in some countries to a particular project or programme and interest was paid on that loan. In the case of South Korea the counterpart funds were invariably granted to the government underpinning its development programmes and projects. India, by way of contrast, did not have these funds granted and over the years of the PL 480 programme these increased in size. Counterpart funds began to appear as an economic and political problem for US aid policy.

Few governments in fact would be willing to borrow their own currency and pay interest when the central bank could easily print additional money as required (McClellan, 1964). Counterpart funds were becoming an embarrassment to the US and provided a highly visible indication of economic imperialism. There was a growing feeling that these proceeds were never likely to be spent or used by the US authorities. Counterpart funds were also beginning to be suspected of adding to the growing debt problem of recipient economies (Wightman, 1968).

### 3.5.1 The Mason Report (1960)

Edward S Mason was empowered by the State Department to review the counterpart fund problem. The Mason Report examined the size, trend and distribution of counterpart funds (Mason, 1960). Mason reported that the counterpart fund problem was growing and some $3.5 billion was already accumulated and

Table III.XIII

Local Currency Indebtedness to the US in Terms of the Debtor's GNP - 1958

| | GNP in US $ millions | Cash balance and disbursed loans repayable 1959 | % of GNP |
|---|---|---|---|
| Greece | 2,900 | 80 | 2.8 |
| India | 29,000 | 711 | 2.5 |
| Israel | 1,900 | 177 | 9.3 |
| Pakistan | 5,600 | 235 | 4.2 |
| Turkey | 12,000 | 107 | 1.0 |
| Burma | 1,100 | 27 | 2.4 |
| Vietnam | 2,000 | 62 | 3.0 |
| Indonesia | 6,000 | 94 | 1.5 |
| Taiwan | 1,000 | 100 | 10.00 |
| Spain | 11,100 | 300 | 2.7 |
| Yugoslavia | 3,400 | 396 | 11.6 |

Source: Mason, 1960.

unlikely to be used. Counterpart funds were a particular problem in Greece, India, Indonesia, Israel, Pakistan, Spain and Yugoslavia which accounted for over 60% of funds held in local currencies. In other countries he felt that the counterpart fund problem was manageable. During the period of the Marshall Plan counterpart funds had been used for 'financial reform', 'currency stabilisation' or the 'retiring of the national debt'. However, PL 480 funds were not allowed to be used for those purposes and therefore accumulated. In many respects the use of food aid under the Marshall Plan was far less restrictive than the use under the PL 480 regime, and particularly in regard to local currency proceeds, the United States wished to maintain far more 'control' over developing country recipients than would have been tolerated in Europe in the 1940s. Local currency indebtedness to the US in terms of the debtor's GNP in ten countries in 1958 is shown in Table III.XIII.

The Mason Report recommended that counterpart funds be phased out because of economic and political reasons. Economically the US would be unable to use these funds and politically this would provide a continuing source of trouble for US foreign policy. The Mason Report was accepted, and local currency proceeds began to be phased out during the 1960s, finally becoming extinct in the 1970s (see Figure III.V). The US Government eventually returned the large accumulations of counterpart funds for 'use' in recipient countries' development plans and programmes. The implications of local currency proceeds on development plans and programmes will be discussed in the next chapter.

### 3.5.2 Cooley Loans (1957-72)

Because foreign economic assistance unavoidably strengthens the public sector of recipient countries economies, it was argued that American aid policy should strengthen the private sector. Harold Cooley successfully amended Section 104(e) of Title I PL 480 in 1957 to earmark 25% of the local currency from each food aid transaction for loans to private business firms. Cooley loans were available to local entrepreneurs and US business for (i) US firms - including their branches, affiliates and subsidiaries - for business development, trade expansion, and (ii) domestic or foreign firms for the establishment of foreign facilities for aiding in the utilisation, distribution, or otherwise increasing the consumption of US agricultural products. These loans were repaid in local currency and bore interest at very low rates, typically less than 2%. The programme was administered by USAID (see USDA Report No 142, 1977). Some 406 loans were made in over thirty countries to the value equivalent of half a billion dollars (AID, 1982). Cooley loans were a source of cheap local capital for US agricultural business and multinationals who received 90% of these loans (Wallerstein, 1980).

## 3.6 THE BURDEN SHARING OF FOOD AID: THE EMERGENCE OF EEC FOOD AID POLICY, MULTILATERAL FOOD AID POLICY AND THE US INTEREST

During the 1950s and 1960s, US food aid was almost the only food aid policy. However, the changes in agricultural aid and trade policy in the late 1960s brought about the relative decline of US food aid and the emergence of other donors, both

multilateral and bilateral. The United States decided, after having long resisted the idea of a multilateral food aid programme, to support a three-year experimental World Food Programme (see Cathie, 1982). During the 1960s the United States began to complain to other OECD aid donors of an unfair burden of the costs of food aid and world food security policies.

### 3.6.1 The Food Aid Policy of the European Economic Community

In 1968, the EEC Commission began the community food aid policy, ostensibly as a concession to complaints from the United States on burden sharing. The International Wheat Agreement 1966/67 introduced as part of its trading arrangements the Food Aid Convention, which has subsequently been included in other international wheat agreements. The purpose of this convention is to provide a means whereby wheat producers can commit volumes of grain as food aid. Food aid conventions declare an overall target of cereals to be given as food aid. In the first convention the target was 10 million metric tons. During the 1970s, with sharp price rises and a reduction in stockholdings, the target figures for food aid donations under the convention(s) were not in fact reached. Members of the IWA are primarily concerned with increasing their commercial markets and sales without resorting to cut-throat competition.

European food aid policy emerged as a response to the 'burden sharing' problem, and to the growing surplus agricultural production arising from the common agricultural policy. Like the earlier US food aid programme being an

outcome of agricultural support, the EEC food aid programme was an outcome of European agricultural protection.

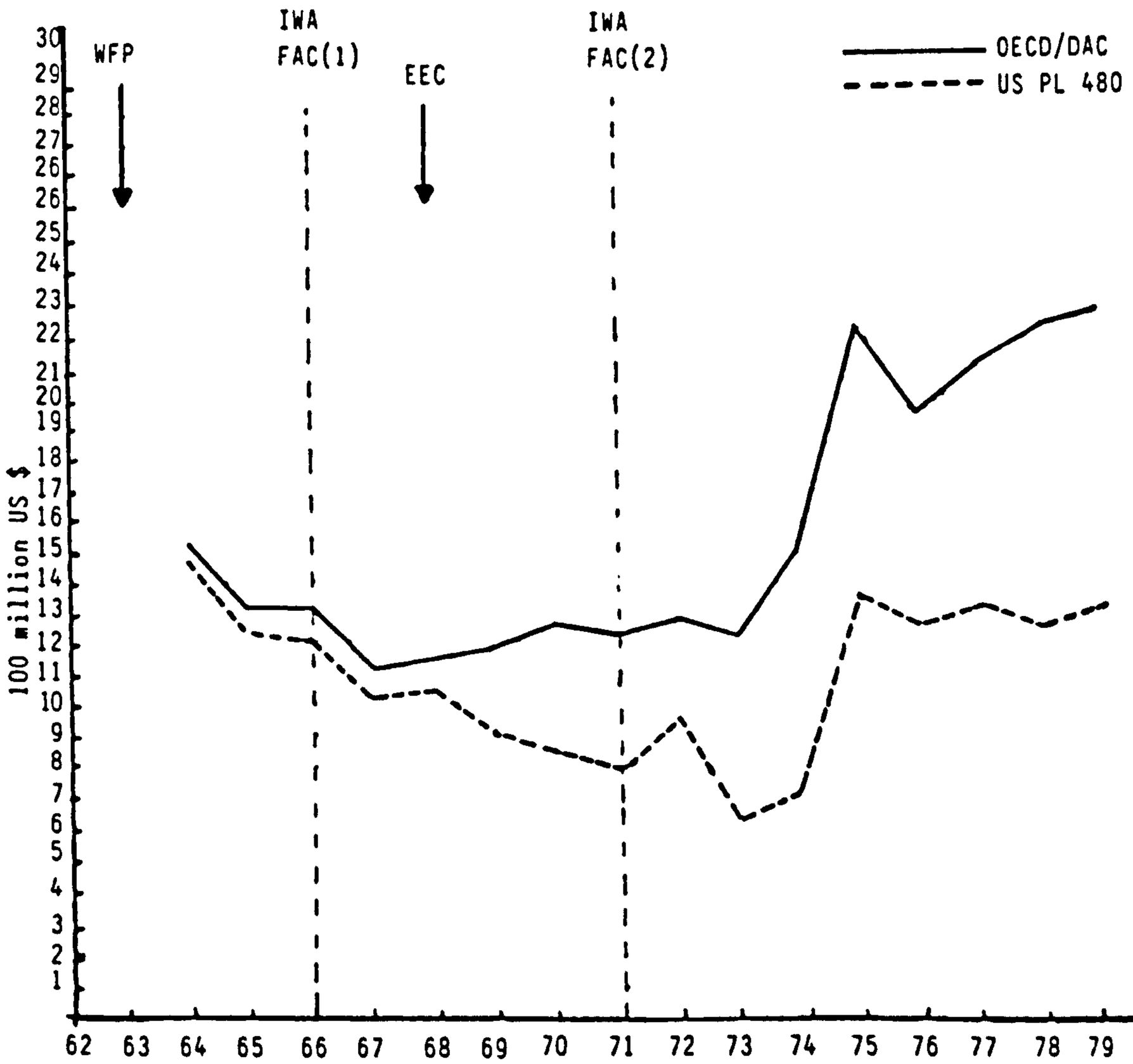
Figure III.XIV and DAC Table show the emergence and growth of bilateral and multilateral food programmes other than that of the United States. Throughout the 1970s, both the EEC and the WFP food aid policies have grown in importance, while the United States has contented itself with slightly more than half all food aid given.

The EEC has three criteria for its food aid policy:

1. Development action, to contribute directly to the economic development of the recipient countries, particularly those countries with an adverse balance of payments.
2. Nutritional action, to raise the nutritional level of peoples of the Third World, favouring donations to countries where the per capita income is below $300.
3. Emergency action, to assist countries which have suffered from natural disasters, hostilities, the influx of refugees, or resettlement problems (EEC, 1979).

These criteria are very vague and open-ended which allows the Commission to donate to a very large number of developing countries, and to all the African, Caribbean and Pacific (ACP) countries in the Lomé Convention(s) (Cathie, 1982). The EEC Commission has attempted to develop its food aid policy since 1968 in the face of opposition from national governments in Europe (see, for example, Food Policy - Special Number on Food Aid 1983 for further discussion of the problems of European Food Aid Policy (Clay, 1983); and the Political Economy of Food Aid for a comparison of EEC/USA and Multilateral food aid programmes (Cathie, 1982)).

Figure III.XIV Total Bilateral and Multilateral Food Aid from DAC Countries, 1961-




Source: Development Cooperation 1980, DAC/OECD

Total Official Assistance (ODA) and Food Aid by Member Countries of the OECD Development Assistance Committee (DAC)

| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|---|---|
| | million $ at current prices | | | | | | | | | |
| I | | | | | | | | | | |
| Total ODA | 8,538 | 9,351 | 11,302 | 13,587 | 13,947 | 15,745 | 19,995 | 22,419 | 26,776 | 25,635 |
| Total food aid[1] | 1,351 | 1,131 | 1,522 | 2,130 | 1,797 | 1,913 | 2,048 | 2,291 | 2,619 | 2,935 |
| of which: | | | | | | | | | | |
| a) multilateral[2] | 175 | 183 | 242 | 358 | 273 | 369 | 424 | 481 | 649 | 629 |
| b) bilateral[3] | 1,176 | 948 | 1,280 | 1,773 | 1,524 | 1,544 | 1,624 | 1,810 | 1,970 | 2,306 |
| grants | 659 | 528 | 819 | 968 | 922 | 844 | 972 | 975 | 1,074 | 1,308 |
| loans | 517 | 420 | 461 | 805 | 602 | 700 | 652 | 835 | 896 | 998 |
| | | | | per cent | | | | | | |
| Food aid as % of total ODA | 15.8 | 12.1 | 13.5 | 15.7 | 12.9 | 12.1 | 10.2 | 10.2 | 9.8 | 11.4 |
| Multilateral as % of total food aid | 12.9 | 16.2 | 15.9 | 16.8 | 15.2 | 19.3 | 20.7 | 21.0 | 24.8 | 21.4 |
| Grants as % of total bilateral food aid | 56.0 | 55.7 | 67.8 | 54.6 | 60.5 | 54.7 | 59.8 | 53.9 | 54.5 | 56.7 |
| Multilateral plus bilateral grants as % of total food aid | 61.7 | 62.9 | 69.7 | 62.2 | 66.5 | 63.4 | 68.2 | 63.5 | 65.8 | 66.0 |
| | million $ at constant 1981 prices[4] | | | | | | | | | |
| II | | | | | | | | | | |
| Total ODA % | 17,387 | 18,087 | 18,743 | 20.279 | 20,480 | 22,397 | 24,444 | 24,003 | 26,123 | 25,635 |
| Total food aid | 3,446 | 1,611 | 1,495 | 2,409 | 2,396 | 3,131 | 2,790 | 2,618 | 2,648 | 2,935 |
| | | | | percent | | | | | | |
| Food aid as % of total ODA | 19.8 | 8.9 | 8.0 | 11.9 | 11.7 | 14.0 | 11.4 | 10.9 | 10.1 | 11.4 |

1 Net disbursements; includes contributions by DAC members to multilateral agencies, but not actual amounts disbursed by these agencies.
2 Includes contributions by the EEC channelled through multilateral agencies, but excludes contributions channelled by member countries through the EEC to recipient countries.
3 Includes bilateral grants by the EEC.
4 (a) The total ODA deflator is calculated on the basis of prices of goods exported in the framework of aid to developing countries.
(b) the food aid deflator is based on the price of food and shipped to developing countries.

Source: Review of Food Aid Policies and Programmes. Table 1 WFP CFA, 15, 5, April 1983.

Multilateral food aid policy emerged in 1963 after nearly twenty years and numerous attempts to establish such a programme. The United States, up until the 1960s, had opposed the idea of a multilateral agency essentially on the grounds that it would conflict with American trading and other interests.[1]

CONCLUSIONS

For four decades the US food aid policy has been a major influence, first as 'international food aid policy' in the 1940s, 1950s and 1960s, and then as a major food aid donor in the 1970s and 1980s. American food aid policy has played a considerable part in the development of agricultural markets for US agricultural business, as well as having been donated to a large number of countries. During the period of development of US food aid policy, each year saw a change in emphasis of the programme as it adjusted to domestic problems such as taxpayer costs, or overseas problems such as counterpart funds, burden-sharing and changing commercial opportunities for agricultural sales.

PL 480 has been concentrated in relatively few countries and the overwhelming type of donation has been title I concessional sales. The effects of PL 480 on agricultural trade and competition were such that it promoted American national agricultural interest, and consequently has proved of

---

1 I have discussed the development of the WFP and many of the issues involved elsewnere in the Political Economy of Food Aid, and would refer the reader to that source for a detailed account of the issues and policies (Cathie, 1982).

benefit to the American national economic interest. Food aid policy and agricultural protection are intimately related and, without agricultural protection, food aid would not have existed in the form and manner that it did. The PL 480 programme uniquely provided a 'marriage of convenience' between American agricultural surplus and poor developing-country needs. The way in which food aid policies and programmes affected recipient economies, and the theories and explanations of its contribution and effects on recipients will be given detailed consideration in the following chapter.

# CHAPTER FOUR

## FOOD AID AND DEVELOPMENT

'The use of surplus commodities to improve consumer welfare directly through welfare programmes or indirectly through development of the general economy is limited only by the imagination of policy and administrative officials who design and direct programmes.'

(Rogers, Mayer and Heady, 1972, p 35.)

### 4.1 THE ROLE AND CONTRIBUTION OF FOOD AID TO ECONOMIC AND SOCIAL DEVELOPMENT: WHAT ARE THE ISSUES?

Food, as a form of development assistance, arouses great controversy among academics, governments and in international forums. Over the years considerable literature has been produced on the subject and related matters, some extolling its virtues and others condemning it as a vice (see Singer, 1978; Cathie, 1982). As food aid policy developed and changed over time, so has the emphasis on what constitutes the major policy problems and issues associated with this form of aid. The purpose of this chapter is to give consideration to the more prominent issues and policy problems with a view to assessing the relative merits and demerits associated with the arguments which surround food aid policy. It has been observed by a number of writers on food aid that the analysis of food

aid policy problems and issues have particular problems which, in part, stem from the nature of the subject specialism and from the wide variety of partial analysis and opinion on the subject (Cathie, 1982; Schuh, 1983). The role and benefits, as well as the possible detrimental effects of food aid on a recipient economy, can only be assessed by reference to the change and development of that economy over the period of receipt of the aid. Generalisations on the benefits and costs of all food aid to recipients are of limited value because of the differences in food aid programme size, in duration of the donations and the particular way in which the aid was put to use in the receiving economy. Professor Singer argues that food aid policy analysis should be country-specific. In addition to the problem of assessing individual country programmes the question of which criteria is to be used in the assessment of this unique form of aid poses a number of difficult problems and questions.

The issues which have concerned food aid specialists have focused on a number of distinct areas, namely its contribution to employment, investment, economic growth, income distribution and price policy. Because food is so basic to life and society, having an almost all pervasive influence, food as aid became difficult to disentangle in its effects from other economic and social phenomena and forces engaged in the development process. The attribution of food aid as the major benefit to a recipient, in the absence of famine, supply disruptions or natural disaster becomes subject to the interpretation of often conflicting economic and social forces. The effects of food aid become swamped by those of

other forces and influences on the recipient economy. The manner in which food aid is distributed to recipient countries, that is through multilateral or bilateral channels, as well as the institutions which organise and administer food aid programmes, are important factors in considering the nature and effects of food aid policies. The framework of rules and principles and policies which were set by factors other than the immediate requirement of food aid programmes themselves, are often a key constituent in the understanding of development of food aid issues. Institutional factors, as well as political and ideological forces, have played a major role in the evolution of thinking which underpins food aid policy and its allied problems. The existence of food aid policy itself has been the result of secondary surplus creating agricultural policies based on agricultural protection. The growth of food aid programmes, the nature of the commodity composition as well as the volumes of aid available have largely been determined by changes in policies other than those of food aid itself. Food aid availability has not been developed on the basis of hunger and need in the world but rather from donor expediency. The issues which have concerned food aid specialists are therefore often determined by political factors in the first instance and those factors are constraints on the scope of food aid policy.

The evolution of the United States bilateral programme provides a good illustration of the way in which the major food aid programme and policy were determined by commercial and political factors. Food aid was a 'marriage of convenience' not of abundance and hunger but of excess

agricultural capacity and foreign policy. Food aid did provide support for economies 'friendly to the United States', and this factor overruled all other factors when determining who would receive this aid and in what amount. To this extent the critics of food aid have an argument that it is political in its origin and that it is allocated on the consideration of foreign policy objectives. Economists on the right and on the left often agree that food aid is an undesirable form of aid, and for similar reasons. The economists on the right argue that food aid encourages recipients to neglect sectors of their economy, namely agriculture, and those on the left argue that food aid causes a food dependency on imports from the West, which is seen as undesirable (eg Schultz, 1960; S George, 1977; Sen, 1983). There are of course as many variants of the left and right arguments against food aid as there are against aid in general. However much food aid has encouraged the power of recipient governments or drawn recipients into the world economy, it is of considerable importance that the nature of the impact of food aid be as fully as possible evaluated and assessed. The fact that food aid is given for political purposes need not detract from it making a positive contribution to the economic and social development of the recipient.

The concessional sales element of food aid programmes throughout the 1950s and 1960s meant that, for that period, food aid was given on the basis of a loan rather than a grant. The provision of food aid on a grant basis became more prominent in the 1970s as the nature of bilateral and multilateral institutions changed in response to the

underlying change in the surplus situation. The period of food aid scarcity saw the ratio of the grant element in food aid programmes increase as the loan element declined and overall volumes of food aid decreased (see Chapter Three). The 1970s saw the growth of multilateral food aid and EEC food aid both of which are grants programmes. Although the substantial part of PL 480 was that of a loan food aid programme, many countries in fact received the food aid as a grant and the American programme adjusted to particular country situations as changing economic circumstances required or dictated. As previously mentioned, South Korea received nearly all its aid in the form of a grant, and in the case of India, the counterpart funds were written off by the US authorities. To what extent a country has had food aid in the form of a 'grant' or a 'loan' can only really be determined by a detailed examination of the terms of the food aid agreement with that country and the subsequent modification by the donor of these terms.

## 4.2 THE MACRO-ECONOMIC CONTRIBUTION OF FOOD AID

A first distinction between bilateral and multilateral food aid programmes can be made by reference to the apparent loan or grant element in a particular programme; multilateral loan programmes being predominantly grant-aided and bilateral loan programmes containing a grant element. However, another distinction can be made that bilateral programmes have focused on predominantly macro-economic aspects in the giving of food aid and in the particular nature of their food aid policies and programmes. Multilateral aid has been concerned primarily with project aid, or the micro-economic or sectoral aspects in aid programmes and policies. It has been argued that the

distinction between the programme approach and the project approach is somewhat artificial since all food aid programmes contain an element of either sales or direct distribution to beneficiaries (Singer, 1983). While there is truth in this observation there is also an element of 'horse and chicken pie', particularly in the period of the first two decades of food aid policy. The 'horse' of course being concessional sales and the 'chicken' direct distribution. While India may represent an element of the merging of elements of the programme and the project approach through its 'fair price shops', this example would only account for one fifth of total food aid use, and on a per caput basis it can be argued that this programme was not very significant (see Table III.VII).

Bilateral programmes, given the growth of unused counterpart funds, were less concerned with specific impacts on sectors of the recipient economy, as multilateral programmes (under the constraint of the principles of surplus disposal) were concerned not to interfere with international commercial interests or displace local production of foodstuffs through disincentive effects. Multilateral policy was also concerned to contribute unequivocally to the development of the recipient in a demonstrative manner. A country-by-country analysis would be required to demonstrate whether programme food aid tends to be turned into project food aid. Indeed, the first ten years of multilateral project aid did not manage to turn its food aid into demonstrative development, at least by criteria that are unequivocal (Cathie, 1982). While the case for food aid in general is unlikely to be conclusively demonstrated from a one-country experience, given the nature

of the controversy surrounding the subject, the mechanisms and impacts should be assessed particularly in those countries where food aid has been given in substantial volumes and over many years.

### 4.2.1 Programme Aid

The programme approach to food aid has been the major means of donating United States agricultural surplus. This entailed the provision of concessional food imports to the recipient government for open market sale in the recipient economy. Concessional sales policy was essentially determined by the trading consideration of market expansion, development and growth for United States produce as discussed in Chapter Three. Programme food aid policies were therefore firmly placed within the framework of a rule designed from the point of view of donor interest. This rule, usual market requirements (UMRs), was to ensure that commercial interests in the donor country would not be disadvantaged by aid policy and to a lesser extent third party trading interests were taken into consideration. However, the interests of recipient country traders in food aid products were not given equal treatment. PL 480 sales agreements had the 'same as clause', or 'like commodities' clause, which placed an export limitation on recipients in commodities that the US authorities defined as approximately equivalent to the commodities given as aid. This also included processed products. For example, Pakistan, a recipient receiving concessional wheat, was not permitted to export its own produced wheat under PL 480 agreements.

Programme food aid was therefore to be used within the

recipient economy as a net addition to the food stock. The extent to which this type of aid was a net addition to the recipient depended on the nature of the food aid agreement with the United States. In many of the food aid arrangements the distinction between commercial sales and aid sales was not at all clear (Cathie, 1982). Indeed, UMRs were originally introduced in an attempt to clarify the nebulous concept of additionality, and to ensure that food aid was not displacing international commercial interests. It has been suggested by one study that pure additionality can only be achieved if commercial imports are reduced by the amount of food aid given in a sales agreement (Srivastava et al., 1975).

The extent to which programme food aid is additional is therefore subject to some doubt which could, in part, be allayed by country-specific analaysis. The conclusion that all or part of all food aid programmes were additional is unlikely to be confirmed by country analysis. Allowances for displacement of commercial trade, either internal or external, would need to be made in an evaluation of the effects of programme food aid to a developing economy. However, there are many difficulties involved in the assessment of programme food aid donations.

Under the programme approach to food donations, the benefits that it can offer to a developing country may be estimated on a macro-level - the foreign exchange saved by these food donations can be credited to the budget of the recipient government. The economic benefits of programme food aid to the recipient economy may be assessed over time by observing the change in economic indices. The contribution of

food aid imports may be measured and assessed by changes in inter alia:

1. the food price index;
2. the changes in indices of internal agricultural production and prices;
3. the change in the level of food imports;
4. the development plan 'counterpart' expenditure;
5. the employment created by counterpart financed projects.

However, food aid effects where volumes have been large and continuous over many years will have implications for a wide variety of indices for change in an economy. This would include the role of counterpart funds, particularly their effects on inflation and the budgetary contribution to government expenditures, import savings, balance of payments effects and foreign exchange savings, pricing policy resulting from stock and reserve food policy, employment and wages effects, investment and savings and, through these effects, on income distribution and on the growth of the recipient economy. Where food aid programmes are not a major part of the aid budget of a recipient it is unnecessary to become involved in an overly elaborate analysis, and the role and contribution of food aid can be assessed on a more partial basis.

The diversion of aid funds by the developing country's government to ends other than those intended by the donor, is known as 'switching' or 'fungibility'. Since food aid is highly tied it would appear that the possibility of a diversion of food aid to purposes other than those intended by the donor is remote. Nevertheless, the counterpart funds which arise from open market sales of programme food aid can be

switched by the recipient government. In India, for example, counterpart funds accumulated because the PL 480 authorities and the Indian government could not agree on a suitable use for these. In 1974 counterpart funds, together with other US aid loans, had reached $3 billion and the United States then decided to cancel these debts by giving them to the Indian Government for use in its development plan. The Indian Government was then free to use these funds as they wished. However, the question arose, since these funds had accumulated from food aid sales in the past,would these funds be able to command real resources without causing inflation? If the food aid has been used purely for consumption in the past, then the counterpart funds could not be regarded as being capable of commanding real resources without causing inflation. It might be suggested that the US authorities have allowed switching by default, since the counterpart funds cannot be repaid or spent by the United States. Fungibility does provide problems when assessing the impact of food aid, although it appears that this should be less so than untied financial aid.

There have been a number of country studies of programme food aid impacts on recipient countries - Ginor (1963) on Israel, Aktan et al. (1965) on Turkey, Coutsoumaris et al. (1965) on Greece, Rath and Patvardan (1967) on India, Singer and Isenman (1977) on India, Grissa (1973) on Tunisia, Gavan and Changdrasekara (1979) on Sri Lanka, Hall (1980) on Brazil. Each of these studies has analysed, as far as it was possible to do so, macro-economic aspects of PL 480 impacts on respective recipient economies. None of these studies lead to the conclusion that food aid has unequivocally benefited the

recipients. This is partly due to the inability to identify particular relationships and certainly to trace all the benefits and costs involved with food aid programmes. To some degree food prices and supplies affect all aspects of the macro-economy and as such 'everything' is affected. The possibility of becoming overwhelmed by an infinite regress of factors becomes a serious problem in the analysis of programme aid. While on balance the studies of Ginor, Aktan and Coutsoumaris felt that PL 480 provided a benefit to their respective economies, the ability to demonstrate this clearly through mechanisms and causal links, and the way in which these benefits translated into the respective economies, was not shown. The other studies are more partial, having been concerned with demonstrating that food aid has, or has not, had debilitating price effects, particularly on the indigenous food sector.

The Iowa study by Srivastava et al. (1975) observes that the bulk of studies on food aid policies and programmes lie between studies of a theoretical nature - which analyse aggregative or macro-economic impacts (ie Ezekiel, 1955), and empirical analyses - which tend to summarise quantities and values of commodities placing them in perspective with related consumption and production data. Srivastava et al. argue that most studies of food aid policy and programmes develop theoretical concepts based on bits of empirical data from one country (or a few countries) to test hypotheses based on established theory. Most studies have been concerned with either the commodity impact or the local currency impact. There are of course subsets of analysis of these topics which

have resulted in controversies over inter alia consumption (wages in kind, minimum diets, allocation of marginal income, shifts in consumption patterns); prices (including the control over prices and price responsiveness of producers, price fluctuations); production (competition with domestic producers, resource allocation, import substitution and productivity of capital); and trade issues (potential markets, balance of payments). Aspects of topics closely related such as levels of investment, employment, income and inflation, tax revenue and debt, have all been given a consideration in food aid studies.

The question arises as to whether it is possible to have a 'well-defined theoretical structure' before attempting an analysis of a major food aid programme on a recipient economy (Deaton, B J, 1983). There is the possibility that the search for such a structure is likely to result in a 'wild goose chase', as Professor Singer has suggested (personal communication, 1984). While food aid can or will have positive and negative effects on the recipient economy which complicate analysis, and has resulted in many studies necessarily focusing on partial aspects of food aid on the particular economy, studies do make a contribution to the understanding of aspects of food aid policy when they are country specific, donor specific and project specific. However, this necessarily is partial. Food aid under the programme approach has been given to many countries in large volumes with some countries having received more food aid on a per caput basis than others and at volumes and over periods of time which, by virtue of their programme size, render considerable influence on the way

in which their subsequent economic and social development proceeded. The country experience with programme food aid has not been fully analysed and there are a number of countries which received bulk food aid where the impact on their economies of this form of aid has not been assessed. Given that programme food aid has constituted the greater part of donations throughout the period 1954-74, it is of some importance that the role of food aid be properly understood, assessed and evaluated from the experience of that period. The concern of food aid studies in the 1970s and the focus of their analyses has partly been in response to the growth of multilateral programmes and the concern with the effectiveness of food aid as a scarce economic resource. However, there are a number of large programme aid supplies continuing to a number of recipient economies such as Egypt. Given that the assessment of programme food aid falls within the overall economic and social policies and programmes of a developing country it is of the utmost importance in assessing such programmes to assess the economic and social policies of the recipient as much as it is of food aid itself. Since countries follow policies which, to some degree, vary in terms of the 'theory' on which they are based as well as on pragmatic economic and social goals, it is conceivable that food aid can have a 'theoretical structure' which fits better with one type of economic policy than with another. Apart from the theoretical analysis of Ezekiel (1955) where an attempt was made to refine the way in which food aid can contribute to economic development, most studies have tended to be concerned with aspects of the impact of food aid. Ezekiel's original

study was never fully tested empirically and the data on which it was based was insufficient to validate or invalidate his theoretical refinement. Food aid policy at the macro-economic level and particularly its impacts and likely contribution to the recipient will be understood by the interaction of theoretical analysis (hypothesis), and empirical testing of the outcome of this approach will necessarily see a continuous refinement of the theory of the role of food aid in economic development. With each successive analysis the understanding may become more refined and food aid may be subject to a more general theoretical framework which would help to ensure its effectiveness in recipient economies. Both mechanisms at the macro-economic and the micro-economic levels provide difficulties for understanding the way in which food aid has affected recipient economies. The question of alternative theoretical explanations for the role of food aid will be given further consideration in Chapter Five.

### 4.2.2. The Role of Counterpart Funds, Inflation and Budgeting Contributions

The impact of local currency proceeds on recipient economies has produced two bodies of 'theory' among economists. One view considers that counterpart funds do not represent real resources. If counterpart funds are used or spent after a number of years, when the food aid has been consumed, then it will produce inflation in the recipient economy. This view was argued by Dandekar (1965) where he considered that these funds would act as a 'fiscal drug' upon

the recipient government - that the aid would be desired because its sale produced government revenue. Dandekar did not wish counterpart funds to be used on the general revenue of the recipient but to be earmarked to support price policies on the recipient domestic market (p 37). While this argument of government interest in food aid as a source of revenue was put forward in the case of India, subsequent analysis on Colombia suggests that the element of the fiscal drug was a factor in government agency policy in that country (Dudley and Sandilands, 1975): ie, import requirements in Colombia were being determined by the desire to maximise agency revenue rather than by other policy goals or objectives. Chakravarty and Rosenstein-Rodan (1965) considered that counterpart funds were nothing but 'shadows' of the original resource aid given. (This was also a view taken by Shonfield (1969) who considered that counterpart funds, under the German Marshall Plan, were 'nothing but formalised nonsense.')

An alternative view of the role of counterpart funds proposes that the impact of these funds is neutral if used to finance productive investment. Srivastava (1972), in his analysis of the impact of PL 480 counterpart funds on India's money supply, viewed the impact of these as neutral. If food aid has been used purely for consumption and not for investment or productive employment, then releasing counterpart funds a number of years after their accumulation could exacerbate inflation. However, the impact of these funds on a recipient economy will ultimately depend on when and how they are spent and on their size in relation to government expenditure and development programmes.

If the food aid has promoted employment and investment then the use of these funds in line with monetary and fiscal policy as part of the development programme should not cause adverse effects on the recipient economy. In circumstances of food shortage food aid supplies can mitigate inflationary pressures and in circumstances of excess supplies food aid can be deflationary (price depressing) in its effects on recipient economies. Little (1962) argued that imports of food were the only way to solve the urgent problem of underemployment and commodity aid had great anti-inflationary potential.

The overall role of counterpart funds need not prove to be a disadvantage to a recipient economy where those funds are managed within the context of the development plan. Indeed, within the development plan government can consider part of these funds as a budgeting contribution.

### 4.2.3 Foreign Exchange, Imports and the Balance of Payments

The effects of food aid on a recipient economy may be determined by a wide variety of policy goals and government objectives, and these can be estimated as to their impacts on various sectors of the economy. The net effects in turn will allow a determination of the overall impact of food aid on the recipient economy.

Where large volumes of food aid are imported into an economy and substituted for commercial imports, a clear benefit is received from this form of aid and also government will have saved foreign exchange which otherwise would have been spent on commercial imports. Where food aid is paid for

in hard currency, the concessional element and terms of repayment can be regarded as the import saving element of commodity aid but not the total volume of aid received as the import saving. There are a number of problems which arise in determining the import saving, foreign exchange or the balance of payments' contribution of commodity aid. It is not at all easy to objectively determine what quantity of commercial imports a government would be prepared to substitute for food aid and this proved a major weakness together with additionality and UMRs in the attempt to provide an overall objective rule for aid agreements. However, the share of food aid as a proportion of food imports, with due allowance for the 'commercial' element in each aid agreement, would allow an approximation of the grant element in the aid agreement. The problem of fungibility is also present in the estimation of benefits from the foreign exchange savings element in a food aid agreement. It is not always clear which sector of the economy will receive the benefits of these foreign exchange savings. For example, if the military budget of the recipient economy would have had to give up foreign exchange for foodstuffs, then the foreign exchange benefits are clear. However, the investment potential of the foreign exchange savings are not. By the same token, if essential food imports had been paid for by resources from the investment sector, then commodity aid would have a tangible and real consequence for productive output. Clearly the issue of fungibility and the attribution of the investment contribution of food aid can only be determined in the context of the recipient country food aid agreements and development plans and government

expenditure programmes. If a recipient government has received a large proportion of imports under food aid agreement, there is a prima facie case for part of these benefits to be attributed to the balance of payments and to foreign exchange savings.

### 4.2.4 Stock Policy, Food Security and Stabilisation Policies

It has been increasingly argued since the world food security crisis of the 1970s that food aid has a role to play in national foodstock and reserve policy. The Boerma Plan of coordinated national stock policies is considered as the most politically practical means of achieving a world food reserve policy. The suggested level (minimum) of stocks of cereals to be held is 18% of world production (Boerma, 1974). National governments under this plan can pursue the policy of holding the level of reserve stocks that they consider desirable and appropriate to their respective economies. While this plan has many merits there are a number of serious potential shortcomings from the international trade perspective (see for example the discussion in Cathie, 1982).

National stock policy and food security policies are clearly of benefit to developing countries where dearth and glut of foodstuffs is a common occurrence. Food aid can provide the initial resource for such a policy to be developed. The existence of a food stock provides immediate food security to an economy mitigating supply disruptions. Foodstock policy also provides a long-run benefit to the economy by providing security of supply (see Sen, 1983). Trade interests object to the existence of stock policies for

a number of reasons including (i) they see the ownership and control of stocks by government as being undesirable itself and (ii) the price and stock policy pursued by government as being likely to deter competiton. The arguments of Professors Bauer and Schultz see government stock policy as essentially corrupting and that there is no substitute for the market knowing best. By way of contrast, Keynes thought that the outstanding fault of the competitive system was the absence of a stock policy (1938, 1943).

Surety and certainty of food supply provides undoubted long-run benefits to an economy and where the institutions are not developed, or do not exist, then government has the duty to provide a framework for greater certainty in regard to the supply of food. The existence of a stock policy does not imply that a government will follow an equitable food distribution policy however desirable that may be. The lack of purchasing power, or entitlement to food, will determine those that are excluded from access to food and there are other policies which can remedy this situation (Sen, 1981; Joy 1974; Srinvasan, 1981).

Food aid can be used to build up reserves and stocks which will provide benefit to the recipient econmy. How these are managed and to what ends they are used will depend on the objectives and policies of respective governments. Stock and reserve policy need not provide anything other than a benefit of security to an economy and whether there are disbenefits that arise will be dependent on pricing and welfare policies. Stock policy provides food security which is not easily translated into immediately measurable economic benefits but

is without doubt a vital ingredient to provide economic and social security without which economic development becomes precarious and less likely.

4.2.5 Employment, Investment and Growth

The contribution of food aid to economic development will be determined by the extent to which food is a constraint in the process of economic growth. In the case of programme aid the sales of food in the economy and the subsequent allocation of these resources, under the development plan to productive investment and employment, provide the mechanism where food aid can make a positive contribution to economic growth.

In low-income countries where food and agriculture are major sectors in the economy, the role of food has been greatly underestimated (Mellor, 1983). Employment and its growth may be hampered by inadequate supplies of wage goods as well as labour from the agricultural and food sectors. Under circumstances of inadequate agricultural response, whether technically constrained or otherwise, food aid can provide the necessary means to accomplish the objectives in well-planned development strategies. This work is concerned with the area of large-bulk supply of food aid to a recipient economy and its effects on employment, investment and growth. The particular role of food aid in the development of South Korea is examined in subsequent chapters. The following chapter will also return to explore the framework for the analysis of employment, investment and growth potential of food aid within a theoretical and analytical context.

4.2.6 Military and Stability Assistance

While food aid has been given to recipients under PL 480,

concessional food imports have also been provided by the United States authorities under other programmes, mutual security food import programmes being the most notable examples, where some 13% of all concessional imports under specified programmes were directly for mutual security purposes - military purposes (see Table III.VII). This amount of food aid being used directly for military purposes may appear to be of less significance than other uses to which food aid is put, namely developmental purposes. This figure is, of course, over and above the more 'normal' concessional food import channels and administration and does not say anything on the subject of military and defence uses of counterpart funds under specific PL 480 country programmes.

Table IV.I shows that countries such as Israel, Taiwan, Spain, Philippines, Egypt and South Korea have had substantial concessional food imports over and above PL 480 programmes. The case of Israel shows that food imports under military programmes exceeded those of developmental programmes.

The extent to which PL 480 counterpart funds have been allocated to the military budget in a recipient economy can only be determined by an examination of country-specific government expenditure plans and programmes. It has been argued by Wallerstein (1980) that the food-for-peace programme developed into a 'food-for-war' programme in the 1970s. His analysis cites South Vietnam as an example of this kind of development in food aid policy. Table IV.I shows the actual use of concessional imports of food for military funding in South Vietnam at 6.5% and is in fact amongst the lower end of

TABLE IV.I The Share of Concessional Food Imports Directly Attributable to Military and Stability Programmes in the 16 Major Recipients of PL 480, 1954-80.

| COUNTRY | MILITARY AID AS A % OF CONCESSIONAL IMPORTS |
|---|---|
| India | 2.0 |
| Egypt | 22.0 |
| South Korea | 15.5 |
| Pakistan | 3.2 |
| Israel | 63.0 |
| Indonesia | 1.5 |
| South Vietnam | 6.5 |
| Yugoslavia | 7.2 |
| Brazil | 0.2 |
| Bangladesh | 6.3 |
| Spain | 23.0 |
| Turkey | 7.2 |
| Taiwan | 40.3 |
| Poland | 0.0 |
| Morocco | 12.8 |
| Philippines | 20.0 |

Calculated from Table III.VII.

the scale of countries where surplus foodstuffs had been directly imported for military purposes. Of course in the case of South Vietnam it was the huge volume of accumulated dollar credits which were allocated for direct war and military purposes. As discussed in the previous chapter, the purpose of the allocation of these counterpart funds resulted from the donor countries' internal domestic political problems and desire of the executive branch of government to circumvent the wish of the United States Congress. Undoubtedly, a substantial share of both PL 480 and other food surplus programmes have been allocated for military uses and purposes however without detailed country analysis and it would not be appropriate to use the Vietnam episode to characterise all food aid programmes in all recipient countries (or for that matter most recipient countries) as being aid for war or for the support of the military.

There are a number of analysts (eg Jordan, 1962) who have argued that PL 480 was a main source of stability assistance for South East Asia, although it was secondary to direct financial and technical funding of military regimes. Clearly where the military command a substantial share of a government budget, it is likely that counterpart funds will be allocated for military procurement and other policies. There is nothing unique in regard to food aid and military governments beyond armies requiring food as does any other sector of the economy. It can, and has been argued, that military and political stability are a prerequisite for economic and social progress,

particularly in the imparted confidence to the business community which in turn promotes investment and growth. However, it can equally be countered that the military, through a predilection for a coup d'etat becomes a source for added business uncertainty and thus a cause for lack of economic and social progress.

### 4.2.7 Food Aid and Dependency

Critics of food aid have argued that this form of aid is a source of dependency on the West and that it is uniquely fitted for this purpose (George, 1977; George and Paige, 1982; Lappe and Collins, 1981; Hayter, 1981). Food aid, it is argued, is a means of expanding United States agribusiness markets and drawing recipient economies into the world market system to their detriment. Food aid is considered as a tool for neo-imperialism and the underpinning of American hegemony in the world economy. Lappe (1981), for example, argues that food and other aid 'actually increase hunger and repression by reinforcing the power of national and international elites who usurp the resources rightfully belonging to the hungry'.

While these arguments have emotional and polemical appeal much of their analysis is highly selective and, on the grand scale of world analysis, and it is difficult to accept that these highly aggregative and selective mechanisms actually explain the majority of food aid experiences in the Third World. While it is true that American agriculture and economy have benefited from concessional sales, it is a different matter to conclude that this is part of an overall imperialist force. The weakness in this form of analysis arises from lack of systematic consideration given to the operational outcomes

of food aid programmes which might confirm or negate their case. It is not inconsistent that the US can receive trade benefits from food aid. However, to conclude that all food aid has imperialist or dependency outcomes is neither theoretically nor empirally demonstrated by those critics of food aid, and the mechanisms of their explanations are far from explained or developed. In short, this kind of analysis is too highly aggregative to offer a proper or adequate understanding of food aid policies or programmes.

### 4.2.8 Income Distribution

The effects of food aid on the distribution of income in recipient economies will be dependent on the nature of economic policies pursued by governments. In so far as food imports contribute to lower food prices, there is a beneficial effect to those who have the means to purchase such aid. However, food aid by depressing prices can also have adverse effects because it will distribute income away from producers of commodities that food aid competes with (see below for further discussion of price effects).

Food aid may have beneficial income distribution effects through its contribution to the overall growth of employment, investment and economic growth in general. However, under these circumstances food aid may not be any more unique than general untied financial aid - if there is a demonstrable 'food gap' in the economy, food aid would be the appropriate means with which to bridge that gap.

The question of income distribution effects of food aid and the means of assessing these is connected in part with the concept of additionality. It has been argued that

additionality can be achieved if a differentiated market (or segmented market) is created for food aid distribution (Rogers, 1971). In India programme food aid was distributed through 'fair-price shops' (differentiated market) which were designed to ensure that food aid was additional. However, a differentiated market for food aid would not necessarily ensure that this aid was additional. To introduce 'fair-price shops' without increasing the purchasing power of the poor would not necessarily mean that the poor were able to purchase the food offered. At best this method of distribution of food aid can ony give partial additionality, since recipients may choose to purchase this aid instead of locally produced food.

It has similarly been suggested that the additionality principle can be met if food aid is earmarked by providing groups in the recipient economy with 'food stamps' or vouchers. These vouchers could be given to groups to obtain food aid to supplement their diets. Food stamps would not ensure that additional consumption was being met and that local food production was not being displaced. This distributive measure might also entail high administrative costs. The food stamp programme, as suggested in the previous chapter, has as much to do with welfare as it has with supporting domestic agricultural policy and attempting to maintain demand in the economy. Unless food aid is given directly to feeding programmes it is uncertain to what extent food aid is additional. (See Professor Singer's review of John Cathie's Political Economy of Food, where he disagrees with this view of additionality.) (Singer, 1982.)

## 4.3 PROJECT, SECTORAL AND EMERGENCY FOOD AID

The project approach to food aid was largely developed under PL 480 Title II agreements in the 1950s, and subsequently became the central method of food aid policy of the multilateral food aid programme namely, the World Food Programme (WFP).

The WFP has specialised in the project approach in the donation of its aid to developing countries. It has directed its food aid directly to specific projects rather than allowing recipient governments to sell the aid on their internal markets and use the resulting funds to finance projects (ie the programme approach).[1] The project approach to disbursements attempts to ensure that food aid will not displace commercial trade or product in the recipient economy. Food aid should take the form of additional consumption in the recipient economy and should be directed to economic activities which would encourage investment, employment and economic growth. The theoretical basis for this approach and arguments for its strength were originally elaborated in the classic study on 'the uses of agricultural surpluses to finance economic development' (Ezekiel, 1955). The food aid operations of the WFP have been guided by the principles of surplus disposal if not constrained by them (see WFP/Government of the Netherlands, 1983). The project approach to food aid has been criticised by a number of writers on food aid for a variety of reasons (Jackson and Eade, 1982; Cathie, 1982). Drawing upon the field experience of Oxfam, Jackson and Eade (1982) judge that food aid has been harmful to recipients and that it is a wasteful form of aid. This approach has been

1. The WFP is attempting to introduce more programme aid in the 1980s.

criticised on the grounds that it is too anecdotal in its argument and such a polemic is of limited value in understanding the developmental role of food aid (Stevens, 1982). The writer argues that by WFP's own estimation (in its first ten years of operation) the project approach to food aid has only provided a 50% success rate in terms of achieving the objectives of its food aid policies. The management of food aid programmes under the WFP and recipient governments may have made a major contribution to the inefficiency of project aid and its high failure rate. Given that the WFP was originally established with a mandate to 'experiment' with the project approach to food aid policy, the results of that experiment have not proved convincing or impressive (see Cathie, 1982, Chapters 2, 3, 4 and 5; also WFP/Government of the Netherlands, 1983 for further discussion of some of the issues involved).

The sectoral approach to food aid has been followed by the EEC food aid programme and, like project aid, it is offered on a grant basis. Unlike project aid, sales of the commodity are permitted and the revenue from those sales is invested in the sector. 'Operation Flood' is a particularly large milk project of the EEC and, to a degree, the showpiece of European food aid policy (for a discussion of some of the issues with this programme see Crotty, 1977; Clay and Mitchell, 1984).

### 4.3.1 Food-for-work

The concept of food-for-work, or payment in kind, arises from a combination of projects for direct investment such as infrastructure and the desire to adhere to the principles of surplus disposal. By directly using food as a wage it was

believed that additional investment and additional consumption could be achieved within one project. Food-for-work projects essentially must come under voluntary programmes since they would otherwise breach International Labour Organisation rules on payments-in-kind (see Cathie, 1982). Much of the criticism of project food aid would apply to food-for-work programmes which have probably been more concerned with preventing arbitrage than with development and investment. In short, the desire to comply with the principles of surplus disposal may be a better explanation for food-for-work than the inherent investment potential of this approach to development aid.

### 4.3.2 Nutritional Aid and Sectoral Aid

Food aid given directly to pregnant women and to children usually proves to be additional and while the immediate welfare of these groups is improved the estimation of long-term economic benefits are difficult to assess. Nevertheless, the direct nutritional approach to food aid donations has its merits, as has the giving of aid to education or school feeding programmes.

### 4.3.3 Emergency Aid

Emergency food aid of the kind for disaster relief, famines and civil wars generally is not objected to by food aid critics. There are of course difficulties of a logistical or even a political nature involved with emergency aid, but those apart, this form of aid is seen to feed the needy and alleviate hunger and malnutrition.

The greater part of food aid donations have not been given for project aid and emergency food aid but through programme bulk supply aid. In the 1970s this 'humanitarian aid'

increased as a proportion of total aid as total aid declined in real terms. There are, however, a number of important issues of policy and practice to do with the project approach to food aid and emergency aid which have not been discussed in this section (see Cathie, 1982 and WFP/Government of the Netherlands, 1984 for a further discussion of these issues).

## 4.4 THE DISINCENTIVE EFFECT, AGRICULTURAL DEVELOPMENT AND PRICING POLICY

A major area of concern over the impact of food aid on recipient economies has been the debate which has surrounded the actual and potential disincentives to production and output which may be associated with large inflows of food. It will be recalled that food aid is intended to provide both production and consumption benefits to the recipient economy (that surplus food will provide additionality in consumption and in investment with the beneficial effects translating into increased welfare and economic growth). Schultz (1960) drew attention to what he considered a harmful mechanism inherent in commodity aid, namely that through the price mechanism lower prices brought about by food aid supplies would result in a damaging disincentive to local agricultural production. Disincentive effects to recipient agriculture could therefore result in food aid being positively harmful as a form of aid. The analysis of Schultz set off numerous arguments and studies to try to prove or disprove the disincentive proposition, with India and Colombia becoming test-beds for this potential problem. The Schultz micro-economic framework has not unjustifiably been referred to as a form of 'price

fundamentalism' where effectively the complex processes of economic and social development can be wholly resolved through reliance on 'getting the prices or price incentives right'. The analysis of these disincentive effects was often carried out at the macro-economic level with a singular focus on policies directly related to agricultural prices and output. Thus studies were concerned with the estimation of price elasticities of food with conclusions to the effect that a 1% increase in supply would lower prices by 1.3-1.4% (see Singer, 1978 for a discussion of these studies). Supply elasticities were also estimated as a means of determining the responsiveness of production to given falls in price. The problem with many of these studies was that institutional and broader government policies in food consumption, production and trade and general economic policies, were effectively ignored and perhaps of greater importance was the government desire to change the economic structure in favour of the urban industrial sector through lower consumer goods prices. The demonstration of a disincentive effect would not itself imply that the government was not improving overall welfare or economic growth. Within the context of a development plan the relative importance of industry versus agriculture may well imply lower prices to agriculture in order to provide lower prices to urban consumers. However, if taken 'too far' the policy of lowering prices will be self-defeating. In short, government, for a variety of legitimate developmental reasons, may not wish only to stimulate agriculture.

In conducting its agricultural and pricing policies governments aim for a variety of competing ends which are not

always achievable with the instruments of policy it has at hand - this of course is the well-known Tinbergen paradox (Tinbergen, 1952). Thus a government wishing to stabilise agricultural output for the purpose of certainty of price to consumers, may end up reducing the supply of food commodities offered on the market as stability of price is often equated in the minds of producers with lower prices. Price incentive effects to increase output imply steadily rising prices to producers. The policies required for the management of both prices and output in agricultural markets are notoriously difficult to achieve with any degree of low cost and accuracy. Food aid policy is a secondary outcome from agricultural income and trade expansion policies.

Given the relatively slow response rate of agriculture to economic change it may take many years for the momentum of technological change and market opportunity to effect a rate of economic growth which would allow benefits to the economy as a whole. Under those circumstances, food aid can bridge the gap in terms of the supply of food and indeed the policy of emphasis on industrialisation would require the surety of supply of the wage good.

While governments have been accused of urban bias in their emphasis on development strategy, this may be the only course of action open to a country to achieve a rising standard of living. For example, Hong Kong (which has little agriculture to speak of) or South Korea for different reasons have been able to improve their economic standing without priority to the agricultural sector.

The concern for rural development and agricultural development is of course as a first approximation to the

examination of development policies not an unreasonable proposition. However, to generalise all developing country situations as being determined by the success of agricultural policies, is of course a form of physiocratic reasoning and too fundamentalist for a proper understanding of economic and social development. There are as many paths to economic development as there are countries in the world economy.

One variant of the disincentive effect is that this allows government to neglect the agricultural sector - food aid policy is therefore a form of benign neglect (Schultz, 1980; Dudley and Sandilands, 1975). This view implies that recipient governments have no reason to design development policies and particularly agricultural policies when food aid is given. In short, the existence of this form of aid allows for neglect and, in effect, is corrupting. Whether a government has neglected agriculture with or without justification can only be established by a careful analysis of all the policies that it has pursued. This argument of course is a variant of an argument propounded by both the radical left and the radical right, that aid is itself corrupting and for that reason is undesirable.

There are developing-country agricultural exporters who have not benefited from the existence of large-scale concessional sales programmes like those in the Argentine. This country has been unable to finance market development in competition with the rich industrialised agricultural producers and traders. It is notable that the issue of disincentive effects has focused on the internal production and price problems of some food aid recipient economies, but

the international disincentive effects of food aid policies have not been given a fuller consideration. The Argentine was a major world trader in the 1930s (see Table III.X) but the combination of post-war agricultural protection, stock policies and food aid policies provided a considerable disadvantage to that country (see Cathie, 1982).

The disincentive effect debate has reminded governments and development specialists of the importance of the internal terms of trade between agriculture and industry, and of pricing policy. However, the assessment of the role of food aid among the variety of recipients cannot simply be made on the basis of the real or imagined importance of the agricultural sector to other sectors and goals of development policy.

## 4.5 ASSESSING THE IMPACT OF FOOD AID POLICIES AND PROGRAMMES ON ECONOMIC AND SOCIAL DEVELOPMENT

There have been a wide variety of countries receiving food aid, some having had a substantial volume of food aid over many years. The impact of food aid and its role and contribution to a recipient can only be assessed within the context of the development programme and priorities of the recipient. Generalisation such as the disincentive effect or the role of food-for-work programmes are better assessed on a

country specific basis as Professor Singer observed (Singer, 1978).[1]

Food aid, like other forms of aid or indeed scarce resources generally, has to be assessed not only in the context of the goals and objectives of economic and social policy but also of their use and efficiency. In this area of the use and efficiency of food aid as a scarce economic resource due allowance must be made for different theories explaining the process of economic development and different policies and goals of recipient economies before it is possible to give an assessment of the role of food aid in the development of a recipient.

The following chapter will explore the framework and possible theory for one aspect of the role of food aid - namely its unique contribution to the process of industrialisation.

---

1 H Schneider (1976) has also indicated the major food aid problems. Critical areas in the use of food aid:
a) Disincentive effects on local production via prices, government policies and recipient attitudes.
b) Project versus programme food aid; conflict or complementary?
c) Reorientation from relief to development.
d) The data base for planning, monitoring and evaluations: food aid needs and absorptive capacity.
e) Coordination in planning and implementation (between donors and recipients and within recipient country).
f) Other critical areas.

# CHAPTER FIVE

## FOOD AID AND INDUSTRIALISATION

'It is the surplus of the country only, or what is over and above subsistence of the cultivators, that constitutes the subsistence of the town, which can therefore increase only with the increase of this surplus produce.'

(Adam Smith, Wealth of Nations.)

### INTRODUCTION

In this chapter we will consider the circumstances in which food aid might provide a unique contribution to the economic and social development of the recipient through the process of development which focuses upon industrialisation and economic growth. The consideration of food aid as a development resource has been preoccupied by a number of theoretical and practical policy problems and issues, and these major problems were examined in Chapter Four. Industrialisation and the role of food aid has not been hitherto a major concern of food aid analysts and commentators. As food aid policy evolved a major concern arose in respect of the effects of commodity aid on the indigenous agricultural production of the recipient, particularly that of food aid as a disincentive to production and by implication of economic and social development itself. The wide variety of experience with food aid volumes, particularly those few countries which have received large amounts of food aid (on a

per caput basis) over many consecutive years, has not been fully analysed or documented. It is the particular concern of this work to examine a country experience where food aid was given in great volume and this country emerged as a major newly-industrialising country. The experience of South Korea with both food aid and industrialisation may be that of a coincidence, and that food aid played an insignificant part in the successful development of policies in regard to industrialisation, employment and spectacular economic growth. Since food aid constituted a considerable proportion of South Korean foreign economic assistance (see following chapters for a detailed discussion of this matter) it would seem reasonable to investigate the role that it has played in South Korean economic development. If food aid did not or cannot be shown to have uniquely contributed to the process of industrialisation and growth, it is of some importance to explain the role that it did play in the economic development of that country. In the light of the concerns and criticisms of food as a form of aid is it conceivable that food aid inhibited an even more potentially spectacular rate of economic growth and prosperity for that economy? Before turning to the detailed examination of aid and food aid to the South Korean economy and the views, opinions and explanations of their contribution to that country's development, this chapter will explore some of the theories of the role of food in the process of economic development and growth. Hitherto food aid analysis and the major concerns of protagonists and antagonists have tended to focus upon issues within the framework of the dominant orthodox theories of economic

policy, namely neo-classical precepts, principles and policy concerns. It is no accident that the major critic of food aid policy should represent extreme conservative neo-classical orthodoxy of the Chicago School. Professor Schultz's policy framework for his critical analysis is standard textbook price theory. Development and economic growth are seen to be predicated on the workings of perfectly competitive markets and prices for factors of production reflecting the fundamentalist view. Professor Schultz does regard as significant other factors in his development theory such as 'the improvement of population quality and advances in knowledge', (Schultz, 1981). But he sees development economics as having suffered from major intellectual mistakes, namely the presumption that standard economic theory is inadequate for understanding low-income countries and that a separate theory is needed, '... since they |development theories| are intellectual curiosities'. Professor Schultz also considers the neglect of economic history as a major error since 'early economists dealt with conditions similar to those prevailing in low-income countries today', (Schultz, 1982, p 4).

Government and planning are considered wholly negative in the role that they can play in the development process. With this Jeffersonian view of government and economic policy, the least government is the best government; by definition the theory of the state and its role in economic development is undesirable and negative.

Other critics of food aid policy and programmes also have tended to analyse this aid within the context of particular theories of economic and social development, whether they be

from the right or left of the economics profession. These theories of the process of economic and social development naturally have fundamental predilections and assumptions about the nature and purpose of the development process itself. In the earlier days when food aid was a new phenomenon, a number of theorists proposed a tentative link with food aid and the classical view of the development process. However, this linking of classical theory and food aid policy was not acted on or further developed (ie Nurkse, 1953; Chakravarty and Rosenstein-Rodan, 1965). It may be suggested that food aid policy was overtaken by other general aid and foreign policy concerns of the donors and the need or desire for detailed explanations of mechanisms and processes within the context of the 'dominant development view of the 1950s' (Streeten) began to wane as the importance of industrialisation and economic development were reassessed (see Morawetz, 1977; Streeten, 1972). With the role and importance of agriculture in the process of economic development being 'reinstated' the concern over the disincentive effects on agriculture of food aid became more accute. If food aid is to play some unique role in the development process then it would follow that foodstuffs must have some special role in the process of development. Neo-classical theory would see food as just another commodity subject to the same laws of the market as any other economic good. While food is obviously necessary to life and limb it should not be regarded in a theoretical or policy sense as being any different from other factors of production in regard to policy frameworks. If the market is allowed to function without undue interference from government or special

interests, through the normal processes of supply and demand, consumer needs will be met with adequacy. After all, Adam Smith considered that the satisfaction of consumption was the ultimate aim of production: '... consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended; and only so far as it is necessary for promoting that of the consumer', (A. Smith, 1776).

The classical view of the process of economic development and growth differs from that of the neo-classical view of that process and there are a number of variants of classical analysis. It has already been argued that neo-classical theory gives no special role for food or foodstuffs in the process of economic development, it is merely another commodity. Such a view is not held in the classical theories of economic development and growth - indeed, the role of the supply of foodstuffs is a critical constituent and prerequisite for growth and prosperity.

## 5.1 THE SUPPLY OF FOODSTUFFS AS A CONSTRAINT TO ECONOMIC GROWTH AND DEVELOPMENT - THE CLASSICAL VIEW

Adam Smith saw the process of economic growth and development as being critically determined by the ability of the rural sector to produce surplus produce for urban areas. The growth of these urban areas was wholly determined by the growth of that surplus and indeed dependent on it. Not only was agriculture a mainstay of overall prosperity and development as the source of surplus, but also that surplus

was foodstuffs - ie produce. The premier classical theorist therefore saw the centrality of foodstuffs in his process of economic change and development. Prosperity was determined by the availability of surplus produce.

The great debate of the nineteenth century on the corn laws, had as a major and central concern the ability of the agricultural sector to provide cheap food for the growing industrial sector. The argument over the corn laws was as much over the benefits to industry of cheap food as it was over government tariffs and landowners special pleadings (see Boyd-Hilton, 1977).

Food in the early concern of classical theorists, Smith, Ricardo and Malthus, was not just another commodity but was basic to the development, prosperity and growth of a country. The early classical view marked out the food supply as a critical factor in economic development which was inter alia central to Adam Smith's theory of growth, Ricardo's theory of comparative advantage, and Malthus' theory of population. In the classical world food supply and foodstuffs were pivotal in the explanation of a wide variety of economic phenomena and the mechanisms for its role were considerably different from subsequent neo-classical theories.

In a more recent version of the classical alternative explanation of the process of economic growth, it is significant that the primary model for the 'production of commodities by means of commodities' is that of a corn-model. Corn is not only 'seed capital' but also the 'wage good' and the means of subsistence in the exposition of the dynamics and mechanisms of economic change. Neo-classical precepts of the

marginalist kind are excluded in this modern classical model (P Sraffa, 1960). Foodstuffs as a source of subsistence and capital are central to the original classical explanation of economic progress, change and, above all, of economic growth.

## 5.2 THE LEWIS MODEL

The Lewis model of economic development falls within the classical tradition in economic theory (Lewis, 1954, 1958). The Lewis view of the process of economic development and growth was determined quintessentially by the availability of unlimited supplies of labour in the traditional sector of the economy. Indeed, the modern and traditional sectors were differentiated by Lewis on the grounds that the traditional sector was rewarded on the basis of the average product and the modern sector on the marginal product. In line with the thinking of the time it was assumed that disguised unemployment existed in the traditional sector and that labour could be removed from that sector to the modern sector without a fall in output. It was also considered that those remaining in the traditional sector would eat more and not increase savings, although this might use up the surplus destined for the wage good in the modern sector.

The Lewis model saw economic development occurring as long as unlimited labour was available at a fixed wage, since the share of profits in the national income would increase because the capitalist sector would increase. Lewis saw the vital constraint on development as the supply of capital and the curtailing of capitalist income would reduce investment and

employment. In the Lewis model the process of economic development will follow two stages: (i) unlimited labour at a fixed wage; and (ii) profits may fall subsequently if wages rise in relation to national income or the terms of trade become adverse to the capitalist sector. When the supply of labour becomes inelastic profits will fall and the process of growth will slow down.

The Lewis model differs in emphasis from that of Adam Smith in a number of respects; namely the inclusion of the theory of marginal productivity in his model and a greater emphasis on the traditional sector being a source of labour rather than of foodstuffs. Lewis emphasised surplus labour whereas Adam Smith emphasised surplus produce.

The assumption in the Lewis model of a fixed wage rate was of course recognised by Lewis as unrealistic, because of minimum wage laws, trades unions. The Lewis model nevertheless provided insights into the process of economic growth and development. This model was subsequently reworked into a full-blown neo-classical model by G Ranis and John Fei in 1964 (Ranis and Fei, 1964).

## 5.3 KALECKI AND KALDOR; AND OTHER CLASSICAL THEORIES

In addition to the Lewis 'classical' explanation of the process of growth and development there are a number of other theorists who have offered explanations which draw heavily on classical traditions and insights. One such model was proposed by Michal Kalecki in 1954 and subsequently modified in 1966. Kalecki's model of the dominant tendencies in economic growth return to those basic determinants highlighted by the

classical economists. However, Kalecki offers a number of elaborations on the mechanisms of development and particularly their relevance for practical policy. Kalecki considers the supply of food (or 'necessities' as he sometimes calls it) as central to the process of industrialisation and growth.

Kalecki divides his economic model into two classes: workers and capitalists, and in the classical tradition wages and gross profits constitute a given national income. 'The workers spend what they get and the capitalists get what they spend.' Kalecki sees unemployment in the developed countries as a result of a shortage of capital rather than from a deficiency of effective demand. A major bottleneck for employment generation and economic growth is the 'bottleneck of supply of necessities which depend on the inelasticity of agricultural production'. This inelasticity of food supply will lead to a fall in real wages which will generate an inflationary price wage spiral. Inflation will in turn cause the process of growth to slow down. Kalecki distinguishes between the importance of an adequate supply of food to prevent inflation and the increases in industrial productivity which work also to prevent inflation. The difference, as he argues, is that an increase in productivity tends to increase real wages through a reduction of the level of employment corresponding to a given level of non-agricultural production.

Kalecki views the development process of investment, growth and employment requiring an increase in the supply of foodstuffs which will in turn increase real wages. The adequacy of the food supply prevents inflation, and Kalecki argues that the prerequisite for a rapid industrialisation of

a developing country and for the solution to the unemployment problem is a 'revolutionary upsurge' in agricultural production. Kalecki's analysis of the development process reinstates the importance of basic food supply through its effects on real wages, and employment which goes back more towards the classical conception of the importance of foodstuffs for the growth process.

Kalecki's view of foreign aid was that it can be effective and efficient if it closes the gap between effective demand and supply in the recipient country. He considered that bulk grain supplies (PL 480) were nothing but grants. He viewed PL 480 as having a double effect on the recipient economy as would the import of capital generally. Food aid would (i) supply the deficient necessities which would allow a higher rate of economic development without inflationary pressures or, minimally, food aid would counteract existing inflation; and (ii) ease the problem of financing investment because local currency proceeds would provide a source of finance.

Kalecki did not believe however that local currency was real assistance in financing government investment and these proceeds should not affect the total volume of investment. While PL 480 could provide benefits to the recipient, particularly through mitigation of inflationary effects, the role of aid could only be evaluated in the context of a comprehensive analysis of the development problems of the recipient country seen as a whole.

Kalecki saw two dangers with bulk supply food aid: (i) that a mood of complacency towards the problem of agricultural backwardness may be encouraged by this form of aid; (ii) that

food aid would be sold at low prices. The second of his two doubts on food aid is perhaps a little paradoxical given that low prices may be an integral part of an anti-inflationary policy. However, overall this is not an inconsistent point since he believes ultimately in the importance of agricultural development, but agriculture is recognised as having special supply problems which may take longer to offset than those in the industrial sector.

Kaldor (1967) adds further classical interpretation and insight into the question of economic growth and progress which throws light on the developmental mechanisms relating to the agricultural output and the role of foodstuffs in industrialisation. Following Adam Smith and the classical economists, Kaldor restates the classical view that agricultural production is subject to diminishing returns and that manufacturing is subject to the law of increasing returns. Adam Smith had emphasised the importance of the return per unit of labour (ie productivity) in his famous pin-making example. Specialisation in production was the first part of his view of the 'development process'. The second important part of his analysis was that the division of labour depended on the extent of the market (Kaldor drew heavily on the work of Allyn Young for his point in the restatement of the classical view (Young, 1928)). Increasing returns in the classical view of economic growth was a macro-phenomenon, which implies the necessity of a general economic expansion. Neo-classicals view increasing returns as a micro-phenomenon and thus fail to comprehend the centrality of increasing returns to industry as a whole and benefits to the economy as

a whole. The process of economic progress is inhibited by supply constraints in both commodities and in labour markets. In Kaldor's analysis of the 'strategic factors in economic development' both the balance of payments constraint and the shortage of savings are additional constraints which can impede the development process and economic growth (Kaldor, 1967). These four constraints are critical in the early stages of industrialisation despite import substitution policies.

Kaldor restates Adam Smith's emphasis on the importance of an excess of food production over food consumption of the food producers. Kaldor sees the growth of the secondary and tertiary sectors as being dependent on the growth of agricultural surpluses. In Kaldor's model the agricultural surplus has two aspects. Firstly, the increase of non-agricultural employment is dependent on the rate of growth of marketed food supplies since inflation would result in the absence of that increase, choking off the growth process. Secondly, the growth of agricultural surplus is an essential condition for providing the growth of purchasing power which is necessary to sustain industrial expansion. In short, it enlarges the market. Agriculture is not subject to increasing returns and the growth of industrial production is primarily governed by the growth of effective demand. Kaldor further considers that the advantage for developing countries in the process of economic growth is that of low wages.

Both Kalecki and Kaldor in their respective classical models of the development process, and particularly the critical factors which affect this process, reinstate the role of agricultural surplus and foodstuffs. Unlike neo-classical

analysis of the development process where the supply of food and the role of food is just another market in many markets, the classical view of the development process and the process of economic growth considers the supply of food to be central to progress. The existence of a 'food gap' can therefore cause the process of industrialisation and development to be impaired or severely retarded. The role of the food supply affects economic progress through a shortage causing inflation. In addition to this the mechanism of real incomes or real wages is also part of the same food supply constraint which falls into the classical tradition.

Nurkse (1953) also saw the critical nature of the inelasticity of agricultural supply through its effects on productivity growth and purchasing power. Nurkse believed that in the process of growth, 'everything depends upon the mobilisation of the concealed savings potential in the shape of the food surplus'. Capital formation would come about through the use of surplus labour and the wage good would be unchanged in the short run. This short-run rigidity would be a source of inflation. Foreign food aid could benefit the recipient country investment workers, since in the classical rationale for savings (the wage fund doctrine) this food can be seen as an investment tool. Nurkse believed that 'it would be much nicer if the food required for subsistence of the new investment workers could be got entirely from outside through some form of foreign aid' (Nurkse, 1953). Nurkse in fact using classical precepts and analysis is the first to suggest some unique role for food aid in the development process, although his suggestion was not elaborated. The mechanisms and

interrelationships for the role of foodstuffs (and by implication, food aid) are present in a number of classical writings on development and growth.

Chakravarty and Rosenstein-Rodan (1965) also emphasised the importance of food aid affecting the development process in the Ricardian sense of it being used as a subsistence fund although they did not elaborate the argument beyond the suggestion of a special role for food aid. The mechanisms and interrelationships of food aid upon economic development were not spelt out.

It is of some interest to note that the famous wage fund doctrine or controversy in the nineteenth century was essentially an argument to keep down wages and provide some theoretical/theological explanation for the 'iron law of wages' (see Dobb, 1928). Although the wage fund doctrine focused on essentially Ricardian/Malthusian preoccupation with susbsistence and wages as they affect the supply of labour and population growth. The Malthusian view was that workers would breed to those levels of wages prevailing. The form of the supply-and-demand theory did not consider habit, convention or law in the process of wage determination, or, for that matter, the relationship between higher wages and higher productivity. The wage fund doctrine was a supply-side theory of the labour market which had as its central rationale the argument of the impossibility of raising the general wage level. The demand for labour consisted in the amounts of capital which capitalists were willing to lay out in the form of 'wage advances'. Marginal productivity theories of the late nineteenth century subsequently eclipsed the view of the role of wages in the development process, and particularly the

importance of low wages and cheap labour for economic growth in an early industrialising country as the United Kingdom was, at the height of this doctrine's influence on practical policy. (See Dasgupta, 1976 for a detailed discussion of the inadequacies of marginal productivity theory as an explanation of wage determination.)

## 5.4 WAGE GOODS AND ENGELS' LAW, AND THE RICARDO EFFECT

Classical models of the development process have tended to give a central position to wage goods and foodstuffs as the source of constraint on the development process. The classical concept of the wage good derives from the theoretical framework on which the wage fund doctrine was established. In a subsistence economy wages and workers consumption are critically related with food being the major constituent of the wage good. As we have seen in Kalecki's model, real wages and productivity have a dual effect on economic progress, as they do in the model of Kaldor.

The formulation of the Malthusian 'pincer' of arithmetic and geometric rates of growth as applied to food consumption patterns was elaborated by Ernst Engel in 1857 and 1895 (Zimmerman, 1932). Engels' law is in fact two 'laws' that (i) the poorer is a family, the greater is the proportion of the total outgo which must be used for food; (ii) the proportion of the outgo used for food, other things being equal, is the best measure of the material standard of living of a population.

Engel's theory, influenced by Malthus, attempted to lay down a law in which under conditions of increasing income,

food expenditures increased at an arithmetic rate and 'sundries' (other than rent, fuel, light and clothing) increased at a geometric rate. Engel was also interested in the problem of food and physical needs versus other needs, not in a theory of wages or incomes in relation to overall development. Engel, in his studies, did not entirely consider only food in consumption patterns but referred to the category '<u>nahrung-genussmittel</u>' (food and liquid stimulants, tobacco etc).

Subsequent intepretations of Engels' law are normally phrased in the form that, in respect of food consumption patterns the proportion of income spent on food declines as income rises.

Houthakker (1957) provided a cross-sectional study of personal expenditure patterns using international data but his analysis considers total expenditure rather than income. International comparisons of Engels' law provide evidence on the general magnitude of the income elasticity of total food during development. This type of analysis is formulated using an Engels' curve and has been employed in the analysis of potential benefits of food aid to arbitrarily selected income groups (see Srivastava <u>et al</u>., 1975).

While the law of Ernst Engel has in its origin a definite classical influence, its concern is with consumption patterns which are themselves of obvious interest and importance in considering economic welfare. The relationship of consumption patterns to economic development does not provide the detailed linking and mechanisms of the processes that are inherently provided in more pure classical analysis. Wage goods are the

vital ingredient in a number of models discussed on the process of economic growth, and particularly their relationship with the process of industrialisation. Engels' law as originally conceived has as its concern the explanation of consumption patterns between classes and not universal law as it has subsequently developed. International consumption pattern comparisons do not explain why this difference arises and in what way foodstuffs play a role in the process of development and growth. Engels' law does not allow an interpretation of the growth process in terms of the labour process, labour markets or wages, although it was not his purpose to offer an overall theory of consumption, development and economic growth, but to offer an explanation of differences in consumption patterns. Food as a wage good allows in the purer classical tradition an interpretation of the mechanism of growth and development, particularly as they apply to the industrialisation process.

In the analysis of Ricardo investment was substantially an advance of wage goods to workers, so that they could produce goods in the following period. In a recent analysis of classical thought, Eltis has highlighted the importance of Ricardian thinking in regard to real wages and the wage good (Eltis, 1984). The Ricardo effect argues that, as the process of capital accumulation continues, there is a tendency for inferior land to be resorted to and this results in a tendency for money wages to rise. The continued rise in money wages results in the cost of labour rising relative to the cost of machines. It is because of the Ricardo effect that 'old countries are impelled to employ machinery and new countries

to employ labour' (Principles, chapter entitled 'On Machinery').

'The difficulty of providing maintenance of men is in constant operation in old countries, in new ones a very great increase in the population may take place without the rise in the wage of labour.' Ricardo further elaborates the effect of the rise in money wages, comparing high food costs in England with low food costs in America. The Ricardo effect argues that employment will not necessarily grow as fast as the capital stock. For 'new countries' with a shortage of food supplies the Ricardo effect would act as an impediment to the development process. Food aid can supply the wage good and thus offset the rise in money wages through the inability of indigenous agriculture to supply the wage good so essential for the process of industralisation.

'I Say that, under these circumstances wages would fall, if they were regulated only by supply and demand of labourers, but we must not forget, that wages are also regulated by the prices of the commodities on which they are expended.' (Ricardo, Principles).

## 5.5 FOOD AID, FOOD CONSTRAINTS AND ECONOMIC DEVELOPMENT - S ENKE

Stephen Enke (1961) drew attention to the importance of food constraints on industrial development. He drew heavily on Adam Smith and classical analysis and suggested that maximum industrialisation was determined by food availability. In his analysis, Enke suggested that it may be appropriate to consider '... one measure of underdevelopment, is that

inadequate food is an effective constraint on attaining what would otherwise be considered an optimum degree of industrialisation'.

Enke argued the classical opinion that an increasing food supply was a precondition for industrial growth, and to increase industrial output required an increased national availability of food. The process of growth could be hampered if wages became too high, this could result from a number of institutional factors including minimum wage legislation, unions and the possibility, as suggested by Everett Hagen, of higher wages to encourage migration. Enke argued that higher wages should not be seen as an argument to justify protection.

Having set out his argument within the classical view of development and the importance of food supply as a precondition for growth he considered that the essential question was, how to increase the supply of food? His argument noted three aspects:

1) that food could be obtained in exchange for industrial exports;
2) that industrial output could be exchanged for domestic agricultural output;
3) that in the process of industrialisation a build-up of urban overhead capital was essential.

In the case of aspect (1) it would be necessary to obtain food supplies to initiate the industrial process in the first instance. In agriculture (2) there would have to be increases in output per worker and this was unlikely because of the inherent inertia within that sector. The build up of urban overhead capital (3) would result in the costs of that build

up coming to bear on urban population which would result in higher costs and wages. This point had been made by Adam Smith in respect of the higher transport costs explaining higher town costs.

Enke argued that these particular constraints on industrialisation offered a prima facie case for food aid, food gifts and food loans being of unique importance in economic growth and industrialisation. This analysis considers the interaction of the food supply, wages and labour markets as being central to the industrialisation process. Enke concludes his analysis: 'In poor countries, constrained by inadequate supplies of food, industrialisation is a result and not a cause of economic development. This is exactly the opposite of the majority view.'

## 5.6 MELLOR, AND NEO-CLASSICAL CONCERNS WITH THE WAGE GOOD

Professor Mellor has argued the importance of food aid as a wage good (Mellor, 1983; Mellor and Johnston, 1984). Food aid, he argues, affects development through relative cost and availability of labour, and on the stability of labour food supplies.

He sees the importance of wage goods to a developing country and particularly food aid as a wage good for economic welfare and growth. Mellor argues that mobilisation of labour is an efficient way to achieve equitable growth. Mellor is concerned with the equity of development rather than rapid growth per se which may be unequitable particuarly with rapid industrialisation and higher underemployment or unemployment. Food scarcity he considers as an effective barrier to labour

mobilisation and that wage goods back the rapid growth of employment. Increasing supplies of food are needed to prevent an increase in wages which would reduce the demand for labour. Food aid is uniquely placed to do this despite lags in the development of agriculture and shortages of foreign exchange to import food.

The assumption of factor proportions being technologically fixed, and therefore that growth must be inequitable, is rejected by Mellor, as is the assumption that food aid only improves welfare in the short run and does not contribute to long-run growth.

Mellor argues that there has been an underestimation of the importance of food for development and the distribution of income. Both labour intensity of production and the structure of consumption he considers central to distribution (Lele and Mellor, 1981). Without explicitly stating it, Mellor is drawing on the essential classical mechanisms for his analysis of food and food aid in the process of growth. Mellor is moving towards earlier classical analysts such as Kalecki by restating the classical definition of the economic problem as that of the distribution of incomes between classes rather than the scarcity problem (see Dobb, 1973). Without possibly realising it Mellor has presented the earlier analysis of Kalecki, with the minor caveat that the labour intensity (employment) of growth is dependent on the efficient allocation of capital. Mellor considers that because of the effective supply constraint of food: (following Sen, 1968) 'the capital intensity of wage goods (food) production was very high at the margin and that their prices would rise sharply in response to rising demand - that the solution to

the employment problem had to lie with rapid capital accumulation in the non-agricultural sector'. In short, industrialisation was a preferred strategy for employment creation because of the inherent productivity gains to be had in the industrialisation process. As a consequence of this agriculture was neglected. Mellor also considers that food aid is uniquely placed to pull labour from agriculture with little or no decline in agricultural production. Food aid tied to other capital aid he argues is uniquely placed to contribute to employment, the improvement of agriculture and equitable growth.

Isenman and Singer (1976) argue that food aid is superior to financial aid in economies where the development strategy promotes labour-intensive production. Food aid can allow lower wages and greater employment which may be the preferred strategy of the recipient economy. While they acknowledge that food aid can have price-distorting or displacement effects on the agricultural sector of the recipient, these distortions may be offset by a positive gain to the economy of increased employment.

The role of the wage good in economic growth and development may be reflected in a country's wage policy and food policies generally. Wage policy, wage rates and minimum wage legislation all have a bearing on employment and the type of economic development a country wishes to have. Food aid is a real resource as a wage good, not only in the classical view of the development process and growth, but also is being seen increasingly as such within the neo-classical camp (see Nelson, 1982).

## 5.7 FOOD AID AND FOOD SUPPLY

It has been shown in this chapter that the classical view of the process of economic development considered the supply of food and foodstuffs as a critical factor. This essentially supply-side approach to the economic growth and development of poor countries considers that the mainspring is that of profits being determined by the surplus of output over wages as expressed in Kalecki's famous dictum. This classical view of the importance of cheap foodstuffs was reflected in earlier Keynesian writings applied to Europe such as Economic Consequences of the Peace reflecting the more than residual influence of classical thought on economic policy of that time.

If the food supply is of such an importance for development and growth, and if industrialisation is a strategy to achieve those ends, then food aid may in the classical view of the mechanisms of progress be as important to that progress as other forms of aid, indeed under particular circumstances it may be more important.

When Occam's Razor is applied to the variants of classical thinking the food supply affects economic progress, through a variety of factors which are inter alia: stability and certainty of supply; real wages; investment; savings; imports and effects on the balance of payments; and the mitigation of inflationary effects. These factors can also be applied to the potential benefits of food aid. With these factors in mind, the following chapters will examine the effects of foreign aid on the South Korean economy, and particularly those effects which may be attributable to food aid.

# CHAPTER SIX

# FOREIGN AID TO THE SOUTH KOREAN ECONOMY; ITS ROLE IN THE DEVELOPMENT AND GROWTH OF THE ECONOMY

'Tuan-mu Tz'u inquired about the essentials of good government. These are three: sufficient food, sufficient armament and the confidence of the people.'

(Yen Hui - Confucious)

## 6.1 INTRODUCTION

The development and economic growth of the South Korean economy has been among the most spectacular examples of high, rapid and sustained growth performance of any developing country. Indeed, levels of economic growth recorded in Korea over such a short period of time have not been achieved in any country during its develoment, including the now advanced countries. The South Korean success is best understood through its growth of light manufacturing industry and particularly the export of these products to the markets of the advanced countries. While the growth and development of the South Korean economy is unique it does share a number of common factors with other successful newly-industrialising countries

(NICs), and it shares features with the economic performance of Japan in its earlier phase of development (Chen, 1979). South Korea, as one of the 'Gang of Four' (Hong Kong, Singapore and Taiwan being the other three or, as these countries are sometimes referred, the 'hyper-growth' economies of the Far East) shares a number of features with these countries: the success in terms of economic performance and growth, (the fact that these are all Asian economies with) similar cultural, value or religious heritage, the proximity to, and influence, directly or indirectly, of the Japanese economy. The Gang of Four have to some degree modelled their economies on the Japanese emphasis on light industry destined for export markets. In addition to the homogeneity among the dominant entrepreneurial groups, these societies have a highly structured social order and low-cost labour with little or no trade union participation in the welfare or growth decision-making process. While South Korea has much in common with the other hyper-growth economies it also has marked differences in so far as it has been involved in a major civil war, and has had a unique dependence on the United States for its recovery and subsequent development. The South Koreans have an understandable ambivalent social attitude towards Japan. As a former colony of Japan (1910-45), Korea was thoroughly and ruthlessly exploited and the Japanese were hated for this. It was not until the 1960s that relations between the two countries were re-established with reparation payments and in 1984 further rapproachment came about with the visit of the Korean premier to Japan and the official apology of Emperor Hirohito for the Japanese

'misunderstanding'. There is a sizable Korean population in Japan who are treated as second class citizens (see for example, South 1982; and Economist, 1982). The South Koreans have a phrase which sums up their attitude towards Japan, 'if the Japanese can do it, we can do it better', and by some measures this has been so.

### 6.1.1 The Growth and Development of the South Korean Economy 1945-80; an Overview of the Major Economic Indicators

The success of the South Korean economy became apparent in the late 1960s and early 1970s. The ability of the South Korean economy to respond positively to the world economic crisis of the 1970s, particularly for an oil-dependent developing economy, can be regarded as one indication that the Korean growth process is sustainable and that the Koreans are adaptive in maintaining that growth.

The period of economic and political change that occurred from 1945 to 1954 was a major upheaval for the Korean people. The Japanese decolonisation in 1945 with the Americans assuming a guardian role also saw the beginning of hostilities between North and South Korea; the Soviet Union supporting North Korea and the United States of America supporting South Korea with the 38th Parallel being the geographic dividing line.

From 1945 to 1950 the American influence was more concerned with overt cold-war tensions than with the economic development of South Korea per se. Some American authorities regarded South Korea as a 'basket case' requiring perpetual economic aid (South, 1982). A number of writers have concluded

that the United States had a somewhat confused understanding of its role and the future development of the South Korean economy, and it was not until many years after the Korean Armistice of 1953 that policies were adopted which resulted in the sustainable economic performance of the 1970s (Koh, 1975). Of course policies and programmes were to change considerably during the period 1953 to 1980. Until 1953 the United States had considered that a victory which would lead to the reunification of the two Koreas was possible. While American policies and Korean government economic policies focused on the coming open hostilities with the North, economic aid was increasingly channelled to support the military build up. North and South Korea under Japanese colonisation had been a major supplier of rice to Japan, exporting some 50 million bushels a year. With the country divided, the North having the basic nascent industrial infrastructure and power supplies, it was first considered that South Korea could become a major agricultural supplier. Heavy industry, mining and most power resources were in the North; South Korea had light manufactures, chiefly cotton textiles and the richest agricultural land. In so far as America had plans and policies for Korean development, they tended towards re-establishing the agricultural base and reconstructing the economy. American plans were 'short-range maintenance of the status quo' (Koh, 1975).

From 1947 to 1950 under American guidance, the South initiated a land reform policy and the Japanese vested properties were disposed of. Land reform was regarded as a political success and, in terms of output, 1949 saw the export

of 100,000 metric tons of rice. The Korean war, however, tended to overshadow the prospects of sustainable agricultural growth and indeed agricultural growth was slow to recover after the war and it was not able to provide output, productivity and employment growth to the same degree as light manufacturing industry. Cole and Lyman (1971), in evaluating the land reform, report: 'The overall effect was to create a basic rural structure of small - very small owner operated farms.... In terms of production, the reform was considered to have been somewhat detrimental, at least in the short run. But psychologically and politically it had very positive effects.' Land reform in fact brought food shortages and the Garioa Programme (Government Appropriation for Relief in Occupied Areas) alleviated food shortages in urban areas.

Military government policy on the disposition of Japanese vested properties was considered indecisive at best (Koh, 1975). During the period 1945 to 1950 US Military Government in Korea (USAMGIK) also introduced educational reforms through the reorganisation and democratisation of the Korean educational system. Korean education had been dominated by the Japanese 'Imperial Rescript on Education'; Koreans were not allowed to study their own language and even had to adopt Japanese surnames. Korean education was further influenced by Confucian traditions which characterised the student as a passive receptacle for the teacher's wisdom. The Americans broadened educational opportunities for all Koreans, emphasising 'Korean-ness' and standardised the reorganised educational structure (Koh, 1975). In many ways the educational reforms of the 1940s can be seen to have had the

most profound long-term effects on South Korean development.

In 1950 war broke out between North and South Korea and this provided a major disintegration of the fragile South Korean economy and society. During the three-year war, over a million civilians and a third of a million soldiers were killed. Twenty five per cent of the population (5.5 million) became refugees, agricultural production fell by 25% from its 1949 level and GNP dropped 14%. In addition, over $2 billion of property damage was estimated. Inflation rose to 500% in 1951 and to 100% in 1952. In 1953 when the Armistice was signed the Korean economy was in a state of total collapse. It was from this period (1950-70) that the United States systematically supplied high levels of economic and military assistance to South Korea. In 1954 one third of the Korean budget was foreign aid assistance. The sources, types and volume of aid will be discussed below.

Figure VI.11 illustrates that during the period 1954 to 1968 the GNP per capita (in 1965 dollars) rose steadily and considerably. The growth was also accompanied by sustained United States economic and military aid. It is the purpose of this work to explain, as far as possible, the connection between this remarkable GNP growth performance and the equally remarkable United States aid contribution. It is not in dispute that the Koreans have received massive United States economic aid, or even that it has had a diminishing effect on the growth process, as Krueger (1979) argues. This work will also investigate the way in which economic aid and particularly food and commodity aid has contributed to Korean growth and development.

Table VI.I Major Indicators of the Economic Development of South Korea (1955-1980)

| Year | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) | (17) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1950 | | | | | | | | | | 146 | 18.900 | | | | | | |
| 1955 | | 12.0 | 4.9 | 0.7 | -14.1 | 10.9 | 22.1 | 2.1 | n.a. | | | 5.1 | | 10.2 | 73.9 | 9.8 | 15.9 |
| 1955-60 | | | | | | | | | | | | | 12.0 | | | | |
| 1956 | 0.5 | | | | | | | | | | | | | | | | |
| 1960 | | | | | | | | | | | | | | | 37.7 | | |
| 1960-65 | | | | | | | | | | | | | 19.3 | | | | |
| 1965 | 6.1 | 12.9 | 7.5 | 5.9 | -9.7 | 60.6 | 18.7 | 2.8 | 7.4 | | | 1.1 | | 17.2 | | 11.0 | 13.7 |
| 1965-70 | | | | | | | | | | | | 7.1 | 13.7 | | | | |
| 1970-75 | | | | | | | | | | | | 8.4 | 15.3 | | | | |
| 1974 | 8.6 | 28.8 | 18.0 | 27.5 | -5.7 | 82.8 | 31.4 | 1.7 | 5.8 | | | | | 7.9 | 2.8 | 31.9 | 13.0 |
| 1975 | | | | | | | | | | 504 | 34.018 | | | | | | |
| 1978 | 12.5 | 31.4 | 27.2 | 35.1 | -4.9 | 88.7 | 33.0 | 1.6 | | | | | | 18.9 | | | |
| 1979 | | | 16.5 | | | | | | | | | | | | | | |
| 1980 | -3.4 | 31.0 | | 32.1 | -8.9 | 95.8 | 22.3 | 1.6 | | | | | | | | | |

(1) Real growth rate of GNP
(2) Investment share of GNP
(3) Savings share of GNP
(4) Export share of GNP
(5) Balance of trade share of GNP (Exports-Imports)
(6) Manufacturing share of exports
(7) Capital good share of imports
(8) Growth rate of population
(9) Open+ unemployment rate (average percentage)
(10) GNP+ per capita (dollars)
(11) Population+ Growth (thousands)
(12) Real Wages* Average Ming. and Manufact.
(13) Prices GNP deflator
(14) Wholesale Price Index
(15) Aid as % of Imports
(16) Imports as % GNP
(17) % Food in total imports

Sources: Edward K Y Chen, Major Statistics of Korea Economy, Frobel et al, Morawetz+, Kim and Westphal.*

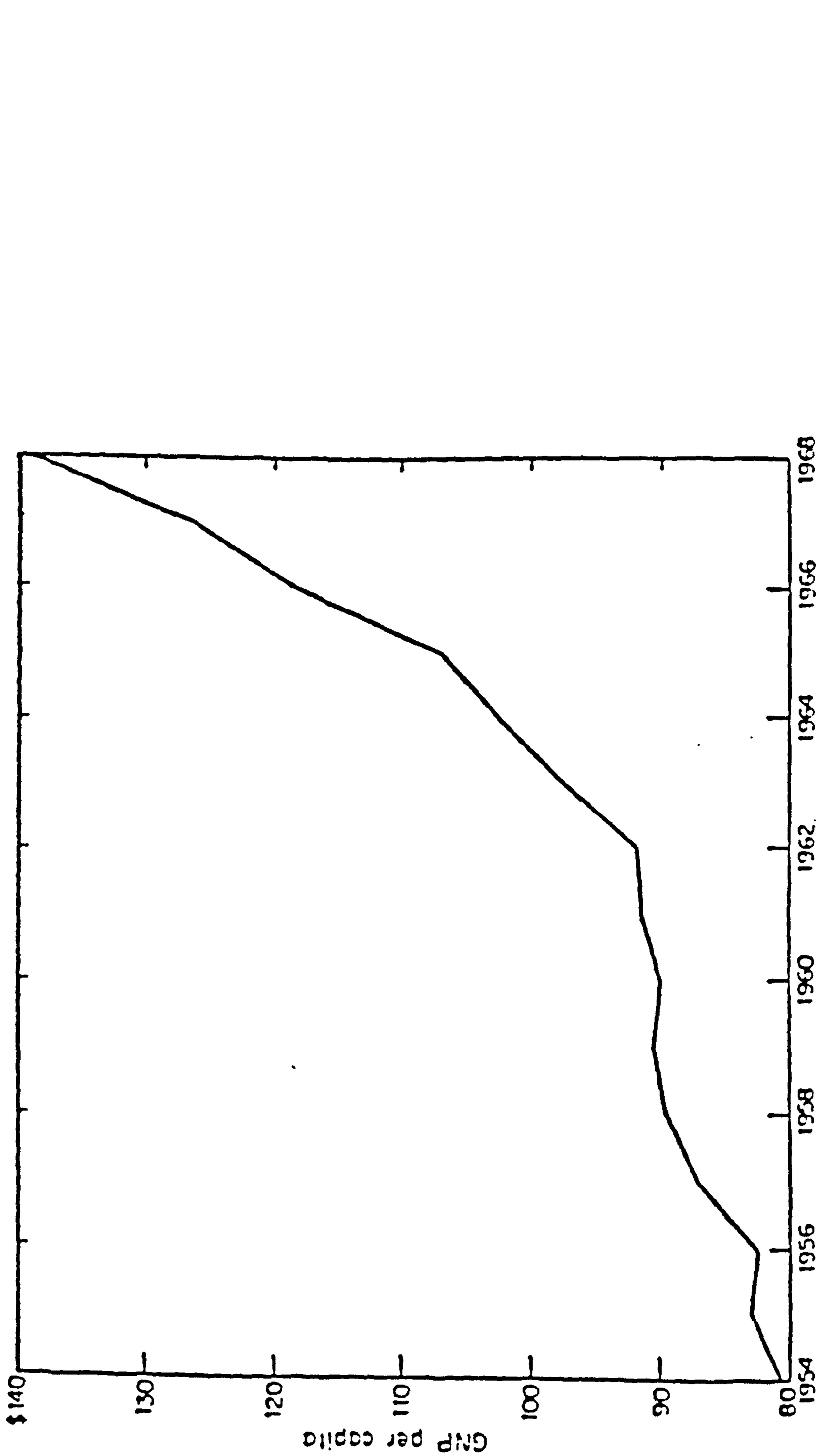



Figure VI.II

Gross national product per capita in constant 1965 dollars.

(Source: Cole & Lyman, 1971)

The real growth-rate of GNP increased throughout the 1950s and 1960s reaching an annual rate of 12.5% in 1978. Investment share of GNP was 12% during the 1960s and 28% to 30% in the 1970s and 1980s, as manufacturing exports rose from 0.7% in 1955 to 35% in 1978. GNP per capita rose from $146 in 1950 to $504 in 1975. Aid declined from 73.9% of imports in 1950 to 37.7% in 1960 and to 2.8% in 1974. Population nearly doubled between 1950 and 1975 (see Table VI.I).

These key indicators illustrate the remarkable growth performance and change in the South Korean economy from 1955 to 1980. The explanation of the mechanisms and the multiple causal factors which have brought about such a change is of course the concern of the many studies of this economy. The objective of this study is of course narrower. The major economic policy and political dates in the development of the Korean economy are tabulated in Appendix I at the end of this chapter which is intended as a background guide to the analysis and discussion in both Chapters Six and Seven.

### 6.1.2 The Korean Economic Miracle: Theory and Stylised Facts

The successful development and growth of the South Korean economy has attracted the interest and attention of development economists who represent different schools of thought within the subject. Within this wide range of theory and opinion lie varying degrees of emphasis on the role of an open free market economy and the influence of the state as an instrument of planning, albeit within an apparent laissez

faire framework.[1] The alleged policies followed in South Korea are considered as 'an almost classic example of an economy following its comparative advantage and reaping the gains predicted by conventional economic theory' (Westphal and Kim, 1977). Those economists who consider that South Korea owes its development success to its open economy trade policies are Little, 1979; Lal 1983; Westphal and Kim, 1977; Balassa, 1971; Krueger, 1979; and Fei and Ranis, 1975. This school of thought on South Korean development emphasises the rapid export growth success as being the prime mechanism for the spectacular growth and development of the Korean economy. In line with the philosophy which argues the importance of 'getting the prices right', this neo-classical trade view argues the primacy of 'getting the trade policies right'. Typically this school of thought, while acknowledging the infant industry argument, considers state involvement in trade, planning by the state and import substitution policies as all being policies which provide allocative inefficiencies and wasteful welfare losses to the nation state following such policies. The extreme view, or purest view as argued by Lal (1983) and Little (1979) considers beneficial welfare and

1. The 'causes' of the South Korean Economic Miracle may be summarised as follows:

i) infusion of United States Aid
ii) a literate and well-trained workforce, ie industrious and disciplined.
iii) the emergence of a group of entrepreneurs
iv) unusually effective cooperation between government and business
v) an authoritarian regime totally committed to economic growth (Park Chung Hee was regarded as the 'classic benevolent dictator')
vi) the Confucian heritage
vii) Japanese occupation
viii) Laissez-faire economic policies.

distributional policies as an outcome of sound laissez-faire type policies trickling down with economic growth (Park, 1981). Take care with open economy policies and these in turn will take care of the future prosperity of the people; this philosophy relies on the world economy being an open economy and nation states following similar policies. In his classic work, List (1837), who was not against free trade in principle 'in the best of all possible worlds', argued why a policy of protection may be beneficial to a nation state.

The neo-classical (or Harvard Institute of International Development, or laissez faire, or World Bank) view of Korean development follows a procedure in analysis which Lord Kaldor has called 'stylised facts'. Given that any interpretation of such a complex phenomenon as the economic development and growth of a country like Korea embodies a multiplicity of causal factors (which influence and have influenced this economic change) a selective or stylised interpretation of policies and time periods may provide apparent conclusive examples for success or failure. The measuring rod is of course provided by the 'theory' and the facts marshalled to 'verify' or refute propositions and policies. Given a Popperian interpretation of scientific epistemology these neo-classical explanations will in time be either refuted or at least refined (Popper, 1968). This refinement and refutation of the neo-classical explanation for South Korean growth and development is already being subject to academic scrutiny (see for example IDS Bulletin April 1984 vol 15, no 2). Professor Krueger (1979) argues that the Korean development success was essentially the result of the trading

policies and foreign exchange policies adopted by the Korean authorities in the mid-1960s under guidance and advice from the World Bank and American authorities. The policies which preceded the laissez faire trade policies (exchange controls and import substitution policies) had not allowed the full potential for South Korean growth. Apart from the widely held view that protection and exchange controls cause inefficiency through market distortions which prevent the full realisation of a country's comparative advantage, Professor Krueger argues that the presence of 'rent seeking' in a society results in efforts, resources and energies being channelled to acquire import licenses or scarce foreign exchange. The rent seeking element in society results in inefficiencies and ultimate overall welfare loss because efforts are directed to overcoming state and bureaucratic regulation and control instead of productive and gainful output. The rent seeking element in society results in benefits to those who can overcome the impediments in the economic system and these groups are generally the elite and not the great majority of the population (Krueger, 1974).

The question of how a country knows where its comparative advantage lies is not directly considered by either Krueger (1979) or Little (1979) beyond the observation that in the case of South Korea cheap, hardworking, pliable labour was available and this provided one ingredient for successful capitalist development.

The issue of the structure of industry or the types of industry that a country selects is assumed away by suggesting that 'the market knows best'. The change of emphasis from

light manufacturing industry as the leading sector to that of the heavy industries in the 1970s in Korea such as shipbuilding or motor cars, is not easily explained in terms of Korean comparative advantage. The selection of industry for growth and development involves considerable risk and uncertainty and the mechanism for this decision framework is only just beginning to be understood (see for example Luedde-Neurath, 1983; and Michell, 1984).

The Krueger view on the role of aid and trade policies in South Korea is stylised in its excessive emphasis on the changes of trade policy in the 1960s. Foreign aid is considered to have been of importance, although the mechanisms, magnitudes and possible explanations are limited to stating that 'it was important to help Korea through the 1940s and early 1950s as a stop-gap measure for a country having undergone the disruptions of the second world war, Japanese decolonisation and the Korean War itself'. Krueger plays down the possible effects of an economic nature and argues that to some degree foreign aid was responsible for the delay in policy changes which came about in the 1960s. Foreign aid is considered by Professor Krueger as having had a holding role until the aftermath of disruption and to that extent it was beneficial to South Korea. Professor Krueger restates the Cole and Lyman (1971) view that foreign aid was harmful to South Korean development as it delayed the possibility of economic policy change which would provide greater prosperity and growth. Professor Krueger offers a partial explanation for the types of foreign aid given (military, commodity - food and technical - general economic aid) by stating that in the early

period aid provided the greater part of imports and that the period 1945 to 1975 saw the gradual decline in importance of foreign aid to the Korean economy. Given that I have used the same data sources as Professor Krueger it is difficult to understand why such a large contribution to the South Korean economy has had such an apparently minimal beneficial effect or, for that matter, a harmful effect (see data, Koh, 1975 and the nearly comprehensive Suk Tai Suh Statistical Report, 1976, prepared for the Korean Development Institute and the Harvard Institute of International Development.)[1]

The omission of a more detailed and comprehensive analysis of the role of foreign aid to some degree leaves open the charge that Professor Krueger has been drawn into a post hoc ergo propter hoc argument in regard to the influences and effects of foreign aid on the South Korean development and growth experience.

An alternative view to the neo-classical paradigm of the laissez-faire economy in South Korea is given by a number of scholars: Datta-Chaudhuri, 1981; Park S S, 1977; Park Yung Chul, 1981; Tae Wan-Son, 1972; Enos, 1984; Lüedde-Neurath, 1983, 1984; Michell, 1984; Hamilton, 1984; Jacobsson, 1984; Fransman, 1984; and Moore, 1984. These writers emphasise different influences and affects on the growth and development of the South Korean economy. In contradistinction to the neo-classicals, the 'Theory of the State' view of the

1. This 'Statistical Report on Foreign Assistance and Loans to Korea (1945-75)' Monograph 7602, Korean Development Institute, provides a major source of data for Professor Krueger's study on 'the development role of the foreign sector and aid in the republic of Korea 1945-75' and will be discussed in Section 6.2.1.

development of the South Korean economy has government and the state as the major factor in Korean success. Planning Korean style marries an apparent market openness in economic matters with a strict control. The Korean planning system is controlled from the Blue House, or Presidential Palace, by technocrats and expert businessmen (Michell, 1984). The subtlety of Korean bureaucratic management and regulation is discussed in Luedde-Neurath, (1983) with particular regard to expert foreign exchange and investment criteria. Michell characterises Korean middle bureaucratic management as being akin to the 'officiousness of a British immigration official' (op cit.).

The Theory of the State (or IDS) view of Korean development considers planning and government to have been a major factor in the development success. Protection and import substitution policies have contributed to that success; export led growth a la Kaldor is a natural outcome of such policies. Import substitution policies are not antagonistic to exporting; exporting industrial products is a 'natural' outcome of import substitution (List, 1834). In the Theory of State explanations for Korean development, aid is considered as critically important to the initial development of the economy although other causal factors and policies are given varying degrees of emphasis.

The explanation of the Korean development success given by Datta-Chaudhuri (1981) is a case in point. Datta-Chaudhuri considers the traditional Japanese connection (colonial territory) to have been far more important an influence in the process of South Korean industrialisation and is thought to

have provided the starting point for the growth of industrialisation. The Japanese having provided the Koreans with an opportunity of learning from their management and organisational business skills. The Korean war, although causing disruption and chaos for a while, did not eradicate industrial skills, organisation and know-how, however elementary this may have been. The state has had a major hand in shaping Korean industrialisation. All theories of South Korean development emphasise the uniqueness of the Korean character and social structure, the importance of education and the family in Korean life. Koreans are hard working and society is homogeneous to a degree not present in other countries (Hofheinz and Calder, 1982). Korean society is also highly hierarchical - the president can issue exhortations which will be adopted, such as the 1961 'economic development first', the 1963 'agriculture first', the 1964 'great year of reform', and the 1965 'year of work'. Economic and social goals such as industrialisation and export growth are formulated at the top, consulting business and the bureaucracy and Koreans work towards those ends. The ability to change goals, such as during and after the oil crisis, allows Korean economic objectives a paramountcy which is not experienced in the West, save under the particular circumstances of war economy. The Economist refers to Korean character and attitudes to the economy as the 'will to win' (Economist Survey, 1982).

The Confucian heritage has had a profound and lasting influence on South Korean society and polity. The principles of good government as enunciated by Confucious in the Yen Hui

have applied to Korean development regardless of whether one considers these to approximate a liberal economic policy or a minimal statist policy. Confucian 'economic and state policy' would consider that the 'good government' would assume responsibility for the sufficiency of food for all the people which implies a definite policy towards the availability of food with all its implications for the agricultural sector. The United States' regular supply of food aid fits neatly into the first principle of good government and indeed underwrites it. The second principle, according to Confucious, is sufficiency of armaments and, as in food supplies, the US aid policy also underwrote this principle. Finally, the principle of confidence in government by the people is to a large degree determined by the first two sufficiencies. American aid policy to South Korea, in Korean terms, is consistent with the Confucian view of good government. Indeed food aid and military aid are a desirable form of overseas assistance and quite consistent with a heritage and thinking which predates not only American involvement in South Korea but also that of Japan. The Confucian heritage would also consider that in the matter of the role of state, government is required not only to have a 'defence policy' but also, and of equal importance, a policy which actively takes responsibility for the food supply. The Confucian heritage is not consistent with a pure laissez-faire approach to economic and social policy. United States aid policy towards South Korea was not inconsistent with basic Confucian thinking on state policy; indeed, in the case of food and armaments, United States policy (so-called 'Stability Assistance') supported this ancient philosopher's

views of the state.

The South Korean government has followed social and economic policies which do not run counter to the Confucian view of the state, and this view does not see the role of the state as that of laissez-faire. In social and economic policy Confucious expects good government to be active in formulating policy for the food supply, in addition to defence policy.

Datta-Chauduri and Sen ($1981_b$) consider foreign aid as being of importance to the South Korean economy but the way in which aid has contributed to growth and development is not really specified, its importance is almost an obvious assertion with the means and mechanism left unexplored. Many countries have had economic and military aid at levels similar to South Korea and yet have not attained the degree of success as measured by industrialisation and export growth. Indeed, Egypt at present receives food aid at levels similar to that of South Korea in the 1950s. Datta-Chaudhuri writes: 'No state, outside the Socialist bloc, ever came anywhere near this measure of control over the economy's investible resources.' He estimates that the South Korean Government directly or indirectly controlled the allocation of more than two-thirds of investible resources of the economy.

The neo-classicals see Korea as an example of open laissez faire policies as the basis of growth and prosperity in their highly stylised analyses. Further investigation by those who see the state as the critical factor in the Korean experience has thrown doubt upon the neo-classical certainties and policy prescriptions. Since foreign aid was given to South Korea in massive and sustained quantities a reappraisal of its role is

necessary in the light of the reinterpretation of Korean policies and programmes which are the very basis of its development success story.

## 6.2 THE ROLE OF AID AND FOREIGN LOANS IN THE DEVELOPMENT OF THE KOREAN ECONOMY

For over 25 years South Korea has received economic and military aid in regular quantities and at high volume. The major donor of this economic and military aid has been the United States of America who supplied this assistance from 1945 onwards. After relations 'normalised' with Japan in 1965 reparations were paid to the Koreans and foreign aid was given by Japan. In addition to aid, Japan has increasingly invested in the South Korean economy. Foreign aid has also been supplied by international agencies and in small amounts from OECD countries. In the period 1959 to 1973 for example, foreign loans to the Korean economy came from the United States of America, West Germany, France, England, Italy, The Netherlands, Canada, Japan and the IBRD, IDA, IFC, ADB. Table VI.III illustrates foreign loans to South Korea 1959-75 and shows the growing importance of Japanese loans. Loans on commercial or favourable terms increase during the 1960s and 1970s. In 1982 the burden of South Korean debt was $30 billion which was equivalent to half that year's national income. Korea increased its borrowings in the 1970s as foreign aid, as a source of imports and external assistance, began to reduce. Although South Korea had to borrow some $8 billion in 1982 to service its foreign debt, the burden of debt problem is perhaps not as pressing as in other Third World debtor

Table VI.III Status of Foreign Loans to South Korea Authorization by Country

Unit: in million US Dollars

| | 1959-1973 | | | 1974 | | | Total | | | 1975 1-9 | | | Grand Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Public Loan | Private Loan | Total | Public Loan | Private Loan | Total | Public Loan | Private Loan | Total | Public Loan | Private Loan | Total | Public Loan | Private Loan | Total |
| USA | 1,009.6 | 1,138.3 | 2,147.9 | 45.0 | 403.9 | 448.9 | 1,054.6 | 1,542.2 | 2,596.0 | 70.6 | 212.1 | 282.7 | 1,125.2 | 1,754.3 | 2.879.5 |
| EEC | 111.1 | 955.4 | 1.066.5 | - | 331.6 | 331.6 | 111.1 | 1,287.0 | 1,398.1 | 98.2 | 71.3 | 169.5 | 209.3 | 1,358.3 | 1,567.6 |
| West Germany | 106.3 | 220.4 | 326.7 | - | 48.9 | 48.9 | 106.3 | 269.3 | 375.6 | 26.6 | 5.2 | 31.8 | 132.9 | 274.5 | 407.4 |
| France | - | 243.0 | 243.0 | - | 172.3 | 172.3 | - | 415.3 | 415.3 | 38.4 | 22.4 | 60.8 | 38.4 | 437.7 | 476.1 |
| England | 1.2 | 339.6 | 340.8 | - | 108.7 | 108.7 | 1.2 | 448.3 | 449.5 | 8.3 | 29.8 | 38.1 | 9.5 | 478.1 | 487.6 |
| Italy | - | 86.8 | 86.8 | - | - | - | - | 86.8 | 86.8 | - | 2.0 | 2.0 | - | 88.8 | 88.8 |
| The Netherlands | 1.0 | 20.5 | 21.5 | - | 1.7 | 1.7 | 1.0 | 22.2 | 23.2 | - | - | - | 1.0 | 22.2 | 23.2 |
| Other EEC Coountry | 2.7 | 45.0 | 47.7 | - | - | - | 2.7 | 45.0 | 47.7 | 25.0 | 11.8 | 36.8 | 27.7 | 56.8 | 84.5 |
| JAPAN | 416.2 | 674.5 | 1,090.7 | 222.5 | 142.9 | 365.4 | 638.7 | 817.4 | 1,456.1 | - | 15.4 | 15.4 | 638.7 | 832.8 | 1,471.5 |
| International Finance Organisation | 770.2 | - | 770.2 | 174.0 | - | 174.0 | 944.0 | - | 944.0 | 414.0 | 26.9 | 440.9 | 1,358.0 | 26.9 | 1,384.9 |
| IBRD/IDA/IFC | 525.8 | - | 525.8 | 85.0 | - | 85.0 | 610.8 | - | 610.8 | 353.5 | 26.9 | 379.4 | 963.3 | 26.9 | 990.2 |
| ADB | 244.2 | - | 244.2 | 89.0 | - | 89.0 | 332.2 | - | 332.2 | 61.5 | - | 61.5 | 394.7 | - | 394.7 |
| CANADA | 0.9 | 18.9 | 19.8 | 15.0 | 16.0 | 31.0 | 15.9 | 34.9 | 50.8 | - | 2.7 | 2.7 | 15.9 | 37.6 | 53.5 |
| OTHERS | - | 292.5 | 292.5 | - | 192.5 | 192.5 | - | 485.0 | 485.0 | - | 20.5 | 20.5 | - | 505.5 | 505.5 |
| TOTAL | 2,307.9 | 2,079.6 | 5,387.5 | 456.5 | 1,086.9 | 1,543.4 | 2,764.4 | 4,166.5 | 6,930.9 | 982.9 | 348.9 | 931.1 | 3,347.3 | 4,515.4 | 7,862.7 |

Source: Economic Planning Board

nations. The South Korean 'debt problem' is less of a constraint upon the economy and Korean people because foreign assistance in the past (1945-70) had been largely and mainly given in the form of grants. This feature of the Korean experience with foreign aid must be emphasised since United States aid to Korea amounted to a pure gift. United States aid-giving has not always been on a pure grant basis and, as was shown in Chapter Three, Section 3.5, some countries had debt serving problems with United States aid. Foreign loans amounted to $7.8 billion in the period 1959-75. Foreign loans during the period 1945-59 were insignificant in comparison with foreign aid in the form of grants.

There are a variety of different estimates of how much foreign aid South Korea has had in the period 1945-75 For example, South (1982) estimates that South Korea received $12.6 billion with Japan and International agencies accounting for $3 billion. According to these estimates South Korea received over the three decades $600 per capita, with South Vietnam and Israel being the only other countries to have received economic aid, per capita, of this order (see also Table III.IV for a different food aid per caput ranking).

Professor Krueger (1979) estimates that in the period 1945-75 the United States alone provided $6 billion in economic aid (USAID) and a further $7 billion in United States military assistance. This was mostly grants. The Krueger estimate of total economic and military assistance was of the order of $13 billion, which is similar to the South (1982) estimate. The South estimate attributes $3 billion to Japanese and International Agency aid and if this is added to the

Krueger estimate of $13 billion then a figure of $16 billion may be nearer the aggregate economic and military assistance to South Korea. The significance of military and economic aid will be further discussed in Section 6.2.3. It is probably impossible to have a definitive and exact estimate of foreign aid because of definition and data source problems. However, it is not in doubt that South Korea has been one of the developing countries which have received among the highest levels of aid in grant form over a continuous and sustained period of time, almost amounting to a generation (1945-75).

Taking the 1945-75 period as a whole, foreign loans and aid to the South Korean economy amounted to $7.8 billion foreign loans and $16 billion in grant aid, giving a total of $23.8 billion in foreign resources. South Korea has had twice as much foreign grant aid than foreign loans in the period with aid resources meeting import requirements during the period 1945-59, with foreign loans gradually obtaining greater importance from 1959 onwards. While the $23.8 billion did not go in its entirety to investment purposes, an increasing proportion did and this will be further examined in this and the following chapter.

6.2.1 A note on Aid Data Sources: Problems and Accuracy

The sources of data on South Korean aid have a number of problems mainly of accuracy and underestimation, of double counting and cross-checking data sources. A major source of data on aid to Korea is to be found in the Statistical Report on Foreign Assistance and Loans to Korea (1945-75) compiled by Suk Tai Suh for the Korean Development Institute and the Harvard Institute for International Development. The data in

this 200-page report provided the major source of aid data for Professor Krueger's study on the developmental role of the foreign sector and aid in the Republic of Korea (1945-75). Suk Tai Suh has brought together the major data from USAID Korea, USAID Washington, the Bank of Korea, the Korean Development Institute and numerous Korean agencies. From 1945 to 1975 numerous agencies involved with the economy and economic development, national and international, were born and died leaving a profusion of acronyms which the student of Korean development must come to terms with. Suk Tai Suh refers to this multiplicity of agencies and organisations appropriately as 'alphabet soup'. In addition to the data sources compiled by Suk Tai Suh, Professor Krueger, Cole and Lyman (1971) and PL 480 annual reports provide useful supplementary data and are particuarly useful for cross checking.

Varying estimations of the amount of economic aid that South Korea received from 1945-75 are given in Table VI.IV. AID Washington estimates total aid on a financial year basis as $5.6 billion whereas USAID Korea on a calendar year basis estimates $4.7 billion, and the Bank of Korea, also on a calendar year basis, estimates $4.4 billion. The food aid element is estimated by AID Washington at $1.6 billion and AID Korea at $1.7 billion. The PL 480 administration (see Table VII.II Chapter 7) estimates $1.8 billion under PL 480 and $2.1 billion including 'under specified government programmes'. All food as aid is not included in this PL 480 estimation since some military programmes provide food as part of the military budget.

Given that the Harvard estimate of total economic aid to

Table VI.IV South Korea 1945-75: Comparison of Aid Data by Three Sources

Units: Million US Dollars

| | AID (Washington) (FY Basis) | US AID (Korea) (CY Basis) | | BOK (CY Basis) | |
|---|---|---|---|---|---|
| CARIOA | 292.0 | | - | | 502.1 |
| FLC | 24.9 | | - | | 24.9 |
| CRIK | 420.2 | | - | | 457.4 |
| AID GRANT | 2,619.8 (1946-73) | | 2,361.9 (1954-75) | | 2,576.9 (1949-75) |
| | | Supporting Assistance Non-project | 1,836.2 | ECA (1949-53) | 109.1 |
| | | Supporting Assistance Project & Tech Coop & Defence Support, | | FOA (1953-54) | 33.0 |
| | | Dev. Grant Project | 494.8 | ICA (1953-60) | 1,587.3 |
| | | Tech. Support | 30.9 | AID (1961-75) | 847.5 |
| | | Sub-total | 2,361.9 | Sub-total | 2,576.9 |
| AID LOAN | 478.7 | | - | | - |
| DL LOAN | - | | 631.7 | | - |
| UNKRA | 122.2 | | - | | 122.1 |
| PEACE CORPS | 12.4 | | - | | - |
| OTHERS | 8.5 | | - | | - |
| PL 480 TITLE I Sale | 632.4 | | 777.6 | | 795.7 |
| Loan | 541.3 | | 523.3 | | - |
| TITLE II & III | 503.1 | | 414.1 | | - |
| TOTAL PL 480 | 1,676.8 | | 1,715.0 | | |
| TOTAL | 5,655.5 | | 4,708.6 | | 4,479.1 |

South Korea during the period 1945-75 was $6 billion, taking the varying estimates of food aid, it can be said that one third of economic aid to South Korea was food aid. It is quite possible that as much as 40% of economic aid to South Korea was in the form of commodities. This question will be discussed further in Chapter Seven (see Table VII.VIII).

### 6.2.2 Economic Aid to South Korea, 1945-1975

From the end of the second world war to 1954 the South Koreans received economic and emergency aid from a number of different agencies which is illustrated in Tables VI.V(a) and (b) (with explanatory notes for acronyms). From 1947 through to the 1970s, with two exceptional years, Korea received a high and steady flow of mainly United States foreign aid. This data source underestimates food aid by at least $1 billion. GARIOA, FOA, CRIK, ICA, AID and UNKRA all had a substantial food and materials component in their respective programmes. So commodity and food aid is somewhat masked by the different agency headings and to a certain degree the lack of specificity on the constituent parts and components of this aid.

Professor Krueger in her work on Aid to Korea tends to dismiss the potential economic contribution of foreign aid to the South Korean economy prior to 1954. As has been argued, Kreuger sees economic aid from 1954 to 1975 as having contributed to distortions in the economy and having delayed the adoption of sensible free trade policies. Krueger sees aid from 1945 to 1954 as merely supplies for a war-torn economy to keep hunger and the collapse of the economy at bay. This view

Table VI.V(a) Summary of US Aid Received: South Korea FY 1946-73

Units in Million US Dollars

| Period | GARIOA | Surplus Property | CRIK | AID | | Food for Peace PL480 Title I | | Title II | UNKRA | Peace Camps | Other | Total Loans and Grants |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Loan | Grant | Loan | Sales | | | | | |
| 1946-48 | 155.7 | 24.9 | - | - | - | - | - | - | 0.6 | - | - | 181.2 |
| 1949-52 | 136.3 | - | 206.5 | - | 10.0 | - | - | 0.3 | 132.5 | - | - | 485.6 |
| 1953-61 | - | - | 213.7 | 25.3 | 2,037.1 | - | 176.5 | 137.4 | -10.9 | - | - | 2,579.1 |
| 1962-65 | - | - | - | 134.2 | 357.0 | - | 236.3 | 83.8 | - | - | - | 811.3 |
| 1966-73 | - | - | - | 319.2 | 215.7 | 541.3 | 216.9 | 281.6 | - | 12.4 | 8.5 | 1,598.3 |
| TOTAL 1946-73 | 292.0 | 24.9 | 420.2 | 478.7 | 2,619.8 | 541.3 | 632.4 | 503.1 | 122.2 | 12.4 | 8.5 | 5,655.5 |

Source: Statistics and Reports Division, Agency for International Development, Washington DC.

GARIOA (Government and Relief in Occupied Areas 1945-48)
CRIK (Civilian Relief in Korea 1950-63)
UNKRA (United Nations Korean Reconstruction Agency 1945-48)

The food component of United States total aid during the period 1946-73 was 44.4% (ie all PL 480 plus GARIOA, CRIK and UNKRA). (Source: Suk Tai Suh, 1976.)

Table VI.V(b) Summary of Foreign Economic Aid Received

Unit in Thousand US Dollars

| Year | CARIOA | FLC[3] | ECA | FOA | CRIK | ICA | AID[2] | PL 480[1] | UNKRA | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1945 | 4,934 | - | - | - | - | - | - | - | - | 4,934 |
| 1946 | 49,496 | - | - | - | - | - | - | - | - | 49,496 |
| 1947 | 175,371 | 24,928 | - | - | - | - | - | - | - | 200,299 |
| 1948 | 179,593 | - | - | - | - | - | - | - | - | 179,593 |
| 1949 | 92,703 | - | 23,806 | - | - | - | - | - | - | 116,509 |
| 1950 | - | - | 49,330 | - | 9,376 | - | - | - | - | 58,706 |
| 1951 | - | - | 31,972 | - | 74,448 | - | - | - | 122 | 106,542 |
| 1952 | - | - | 3,824 | - | 155,534 | - | - | - | 1,969 | 161,327 |
| 1953 | - | - | 232 | 6,984 | 158,787 | 5,571 | - | - | 29,580 | 201,154 |
| 1954 | - | - | - | 25,983 | 50,191 | 82,437 | - | - | 21,297 | 179,908 |
| 1955 | - | - | - | - | 8,711 | 205,815 | - | - | 22,181 | 236,707 |
| 1956 | - | - | - | - | 331 | 271,049 | - | 32,955 | 22,370 | 326,705 |
| 1957 | - | - | - | - | - | 323,268 | - | 45,522 | 14,103 | 382,893 |
| 1958 | - | - | - | - | - | 265,629 | - | 47,896 | 7,747 | 321,272 |
| 1959 | - | - | - | - | - | 208,297 | - | 11,436 | 2,471 | 222,204 |
| 1960 | - | - | - | - | - | 225,236 | - | 19,913 | 244 | 245,393 |
| 1961 | - | - | - | - | - | - | 154,319 | 44,926 | - | 199,245 |
| 1962 | - | - | - | - | - | - | 165,002 | 67,308 | - | 232,310 |
| 1963 | - | - | - | - | - | - | 119,659 | 96,787 | - | 216,446 |
| 1964 | - | - | - | - | - | - | 88,346 | 60,985 | - | 149,331 |
| 1965 | - | - | - | - | - | - | 71,904 | 59,537 | - | 131,441 |
| 1966 | - | - | - | - | - | - | 65,310 | 37,951 | - | 103,261 |
| 1967 | - | - | - | - | - | - | 52,640 | 44,378 | - | 97,018 |
| 1968 | - | - | - | - | - | - | 49,929 | 55,927 | - | 105,856 |
| 1969 | - | - | - | - | - | - | 32,434 | 74,830 | - | 107,264 |
| 1970 | - | - | - | - | - | - | 20,933 | 61,703 | - | 82,636 |
| 1971 | - | - | - | - | - | - | 17,566 | 33,651 | - | 51,217 |
| 1972 | - | - | - | - | - | - | 5,089 | - | - | 5,089 |
| 1973 | - | - | - | - | - | - | 2,314 | - | - | 2,314 |
| 1974 | - | - | - | - | - | - | 982 | - | - | 982 |
| 1975 | - | - | - | - | - | - | 1,115 | - | - | 1,115 |
| TOTAL | 502,057 | 24,928 | 109,164 | 32,967 | 457,378 | 1,587,302 | 847,542 | 795,705 | 122,004 | 4,479,167 |

Source: Foreign Aid, Bank of Korea

Notes for Table VI.V(b)

Source: The Bank of Korea, Economic Statistics Yearbook, 1960, 1975.

Notes: (1) A portion of proceeds from sales of surplus agricultural commodities imported under the US Public Law 480 used by the US Government cannot be regarded as foreign aid received. But for convenience it is included here to show the total imports under the same law PL 480 Title I (Sale).
(2) Including technical assistance and administrative expenses of the aid agency.
(3) FLC denotes Foreign Liquidation Committee of Surplus Materials during 1947.

CARIOA (Government Appropriations for Relief in Occupied Areas; ECA (Economic Cooperation Administration (US); FOA (Foreign Operations Administration (US) (1955) changed name to ICA); CRIK (Civil Relief in Korea (US share 92%); ICA (Changed name to AID in 1961) International Cooperation Administration; AID (Agency for International Development); PL 480 (PUBLIC LAW 480 (only Title I Sales); UNKRA (United Nations Korean Relief Agency (US share 62%).

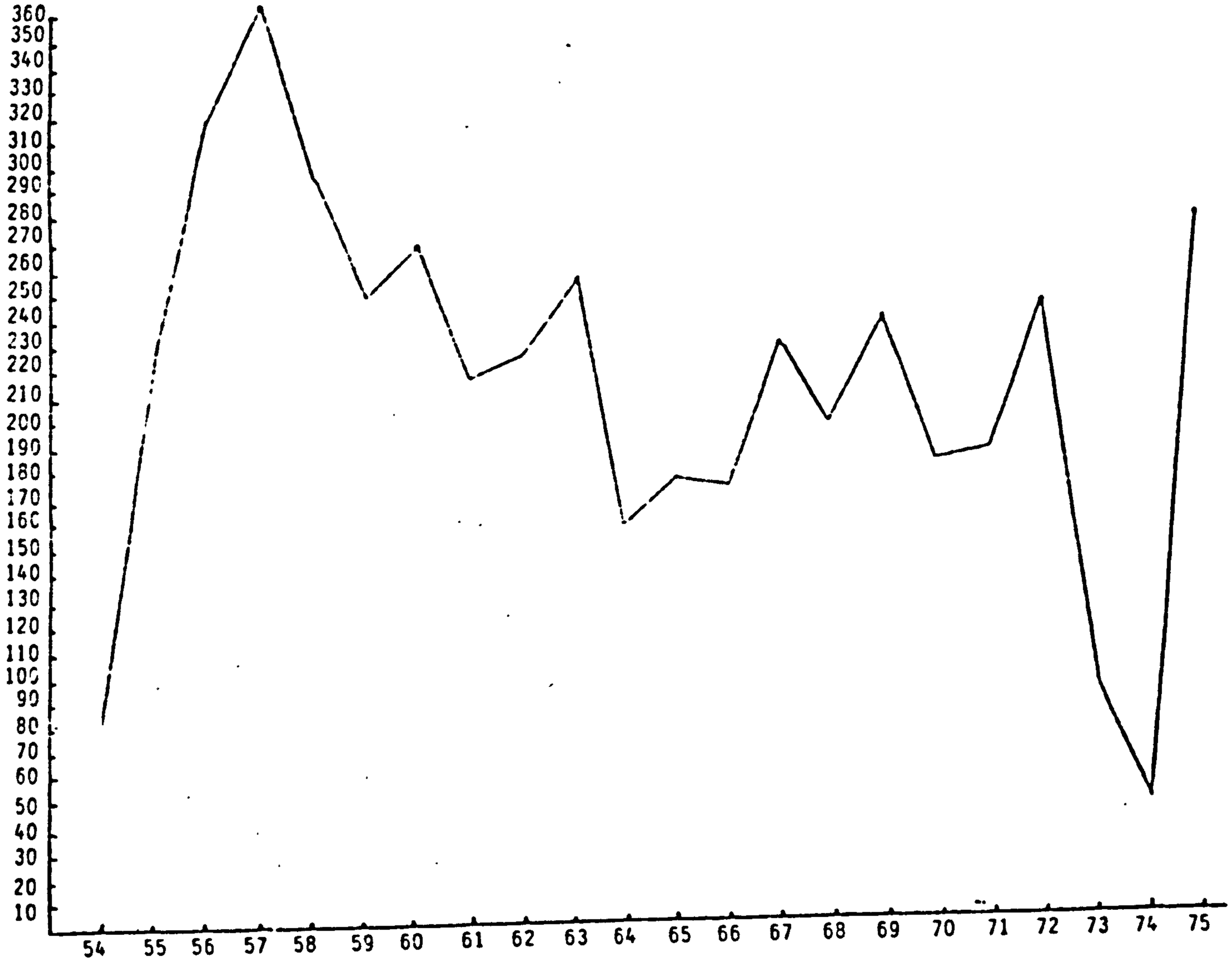
is probably largely correct. However, the assumption that all this aid was of a stop-gap nature is unwarranted, since some of the aid given did help to provide a basis for the industrial growth that came after 1954. It is not possible to give an estimation or 'guesstimate' of the 'investment' as opposed to the 'consumption' or 'military' proportions of the aid used during this period. Records are confused, non-existent or inaccurate.

Figure VI.VI shows total economic aid to South Korea from 1954 to 1975. The rise to a peak in 1956-57 led Professor Krueger to argue that aid had become progressively less important throughout the 1960s. While the aggregate figure would suggest this steady decline over the period, annual aid from 1954 to 1975-76 was substantial by any standards and the relative annual decline really does not allow the conclusion that this aid was in any way insignificant as a source of foreign resources to the South Korean economy. To give such an impression is to mislead the reader.

### 6.2.3 Military Aid to South Korea

It is not possible to obtain a complete picture of military aid to South Korea from 1945 to 1975. The period of the Korean war is a difficult one to obtain accurate data on the full costs and resources given to the war and whether they are to be attributed to 'Korea' or 'America' or, indeed, the other countries involved in that war. Undoubtedly, substantial resources were expended with possible short-term spin-offs to Korean survival and later to economic development.

Estimates are however available for military assistance




(1975 est 4.7 billion)

from 1956 to 1968 and are shown in Table VI.VII. In 1958 military assistance amounted to 17% of the Korean GNP, a substantial contribution. From these estimates the military assistance contribution began to reduce throughout the period. However, these figures may be an underestimation since the South Korean contribution in arms and construction in the South Vietnam United States foreign policy adventure was substantial, and the costs and benefits would have come under a Vietnam heading in United States allocations rather than a South Korean one. (See Cole and Lyman, 1971, for a further discussion of this matter.)

Both economic and military aid are subject to switching or fungibility and there are difficulties in estimating to what extent military aid provided economic spin-offs, and economic aid to military spin-offs. Undoubtedly the military strength of South Korea provided the basis for security and economic stability, and to that extent is or was a prerequisite for economic development. (For a discussion on the relationships of military and economic aid in South East Asia see Jordan, 1962.) South Korea maintains an army of between 700,000 and 1,000,000 soldiers and apart from the material for war the United States provided under mutual security programmes food for these soldiers as well as tobacco and various other commodities consumed by armies. The consumption of United States food has obvious implications for domestic production and indeed for foreign exchange saving. These matters will be further discussed in this and the following chapter.

Throughout the period 1956 to 1968 economic and military aid from the United States to South Korea was approximately of

TABLE VI.VII Estimates of Military Assistance and Its Relation to Korean Defense Expenditures and GNP

| Year | US MILITARY ASSISTANCE[a] | | GOVERNMENT CONSUMPTION EXPENDITURE[b] (IN BILLIONS OF WON) | | US MILITARY ASSISTANCE AS PERCENT OF | |
|---|---|---|---|---|---|---|
| | In millions of US Dollars | Converted to billions of 1965 won[c] | Total | Defense-related[d] | Defense-related consumption | GNP |
| 1956 | 231.2 | 61 | 65.7 | 31.2 | 195 | 12.7 |
| 1957 | 265.5 | 70 | 66.3 | 34.1 | 205 | 13.4 |
| 1958 | 353.5 | 94 | 70.5 | 33.3 | 282 | 17.0 |
| 1959 | 212.4 | 56 | 69.8 | 31.2 | 179 | 9.7 |
| 1960 | 213.1 | 56 | 71.1 | 18.7 | 195 | 9.5 |
| 1961 | 232.7 | 62 | 69.8 | 28.2 | 220 | 10.1 |
| 1962 | 189.5 | 50 | 70.4 | 29.1 | 172 | 7.9 |
| 1963 | 194.8 | 52 | 73.8 | 27.1 | 192 | 7.5 |
| 1964 | 137.8 | 37 | 71.2 | 28.2 | 131 | 4.9 |
| 1965 | 219.2 | 58 | 76.0 | 29.7 | 195 | 7.2 |
| 1966 | 168.7 | 45 | 84.8 | 32.4 | 139 | 4.9 |
| 1967 | 153.2 | 41 | 92.4 | 33.7 | 122 | 4.1 |
| 1968 | 204.1 | 54 | 101.7 | 37.6 | 144 | 4.8 |

Source: US Military Assistance is the sum of regular military assistance plus grants from excess stocks as reported in Agency for International Development (AID), US Overseas Loans and Grants and Assistance from International Organizations, July 1, 1945-June 30, 1966. Special report prepared for the House Foreign Affairs Committee (Washington, DC, March 1967). General Government consumption and GNP estimates are from the Bank of Korea, National Accounts.

a Military assistance figures are for US fiscal years and are therefore not exactly comparable with the Korean Government consumption expenditure series.
b In constant 1965 market prices.
c Converted at an exchange rate of 265 won per dollar.
d Defense-related consumption in constant 1965 prices is estimated by using the ratio of defense expenditures to total government consumption from the current price series.

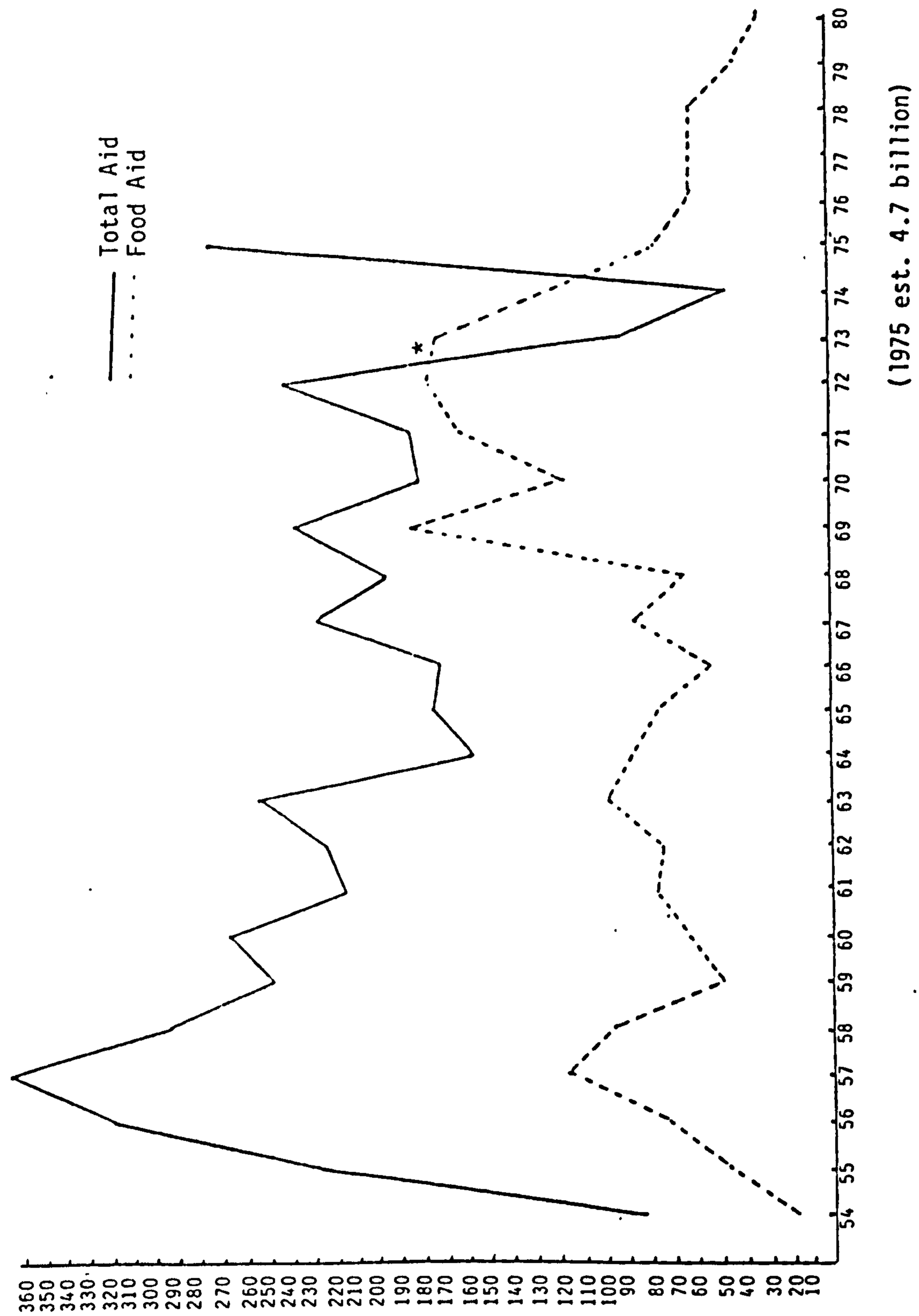
equal proportions, making a substantial contribution to Korean resources.

### 6.2.4 Food Aid and Commodity Aid to South Korea

Foodstuffs provided a major part of United States assistance to Korea in the period 1945 to 1954 as a contribution to war and reconstruction. From 1954 to 1980 foreign aid, though substantial, began gradually to decline on a yearly basis. Food aid or commodity aid during this period began to obtain an increasing importance as measured by its proportionate share of total economic aid. Figure VI.VIII(a) illustrates the rising share of food aid in the falling total economic aid. This is made more explicit in Figure VI.VIII(b) where the importance of food aid is made clear. In Professor Krueger's analysis of foreign aid this point is not made clear and indeed food aid is somewhat dismissed as only having contributed as a stop-gap measure from 1945 to 1954 and this period is considered to be, like general economic aid, of diminishing importance. Food aid contribution is considered only as a diminishing contribution to imports and this is not held in any particular way to be of great economic significance in the text of Krueger's work. This is to some degree surprising given that data provided in that text shows that the average proportion of commodity aid during the period 1961-72 was 51.5% (see Table VI.IX).

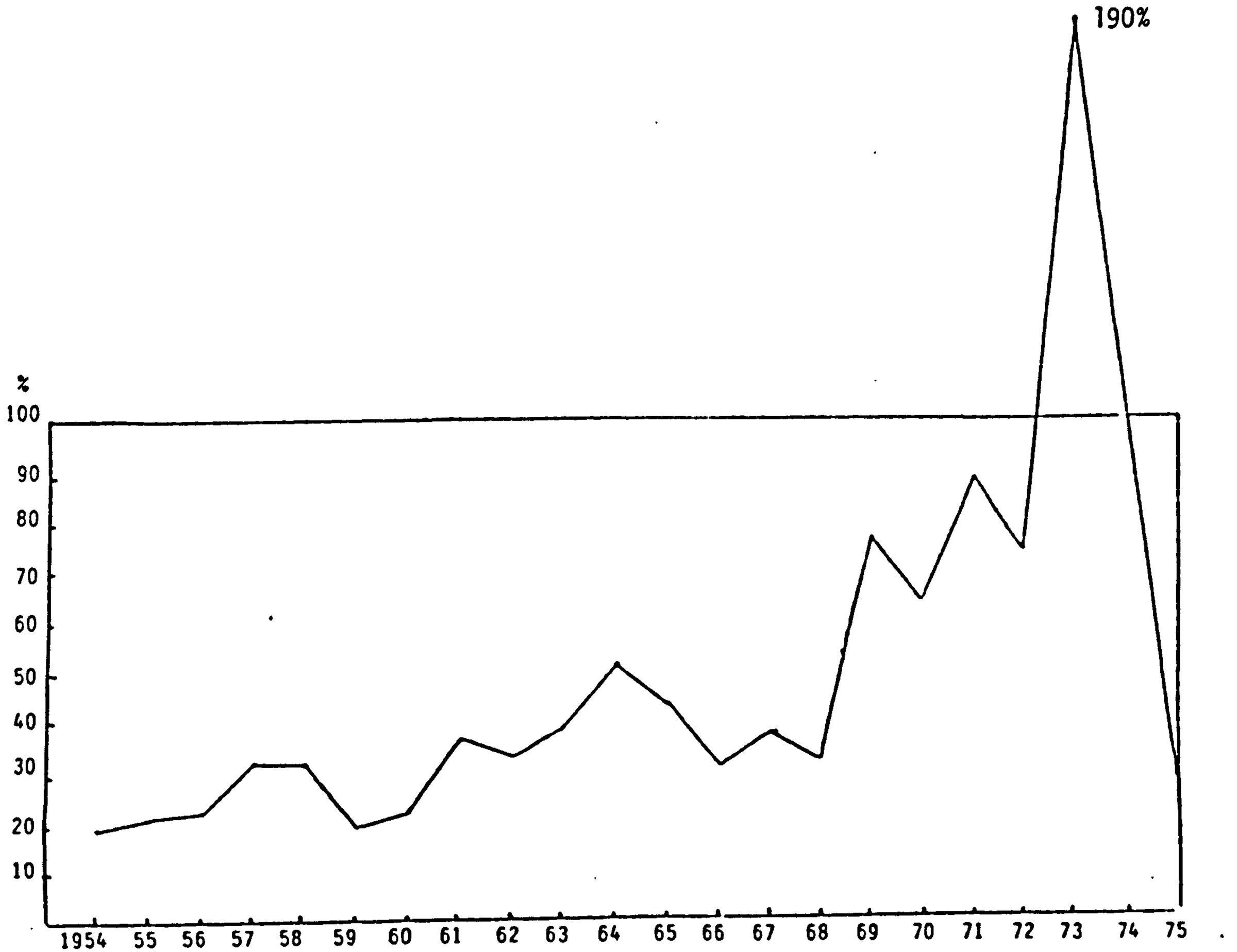
The question arises as to why the Koreans should wish for food aid or the Americans should wish to supply increasing quantities of commodity aid. For the United States, the expediency of giving this highly-tied form of aid combined

Figure VI.VIII(a) Economic Aid and Food Aid to South Korea 1954-75




The years 1972-74 saw a considerable increase in food aid to South Korea as the PL480 programme was discontinued (see Table VII.III). Of course food aid cannot exceed total aid and therefore the dotted line 1972-74 indicates that the greater part of total aid was food aid. Table VI.VIII indicates that food aid became the predominant form of US assistance to South Korea over the period.

Figure VI.VIII(b) Food Aid (Concessional Sales) as a proportion of Total Aid to South Korea 1954-1975



# Total Aid Flows from the United States to South Korea 1961-73

Source: Page 153, Krueger
Tables 31 and 42.

| $ | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PL480. Sales 1 | 37.6 | 36.1 | 62.7 | 94.7 | 54.4 | 55.0 | 58.0 | 58.5 | 64.9 | 54.7 | 30.8 | 3.7 | |
| PL480 Title II and Title III | 10.2 | 24.0 | 21.8 | 27.6 | 28.5 | 28.5 | 31.6 | 47.3 | 118.5 | 67.8 | 84.9 | 197.0 | 61.0 |
| Total Aid Received | 192.8 | 245.5 | 252.3 | 164.8 | 176.9 | 173.2 | 229.8 | 197.5 | 239.7 | 181.8 | 185.9 | 241.4 | |
| | 22.1% | 24.4% | 33.4% | 74.2% | 46.8% | 36.6% | 38.9% | 53.5% | 76.5% | 67.3% | 62.2% | 83.1% | |

Average 1961-1972 51.5%;

Food Aid as a proportion of Total Aid (calculated from A Krueger data).

with the prospect of future commercial markets for these surplus forms of commodity. But for the South Koreans, they presumably would not wish resources that could not contribute to the economic and social progress of the economy. Given that growth rates of GNP were gathering pace during the 1960s, this commodity aid must have played its part in that economic progress. To explain the possible mechanisms for the contribution of commodity aid to South Korean development, is the central purpose of this analysis.

Commodity aid and economic aid from the United States to South Korea was given principally in the form of grants. The appearance of the South Koreans paying back the United States in non-convertible won belies the reality that, apart from the counterpart funds allocated for United States agency use within South Korea, the majority of funds were given to the Korean Government for use in military, economic and general revenue purposes.

The 'payment' conditions for PL 480 (Title I) sales were in any case extremely generous. Table VI.X gives a representative example of those conditions: the ten-year grace period, interest rates at 2.0% and payback periods of thirty-one years. Without the granting of counterpart funds to the Korean Government, the rate of inflation in Korea would have in any case eroded the payback burden to insignificant levels (see Appendix I this chapter, Section 6.3.3). Repayment for PL 480 was in Won.

The assumption with food aid is nearly always that the commodities given as aid are to be consumed directly as food. In particular recipient country cases this assumption can be

quite misleading. A whole range of agricultural commodities which represent protection and domestic United States agricultural surplus capacity are available under PL 480 programmes. A non-food commodity, tobacco for example, has been given to numerous countries over many years under PL 480 - the United Kingdom 'benefitted' from such donations in the post second war period. The range of protected agricultural commodities can be seen from the Public Law 480 annual reports, although it must be said that wheat does tend on a volume and value basis to be the major commodity donated under United States food aid programmes. The range of agricultural commodities donated by the United States to South Korea under PL 480 is given in Table VI.XI from the years 1956-71. Grains (rice, wheat, barley, sorghum, corn) over that period account for 53% - of course quantities supplied vary from year to year. Other commodities such as pork, tobacco, tallow and 'others' were given in small quantities. A major commodity supplied under PL 480 throughout the period was raw cotton which is obviously an important raw material for the production of textiles and the textile industry. The importance of this factor will be further analysed in Chapter Seven.

While agricultural commodities such as cotton are obviously not food for human consumption, feedgrains are also not for direct human consumption. Food aid is an inaccurate description for surplus agricultural commodities; it is nevertheless the term used interchangeably with PL 480 as a description of a type of aid. The commodities available under the 'food aid' rubric are all agricultural commodities,

Table VI.X Payment Conditions of Interest and Principals:

PL 480 Title I (Loan)

Unit in percentage

| | Grace Period | Interest | Principals Payment Period | Interest |
|---|---|---|---|---|
| 68.10.23 | 10 | 2.0 | 31 | 2.5 |
| 69. 2.26 | 10 | 2.0 | 31 | 3.0 |
| | 10 | 2.0 | 31 | 3.0 |
| | 10 | 2.0 | 31 | 3.0 |
| | 10 | 2.0 | 31 | 3.0 |
| 73. 4.12 | 10 | 2.0 | 31 | 3.0 |

Source: USAID to Korea

surplus to the United States domestic demand and world effective demand, and that is the reason for their availability in aid programmes (as discussed in Chapter Three). It is a matter of dispute (and possibly of pointless dispute) whether feedgrains should be included in a strictly narrowly defined concept of 'food aid'. On a first consideration of the question of the role of food aid to South Korea, it is not unreasonable to assume that the pattern and types of commodities given as aid to that country reflected the dominant food aid commodity wheat. However, a careful examination of the actual commodities given under PL 480 shows that the nature and type of commodities given did not conform to the expected 'normal' commodity wheat. While South Korea received substantial quantities of wheat, it also received substantial quantities of cotton - a non-food agricultural commodity.

In a work entitled 'Food Aid and Industrialisation' the broad definition of food aid is taken as defining the actual commodities given under the PL 480 food aid programme, and not singularly on the apparent narrow definition of food meant only for direct human consumption. In the South Korean case both food and non-food commodities were given under the food aid title. This aid was intended to raise the standard of living of the recipients through direct and indirect means and agricultural commodities for human and animal consumption, as well as a raw material for industrial production which can equally contribute to improving the welfare of the recipient. It may be politically or even cosmetically prudent for the donor to allow the impression that food aid is designed to

feed the hungry and dispel malnutrition from the world. However, as discussed in Chapter Three, the greater part of this aid has not in fact achieved that noble aim.

If the aid has contributed to increasing investment and thus growth in the recipient economy the benefits in terms of an improved economic prospect are nevertheless clear and of some importance. Realistically food aid must be broadly defined to include all those commodities actually supplied to South Korea under the PL 480 agricultural surplus disposal and aid policies of the United States of America. In the case of food aid advanced as industrial raw materials it is perhaps easier to see the investment potential than in the case of food commodities, where both a consumption and an investment element inherently exist. It is a far greater problem to demonstrate clearly the investment role of food than it is of an industrial raw material.

Table VI.XII(a) calculates the importance of cotton as a 'food aid' contribution to the South Korean economy during the period 1956-71. Cotton donations averaged 41.5% over the period, in some years (1966-67) over 70% of food aid was cotton. The significance of this industrial raw material contribution to South Korean development and the aid to the textile industry, given its leading sector status in the export growth of the 1960s and 1970s, cannot be over-stressed. United States aid in commodities has provided a major industrial contribution directly to the export growth of the Korean economy. In addition to cotton being supplied under PL 480 the USAID programme also supplied raw materials for Korean

Table VI.XI Imports of Surplus Agricultural Commodities to South Korea under US PL 480[1] (1956-1971)

Unit: in thousand US dollars

| | Rice | Wheat | Barley | Grain Sorghum | Corn | Pork | Tobacco | Raw Cotton | Tallow | Others | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1956 | 26,840 | 7,540 | 12,419 | - | - | - | 4,848 | 8,148 | - | - | 32,955 |
| 1957 | - | 1,520 | 4,608 | - | - | 8,243 | 2,126 | 1,807 | - | 378 | 45,522 |
| 1958 | - | 29,941 | 14,104 | 2,226 | 672 | - | - | 448 | - | 505 | 47,896 |
| 1959 | - | 3,623 | 140 | 6 | 575 | - | - | 6,986 | - | 106 | 11,436 |
| 1960 | - | 18,576 | - | - | 574 | - | - | 763 | - | - | 19,913 |
| 1961 | - | 20,162 | 2,141 | 90 | 247 | - | - | 21,492 | - | 794 | 44,926 |
| 1962 | - | 26,167 | 6,071 | 470 | 1,702 | - | - | 31,291 | 1,607 | - | 67,308 |
| 1963 | - | 55,670 | 5,170 | 538 | 1,193 | - | - | 31,766 | 2,450 | - | 96,787 |
| 1964 | - | 24,726 | 3,266 | 1 | 1 | - | - | 30,541 | 2,450 | - | 60,985 |
| 1965 | - | 28,394 | 1,293 | - | - | - | - | 29,717 | 133 | - | 59,537 |
| 1966 | - | 11,202 | - | - | - | - | - | 26,749 | - | - | 37,951 |
| 1967 | - | 7,871 | - | - | - | - | - | 34,084 | 2,423 | - | 44,378 |
| 1968 | - | 27,271 | - | - | - | - | - | 24,658 | 3,998 | - | 55,927 |
| 1969 | - | 31,626 | - | - | - | - | - | 39,017 | 4,187 | - | 74,830 |
| 1970 | - | 33,007 | - | - | - | - | - | 27,434 | 1,261 | - | 61,703 |
| 1971 | - | 17,953 | - | - | - | - | - | 15,698 | - | - | 33,651 |
| Total | 26,840 | 345,249 | 49,212 | 3,331 | 4,964 | 8,243 | 6,974 | 330,599 | 18,509 | 1,783 | 795,704 |

Source: The Bank of Korea, Economic Statistics Yearbook, 1963, 1972.

1 A portion of proceeds from sales of surplus agricultural commodities imported under the US Public Law 480 used by the US Government cannot be regarded as foreign aid received, but for convenience it is included here to show the total imports under the same law.

Table VI.XII(a)

Cotton and Grains as a proportion of PL480 imports 1956-1971

(thousand dollars)

| | Cotton % PL480 | Grains %* PL 480 Total | |
|---|---|---|---|
| 1956 | 24.7 | 75.3 | 32,955 |
| 1957 | 3.9 | 96.04 | 45,522 |
| 1958 | 0.9 | 99.1 | 47,896 |
| 1959 | 61.0 | 39.0 | 11,436 |
| 1960 | 3.8 | 96.2 | 19,913 |
| 1961 | 47.8 | 52.2 | 44,926 |
| 1962 | 46.4 | 53.6 | 67,308 |
| 1963 | 32.8 | 67.2 | 96,787 |
| 1964 | 50.0 | 50.0 | 60,985 |
| 1965 | 49.9 | 50.1 | 59,537 |
| 1966 | 70.4 | 29.6 | 37,951 |
| 1967 | 76.8 | 23.2 | 44,378 |
| 1968 | 44.0 | 56.0 | 55,927 |
| 1969 | 52.1 | 47.9 | 74,830 |
| 1970 | 44.4 | 55.6 | 61,703 |
| 1971 | 46.6 | 53.4 | 33,651 |

Cotton 41.5% over the period 1956-1970.

---

* Also includes small amounts of tobacco, tallow and pork. See Table VI.XI.

'industrialisation'.[1]

Table VI.XII(b) shows that $167 million worth of cotton was donated under PL 480. In addition to this programme USAID provided cotton cloth, rayon and dyestuffs for the textile industry. The United States provided $1.8 billion of textile-related aid as raw materials and in addition, various industrial machines and equipment which cannot be directly attributable from this data source to the textile industry. It is, however, probable that the $1.8 billion is an under-estimate of the aid to the textile industry. Of the total $6 billion given in economic aid, it can be argued from these figures that at least 30% of United States aid during the period 1954-75 can be accounted for by aid to the textile industry and to industrialisation in South Korea. Of course in addition to these raw materials, food as part of the wage good to the workers in the industry would also have to be included. The matter of wages and food aid will be examined in more detail in Chapter Seven. Unlike Professor Krueger's analysis, this analysis has attributed, as a first approximation, a vital raw material contribution of 'commodity aid' to the process of industrialisation in South Korea. One cannot explain away this cotton commodity aid as Professor Krueger

---

1 Suk Tai Suh Appendix I, Supporting Assistance - Non Project, pages 85-145, gives a detailed account of assistance provided to South Korea. With over 490 different headings for assistance given this ranges through commodities of all descriptions from wheat to creosote, from coal to light bulbs, from machinery to radios, glass bottles etc. This is a quite astounding range of aid supplied material and the degree of detail is equally remarkable. Of course the contribution of this range of assistance in some instances (ie light bulbs) is not of major industrial significance However, the range and types of goods, machinery and material given to the industrial sectors is highly significant.

Table VI.XII(b)

Raw Material Contribution from the United States to the South Korean Textile Industry, 1954-72

Data Source by USAID: No Project.

| | |
|---|---|
| Raw Cotton (1954-72) | 167,986,317.00 |
| Cotton Yarn (1954-72) | 3,445,010.00 |
| Rayon Yarn (1954-72) | 89,262,727.00 |
| Worsted Yarn and Wool Tops (1954-72) | 31,997,949.00 |
| Rayon Waste | 50,119.00 |
| Dyestuffs | 7,293,146.00 |
| Cotton Cloth | 1,598,038.00 |
| Total USAID | $1,836,233,922.00 |

Pages 85-145 (Suk Tai Suh, 1976)

has chosen to do in her analysis, by ignoring these facts or at least failing to investigate commodity aid. By her own figures, the commodity aid comprised 50% of economic aid to South Korea.

## 6.3 THE CONTRIBUTION OF AID AND FOOD AID TO THE SOUTH KOREAN ECONOMY

At the aggregate level the United States provided

substantial economic and military support for the South Korean Government. Indeed were it not for the United States it is unlikely that the Korean economy would have progressed the way it did; the growth rates in the 1950s and 1960s were certainly respectable enough although not as spectacular as those achieved in the 1970s. It can however be argued that the support of the 1950s and 1960s provided the foundations for the future extraordinary growth rate achieved as the economy matured.

The extent of United States support for total South Korean GNP is given in Table VI.XIII where military and economic aid amounted in the late 1950s to a staggering 20%+ of GNP, economic aid being half of military aid during this period. With the United States providing such levels of support it is extremely unlikely that American advice would be lightly ignored by the Korean authorities and leverage particularly evident on military aid. After the fall of the Rhee government in 1961, following the student riots of that year, under the guidance of the United States authorities the Koreans began to reform their economic system of planning and management of the economy. It was during the 1960s that the Koreans moved more towards a '<u>laissez-faire</u>' type presentation of economic policy frameworks and objectives. The Rhee government was blamed in the mid-1960s by the new Park government for having been too greedy for United States aid and having 'allowed unwanted commodities', ie commodities that were destined only for consumption and not for investment. This charge embodies a kind of 'fiscal drug' argument which was regarded as a general problem among some food aid economists in the 1960s (see

Table VI.XIII United States Support for South Korean GNP 1956-1968

| | Aid* | (1)+ US Defense Assistance | | (2) Economic Aid % | (1) + (2) Total US Support for |
|---|---|---|---|---|---|
| | $m | $m | % GNP | GNP | Korean GNP % |
| 1956 | 326.7 | 231.2 | 12.7 | 9.9 | 22.6 |
| 1957 | 382.8 | 265.5 | 13.4 | 10.3 | 23.9 |
| 1958 | 321.2 | 353.5 | 17.0 | 9.0 | 26.0 |
| 1959 | 222.2 | 212.4 | 9.7 | 7.3 | 17.0 |
| 1960 | 245.3 | 213.1 | 9.5 | 8.5 | 18.0 |
| 1961 | 199.2 | 232.7 | 10.1 | 6.5 | 16.6 |
| 1962 | 232.3 | 189.5 | 7.9 | 6.5 | 14.4 |
| 1963 | 216.4 | 194.8 | 7.5 | 6.8 | 14.3 |
| 1964 | 149.3 | 137.8 | 4.9 | 3.9 | 8.8 |
| 1965 | 131.4 | 219.2 | 7.2 | 4.1 | 11.3 |
| 1966 | 103.2 | 168.7 | 4.9 | 3.6 | 8.5 |
| 1967 | 97.0 | 153.2 | 4.1 | 4.4 | 8.5 |
| 1968 | 105.8 | 204.1 | 4.8 | 3.4 | 8.2 |

* Source: Table VI.V(b)

+ Source: Table VI.VII.

Chapter Four for a discussion of this general problem).

At the aggregate level aid provided a substantial 20% share of Korean GNP in the early period of the 1950s and in the late 1960s still a considerable 8% of GNP.

### 6.3.1 Imports, Foreign Exchange and the Balance of Payments

Commodity aid imports provided a major contribution to foreign exchange and balance of payments savings. The exceptionally high period of grant aid 1957-58 amounted to 83.5% of imports declining to 61.9% in 1959-62 to 35% in 1963-65 and finally to 13.2% in 1967-68. In the mid-1960s foreign loans began to take up an increasing share of import financing as aid began to decrease (see Table VI.XIV). Food aid did provide (as is to be expected with such large volumes and values) a major source of imports and balance of payments support. Given that the won was not convertible the foreign exchange savings were also considerable.

Table VI.XV shows the substantial imports and relative foreign exchange savings during the period 1962-68, and taking Table VI.XIV for comparison of the aid element, shows these savings to be a major contribution to the South Korean economy.

### 6.3.2 Budgetary Support, Taxes and Government Resources

While aid contribution to the South Korean economy can be estimated at the aggregate and sectoral levels it can also be estimated as a source of government revenue. Table VI.XVI shows that counterpart funds provided a major source of government revenue in the period 1957-68, this was particularly so in the earlier part when military assistance

Table VI.XIV Commodity Imports by Source of Financing

| | Annual averages for 1957-1958 | | 1959-1962 | | 1963-1965 | | 1966-1968 | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Own foreign exchange | 47.8 | 11.7 | 115.1 | 33.2 | 221.9 | 46.6 | 680.0 | 64.0 |
| Grant aid | 342.5 | 83.5 | 214.5 | 61.9 | 170.2 | 35.8 | 139.7 | 13.2 |
| Foreign loans | - | - | 1.1 | 0.4 | 39.4 | 8.3 | 186.2 | 17.6 |
| Relief and others | 19.9 | 4.9 | 15.6 | 4.5 | 44.5 | 9.3 | 54.3 | 5.1 |
| Total | 410.2 | 100.0 | 346.3 | 100.0 | 476.0 | 100.0 | 1060.3 | 100.0 |

Source: Economic Planning Board, Major Economic Indicators, 1969.

Table VI.XV Summary Balance of Payments

| | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
|---|---|---|---|---|---|---|---|
| Current account deficit | 292.0 | 402.8 | 221.0 | 198.6 | 323.0 | 417.1 | 673.0 |
| Imports | 455.2 | 578.3 | 432.0 | 488.4 | 777.7 | 1060.0 | 1548.2 |
| Exports | 163.2 | 175.5 | 211.0 | 289.8 | 454.7 | 642.9 | 875.2 |
| Net transfer payments | 236.5 | 259.5 | 194.9 | 203.3 | 219.6 | 225.2 | 224.0 |
| Private | 36.5 | 52.0 | 53.9 | 68.7 | 97.6 | 90.7 | 95.9 |
| Government | 199.8 | 207.5 | 141.0 | 134.6 | 122.0 | 134.5 | 128.1 |
| Net capital and monetary movements | 55.5 | 143.3 | 26.1 | -4.7 | 103.4 | 191.9 | 449.0 |
| Private, net | 4.4 | 49.3 | 7.3 | 16.6 | 183.6 | 277.7 | 416.8 |
| Other, net | 51.1 | 94.0 | 18.8 | -21.3 | -80.2 | -85.8 | 33.2 |

Source: Economic Planning Board, Major Economic Indicators, 1957-1968 (Mar. 1969).

## Table VI.XVI Total Availability and Disposition of Government Resources as Percent of GNP

| | Revenues | | | | Expenditures | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Regular | Counterpart | Borrowings | Total | General | Defense | Military Assistance | Investment | Total |
| 1957 | 7.3 | 11.4 | 2.8 | 21.5 | 4.5 | 5.7 | 13.4 | 7.5 | 31.1 |
| 1958 | 8.8 | 11.9 | 2.3 | 23.0 | 6.7 | 6.1 | 17.0 | 7.0 | 36.8 |
| 1959 | 11.4 | 8.5 | 0.6 | 20.5 | 6.2 | 6.3 | 9.7 | 5.6 | 27.8 |
| 1960 | 12.0 | 6.8 | 0.8 | 19.6 | 6.8 | 5.9 | 9.5 | 4.2 | 26.4 |
| 1961 | 11.1 | 8.1 | 1.4 | 20.6 | 7.2 | 5.6 | 10.1 | 6.4 | 29.3 |
| 1962 | 12.6 | 8.3 | 5.9 | 26.8 | 12.3 | 5.9 | 7.9 | 7.1 | 33.2 |
| 1963 | 9.5 | 5.4 | 7.0 | 15.6 | 6.5 | 4.2 | 7.5 | 4.1 | 22.3 |
| 1964 | 7.4 | 4.0 | 0.0 | 11.4 | 4.6 | 3.6 | 4.9 | 2.4 | 15.5 |
| 1965 | 8.6 | 4.5 | 0.0 | 13.1 | 5.2 | 3.7 | 7.2 | 2.7 | 18.8 |
| 1966 | 11.2 | 3.7 | 0.0 | 14.9 | 5.7 | 3.9 | 4.9 | 3.9 | 18.4 |
| 1967 | 12.9 | 3.1 | 0.0 | 16.0 | 6.8 | 4.0 | 4.1 | 3.7 | 18.6 |
| 1968 | 14.9 | 2.0 | 0.0 | 16.9 | 7.5 | 4.1 | 4.8 | 5.3 | 21.7 |

Source: Derived from the statistics on the General Government Budget in Economic Planning Board, Major Economic Indicators, 1957-1968, Mar. 1969, p. 28.

also provided considerable Korean government revenues.

### 6.3.3 The Mitigation of Inflation

From 1954 to 1968 inflation and currency devaluation proved a major problem for the South Korean economic policy makers. 1954 to 1958 saw an average rate of inflation of 30% with 1955 a particularly bad year at 67%. The overall average rate of inflation was a high 20.3%. Over the period, with the exception of 1963-64, the average level of inflation tended to be coming down (see Table VI.XVII). Professor Krueger and the Harvard School would attribute this to more realistic foreign exchange and internal monetary policies. However, it is notable that the volume of food and commodity aid proportionately increased during the period and it can be argued that the slowing down of the rate of inflation can in part be explained by the contribution of this commodity aid to the dampening of inflationary pressures.

### 6.3.4 Savings and Investment in the Korean Economy

Aid has provided a major contribution to the South Korean Government revenues and resources, and to the Korean GNP. Foreign aid has also contributed to increasing savings and investment in the South Korean economy. Table VI.XVIII shows investment to have been, with the exception of 1956, not less than 10% of GNP and of course steadily increasing from 1960 onwards. It was during the 1960s that investment reached the 'magical' 15-16%+ of GNP for Rostovian or Lewis-type 'take-off' to sustained economic growth. From 1953 to 1964 government essentially dissaved and 1964 onwards increased its savings by 5% or thereabouts annually. Given that household savings varied over the period and corporate savings did not

Table VI.XVII Index of Inflation: Annual Change in Prices as Reflected by the Implicit GNP Deflator

| Year | Percent Change |
|---|---|
| 1954 | 32.8 |
| 1955 | 67.4 |
| 1956 | 30.1 |
| 1957 | 20.9 |
| 1958 | -0.7 |
| Average 1954-1958 | 30.1 |
| 1959 | 2.3 |
| 1960 | 9.3 |
| 1961 | 16.1 |
| 1962 | 13.9 |
| Average 1959-1962 | 10.4 |
| 1963 | 30.9 |
| 1964 | 34.5 |
| 1965 | 8.3 |
| 1966 | 12.9 |
| 1967 | 10.5 |
| 1968 | 12.0 |
| Average 1963-1968 | 18.2 |
| Overall average | 20.3 |

Source: Bank of Korea, Economic Statistics Yearbook, 1969.

Table VI.XVIII Financing of Investment (% of GNP at Current Market Prices) 1953 to 1978

| | | SAVINGS | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Private | | | | Govern-ment | Foreign | | |
| | Invest-ment | Nat-ional | Marginal Saving Rate | House-hold | (Household net of grain in-ventories) | Cor-porate | Total private | | Total foreign savings | Foreign savings % of in-vestment | Statistical discrepancy |
| 1953 | 15.4 | 8.8 | - | 6.5 | - | 4.7 | 11.2 | -2.4 | 6.6 | 42.7 | - |
| 1954 | 11.9 | 6.6 | 0.8 | 4.7 | - | 4.6 | 9.3 | -2.7 | 5.3 | 44.6 | - |
| 1955 | 12.3 | 5.2 | 3.3 | 3.6 | - | 4.0 | 7.6 | -2.3 | 7.1 | 57.6 | - |
| 1956 | 8.9 | -1.9 | -24.2 | -2.6 | - | 3.6 | 1.0 | 2.9 | 10.9 | 121.8 | - |
| 1957 | 15.3 | 5.5 | 30.3 | 4.8 | - | 3.8 | 8.6 | -3.0 | 9.8 | 64.0 | - |
| 1958 | 12.9 | 4.9 | -12.5 | 3.6 | - | 4.4 | 8.0 | -3.1 | 8.0 | 62.1 | - |
| 1959 | 11.2 | 4.2 | -5.6 | 1.7 | - | 5.3 | 7.0 | -2.7 | 6.9 | 62.1 | - |
| 1960 | 10.9 | 0.8 | -26.3 | -1.8 | -1.4 | 4.7 | 2.9 | -2.0 | 8.6 | 78.8 | 1.5 |
| 1961 | 13.2 | 2.8 | 12.9 | 0.2 | -1.4 | 4.5 | 4.7 | -1.8 | 8.6 | 65.3 | 1.7 |
| 1962 | 12.8 | 3.3 | 5.3 | -1.0 | 0.6 | 5.8 | 4.8 | -1.5 | 10.7 | 83.4 | -1.1 |
| 1963 | 18.1 | 8.7 | 21.8 | 3.4 | -0.2 | 5.7 | 9.1 | -0.4 | 10.4 | 57.5 | -1.0 |
| 1964 | 14.0 | 8.7 | (8.9) | 3.5 | 0.6 | 4.8 | 8.3 | 0.5 | 6.9 | 48.6 | -1.6 |
| 1965 | 15.0 | 7.4 | -3.6 | 0.2 | 0.2 | 5.5 | 5.7 | 1.7 | 6.4 | 42.6 | 1.2 |
| 1966 | 21.6 | 11.8 | 27.4 | 4.1 | 3.3 | 5.0 | 9.1 | 2.8 | 8.5 | 39.1 | 1.3 |
| 1967 | 21.9 | 11.4 | 9.4 | 1.3 | 2.8 | 6.0 | 7.3 | 4.1 | 8.8 | 40.2 | 1.7 |
| 1968 | 25.9 | 15.1 | 27.9 | 2.9 | 3.9 | 6.1 | 9.0 | 6.1 | 11.2 | 43.1 | -0.4 |
| 1969 | 28.8 | 18.8 | 31.2 | 7.1 | 4.9 | 5.8 | 12.9 | 5.9 | 10.6 | 36.9 | -0.6 |
| 1970 | 26.8 | 17.3 | 11.2 | 4.5 | 2.6 | 6.3 | 10.8 | 6.5 | 9.3 | 34.7 | 0.2 |
| 1971 | 25.2 | 15.4 | 6.7 | 3.6 | 1.7 | 6.4 | 10.0 | 5.4 | 10.7 | 42.5 | -0.9 |
| 1972 | 21.7 | 15.7 | 17.3 | 4.2 | 2.4 | 7.9 | 12.1 | 3.6 | 5.3 | 24.2 | 0.7 |
| 1973 | 25.6 | 23.6 | 49.6 | 9.1 | 8.2 | 10.3 | 19.4 | 4.2 | 3.8 | 14.8 | -1.8 |
| 1974 | 31.0 | 20.5 | 12.8 | 7.0 | 5.8 | 11.2 | 18.2 | 2.3 | 12.4 | 40.0 | -1.9 |
| 1975 | 29.4 | 18.6 | 13.1 | 4.1 | 3.0 | 10.5 | 14.6 | 4.0 | 10.4 | 35.5 | 0.4 |
| 1976 | 25.5 | 23.1 | 35.6 | 6.7 | 5.7 | 10.2 | 16.9 | 6.2 | 2.4 | 9.5 | -0.0 |
| 1977 | 27.3 | 25.1 | 32.4 | 9.1 | 8.0 | 10.4 | 19.5 | 5.6 | 0.6 | 2.2 | 1.6 |
| 1978 | 31.2 | 26.4 | 30.0 | 10.9 | - | 10.0 | 20.9 | 6.5 | 3.3 | 10.6 | 1.5 |

Source: Bank of Korea National Income in Korea, 1978.

increase beyond 9% until 1967 the major source of savings and thus investment was from 1953 to 1965 essentially foreign aid. Foreign investment did not begin to contribute until the mid to late 1960s.

While foreign aid provided substantial resources the 1950s saw high levels of investment, although not reaching the sustained 16% plus needed for cumulative and uninterrupted economic growth. Undoubtedly foreign aid, including commodity aid, provided a major source of investible resources on which the South Korean economy would grow and prosper.

### 6.3.5 CONCLUSIONS: Aid and GNP Growth

In the 1950s the high levels of aid provided a source of revenue and general economic and military support for the South Korean economy. While GNP growth was at a lower level than achieved in the 1970s it would be incorrect to dismiss this period as a failure or to discount the importance of general and commodity aid to the growth of the 1950s and to having laid the foundations for the faster growth period which Korea achieved in the 1970s.

It has been estimated that food aid contributed from 30% to 50% of aid resources and the means and mechanisms for its contribution to the economy were considered in the aggregate. Significantly 40% of commodity aid was cotton destined for the textile industry. Commodity aid provided substantial contributions to import savings, foreign exchange savings and general balance of payments savings. Foreign aid was a major source of budgetary support and resources for the South Korean Government. It has been suggested that an alternative explanation to the monetarist view of the 'slowing down' of

the rate of inflation in South Korea throughout the period 1954-68 were the increased supplies of commodity aid, ie the increased real resources made available to the economy. Finally a major part of saving and investment, particularly from 1954 to 1965, can be attributed to the available foreign aid resources.

At the aggregate level and sectoral headings the evidence available suggests that foreign aid and food aid have made a much greater contribution to the development of the South Korean economy than has been acknowledged by at least one set of interpretations of aid and development in a newly-industrialising country. Chapter Seven will investigate the means and mechanisms for the contribution of food to South Korean industrialisation.

# CHAPTER SIX

## APPPENDIX

MAJOR ECONOMIC AND POLITICAL DATES IN KOREAN DEVELOPMENT 1945-

1945 US military government in Korea (USAMGIK).

1946 Aid $6 million.

1947 First stage of land reform. Aid $93 million (land reform 1947-50).

1948 Republic of Korea (authority transferred from USAMGIK).
Aid $113 million.

1949 US economic cooperation administration (ECA).

1950 War between North and South Korea:

**Korean War 1950-53**

Army 100,000

1 million civilians killed

325,000 soldiers killed

5.5 million refugees (25% population)

Agricultural production fell 25% from 1949

GNP dropped 14%

$2 billion property damaged by war.

1951 Prices rose 500%.

1952 Prices rose 100%.

1953 Korean armistice signed. Won devalued from 6 to 18 per dollar (300% devaluation).

1954 Budget assistance one third from foreign aid.[a] US Nathan Plan 1954-58.

1955 Won devalued to 50 per dollar. Prices rose 81%.[a]

1956 Foreign aid contributed 58.4% of government budget. Prices rose 32%.[ab]

1957 Prices rose 16%.[b]

1958 Stabilisation programme cuts growth and output. Prices declined 7%. Army 700,000.[b]

1959 Stabilisation programme (1958-59) (gross investment fell off).[c]

1960 President Rhee resigns. Foreign aid 38% of budget (student demonstrations in Masan). Recession.[c]

a Average rise GNP 5.5%

b 1956-58 very large aid shipments

c Bad crop years

1961 (January) Devaluation of won 65 to 100 per dollar (February) Devaluation of won from 100 to 130 per dollar. 'Economic development first' - new government slogan, Ghang Myon Government. (May) Military coup - emergence of General Park (Colonels of 8th class). Clarification of multiple exchange rate system. First Five-Year Plan.

1962 Exports double between 1961 and 1963 (1962-66 First Five-Year Plan).

1963 Return to multiple exchange rates (economic recovery 1963-64) 'food crisis'. Park elected president (ie form of civil government). GNP rose 9.1% 'agriculture first'.

1964 Devaluation from 130 won to 257 won to dollar, fluctuation of exchange rates (ie 90% devaluation). (Bumper crop in agriculture) 'Great year of reform'. Fifty per cent increase in exports. GNP rose 8.3%.

1965 Reunification of multiple exchange rates. 'year of work' - targets: (1) production; (2) export; (3) construction. Relations normalised with Japan. Land reclamation aim 15% increase in land. Interest rate reform.

1966 Second Five-Year Plan.

1967 Reform of import control system (positive list to negative list). Tariff reform. (1967-71 Second Five-Year Plan.)

1968

1969

1971 Devaluation from 326 won to 370 won. Exchange rate pegged.

1972 Exchange rate pegged at 300 won per dollar after upward float.

1973 (Autumn) Oil price increase.

1974 Won devalued to 484 per dollar.

1975 Duty exemption to draw back system.

1976

1977

1978

1979 Assassination (October) Park Chung Hee by Korean CIA official.

Sources: Cole and Lyman (1971); Krueger (1979).

# CHAPTER SEVEN

## AN ANALYSIS OF THE CONTRIBUTION OF FOOD AID TO SOUTH KOREAN INDUSTRIALISATION

'Yet attempts to estimate causation by quantifying the macro-economic contributions of the trade-and-payments, aid and capital flows leave the inescapable impression that some important attribution of each are not captured.'

Anne O Krueger (1979) p 223.

### 7.1 INTRODUCTION

The analysis of the economic growth and development of South Korea followed by the Harvard School concludes that aid (and food aid) has had little positive effect on the industrialisation of that economy. In the absence of all aid, and by implication commodity aid, the economy could have increased its imports of foodstuffs (and agricultural raw materials), increased its own agricultural production, or a combination of these two courses of policy action. The absence of aid would have made little difference to the development of Korea's economy, other than helping with post-Korean-war shortages, and difficulties associated with reconstructing a war-damaged economy. This section will consider what effects food aid has had on Korea's industrialisation with a view to clarifying the issue of the role of food aid (more generally, all aid) on the growth of that economy. The part that food aid has played in South Korea, the problem of cause and effect, and the demonstration of mechanisms, is subject to a number of methodological, and indeed, practical difficulties. These

difficulties provide definite shortcomings in the analysis. The limitations of the data, at the high level of aggregation used in this analysis, are no different from the shortcomings and limitations met by Professor Krueger in her analysis. The empirical limitations require a high degree of caution when interpreting cause and effect. The demonstration of theory in the facts requires great care when studying the South Korean development experience, particularly regarding the question of the role of aid in growth and development. Unlike many developing countries, there is a wealth of data available to the analyst which offers considerable scope for testing a variety of theories associated with aid and its effects on development in South Korea.

In addition to the question of the effects of food aid on the growth and industrialisation of the South Korean economy, the question also arises of the effects of food aid on the recipient agricultural sector. The Harvard school did not directly address the question of the role of commodity aid, particularly food aid, on the Korean agricultural sector, since this view considered aid to be of diminishing importance and, presumably, did not warrant detailed investigation. Food aid has caused great concern among some economists as it is widely held that it can be positively harmful to the economic development of a recipient through price displacement and disincentive effects which, by damaging the agricultural sector, ultimately damages the overall economy. (Section 7.2 will consider the important question of the effects of food aid on South Korean agriculture.)

This chapter will consider the role of food aid and

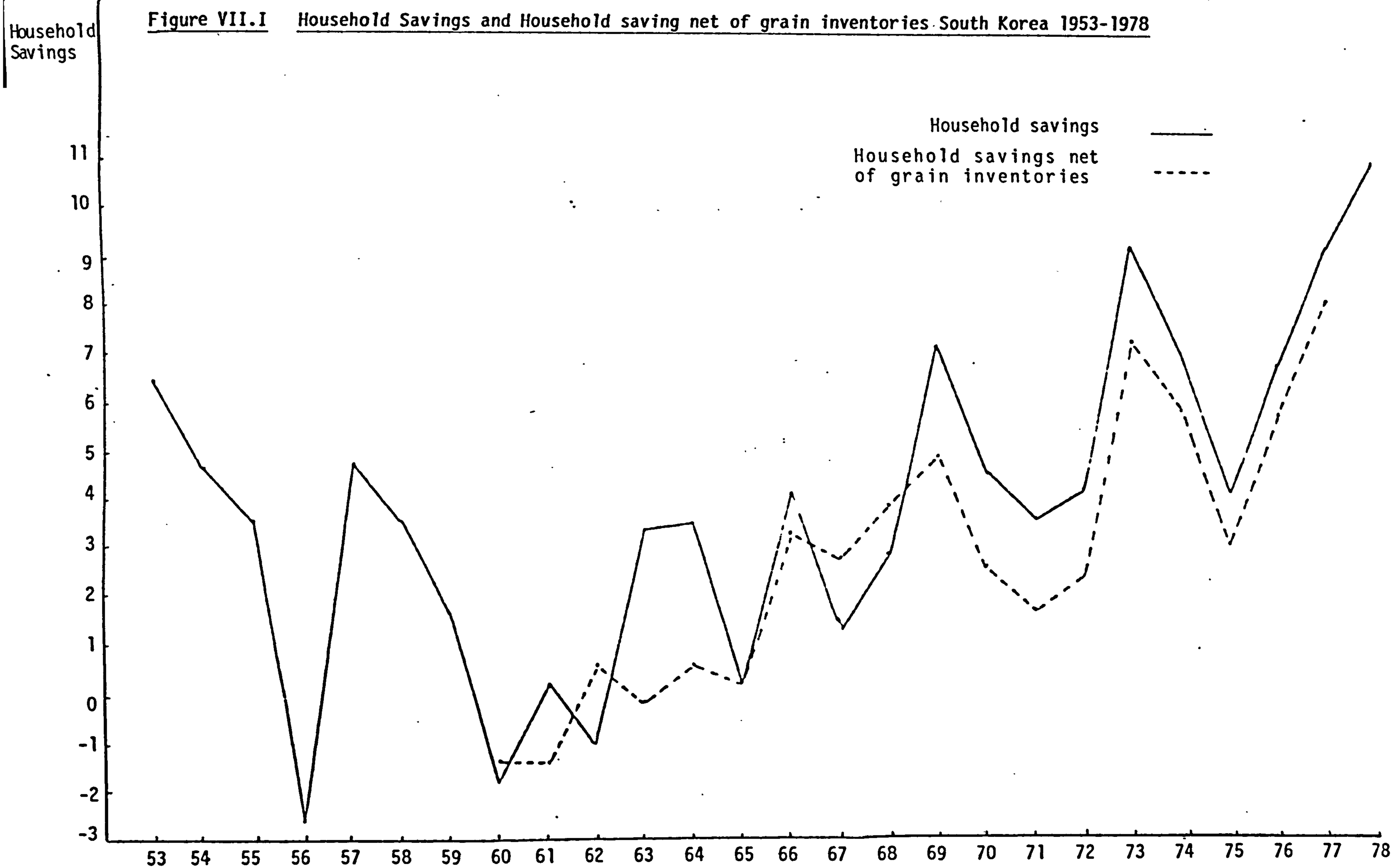
industrialisation in the Korean economy, and its effects on the agricultural sector. Overall the analysis will attempt to clarify some of the issues which separate the views of Korean development held by the Theory of the State school and by the Harvard school.

### 7.1.1 Food aid and industrialisation: Food Aid as a Producer Good

Professor Schultz in his classic 1960 article on commodity assistance ventured the guess that the real income of consumers in receipt of PL 480 would rise and that consumers would increase their savings by as much as 10% or more of the rise in their real incomes. Professor Schultz also saw that the increased intake of food would act as a kind of 'producer good' by enhancing the energy and strength of the workers and thus the amount of productive work done or accomplished in the economy. Food aid would therefore serve positively both consumption and productivity. Studies by the Freedom from Hunger Campaign (FAO, 1962), attempted to elaborate the beneficial prospects of improved food intake and working efficiency.

Professor Schultz's observations, or 'guesstimate', that food aid would enhance consumer savings by as much as 10% is borne out by household savings and grain inventories in the period 1960-77 where data was available. As we have seen in Chapter Six, the greater part of investment, particularly in 1954-65, can be attributed to foreign savings through commodity and other aid. The trend in household savings (including grain inventories) was in an upward direction in

Figure VII.I Household Savings and Household saving net of grain inventories South Korea 1953-1978




Source: Table VI.XIII

the period 1960-77. During this time increased supplies of commodity aid (PL 480) were being made available to the South Korean economy from the USA. Figure VII.I, in line with the thinking of Schultz, illustrates the importance of grain (grain inventories) as a significant source of savings for the Korean economy. Of course all the grain supplies were not food aid as indigenous agricultural production, productivity and overall output increased during the period 1954-77. (Agriculture and food aid supplies will be discussed below in Section 7.4.). However, household savings and the grain savings element did increase during the period of substantial food aid shipments to South Korea, as did overall savings and investment in the economy. While food is both a producer good and a consumer good the full value of this commodity aid cannot entirely be attributed as the source of increased investment. In Chapter Six we saw that as much as 40% of commodity aid was in fact cotton, it would be quite legitimate to attribute at least that proportion of commodity aid as a direct 'investment good'. It can therefore be argued that with cotton alone (and allied products) accounting for 30% of total US aid to South Korea during the period 1956-68 that at least one third of US commodity aid can be directly attributed as a raw material to textile production and thus to the industrialisation effort. The investment component of grains is rather more difficult to be exact about. The grain inventories illustrated in Figure VII.I indicate that the Schultz 'guesstimate' of 10% of additional income or more is a reasonable figure. Taking the cotton aid and the Schultz grain 'guesstimate' it can be suggested that a tentative figure of 40% of the aid

Table VII.II US Agricultural Exports under specified Government Financed Programs, Exports outside specified Government-Financed Programs and Total Agricultural Exports to Korea. 1954-80 ($1,000)

| | PL 480 | | | | | | Mutual Security Aid Programs | Total Agricultural Exports | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | TITLE I Sales for Foreign Currency | TITLE II Famine and other Emergency Relief | TITLE III Foreign Donations | Barter | TITLE IV Long Term Supply and Dollar credit Sales | Total PL480 | | Underspeci-fied Government Programs | Outside Specified Programs | All |
| 1954 | | | 1,548 | | | 1,548 | 14.420, | 15,968 | 6,089 | 22,057 |
| 1955 | 8,050 | | 9,349 | 3,020 | | 20,419 | 26,375 | 46,794 | 1/-4,073 | 42,721 |
| 1956 | 23,291 | | 13,666 | 49 | | 37,006 | 35,820 | 72,826 | 6,779 | 79,605 |
| 1957 | 40,843 | 56 | 16,366 | 186 | | 57,451 | 58,716 | 116,167 | 7,024 | 123,191 |
| 1958 | 42,806 | | 13,849 | 75 | | 56,730 | 39,560 | 96,290 | 14,545 | 110,835 |
| 1959 | 12,103 | | 8,890 | 349 | | 21,342 | 27,850 | 49,192 | 10,496 | 59,688 |
| 1960 | 20,376 | 2,289 | 5,868 | | | 28,533 | 31,724 | 60,257 | 11,206 | 71,463 |
| 1961 | 45,382 | 8,962 | 7,756 | | | 62,100 | 15,637 | 77,737 | 9,273 | 87,010 |
| 1962 | 67,118 | | 7,242 | | | 74,360 | 654 | 75,014 | 17,393 | 92,407 |
| 1963 | 83,308 | 5,633 | 9,735 | 667 | | 99,343 | 339 | 99,682 | 11,755 | 111,437 |
| 1964 | 65,198 | 5,170 | 6,614 | 3,600 | | 80,582 | 258 | 80,840 | 31,515 | 112,355 |
| 1965 | 46,456 | 12,873 | 8,554 | 6,355 | | 74,238 | 3,152 | 77,390 | 18,434 | 95,824 |
| 1966 | 25,941 | 10,137 | 5,542 | 6,122 | | 47,742 | 4,544 | 52,286 | 30,997 | 83,283 |
| 1967 | 37,500 | 24,200 | 2,500 | 1,700 | | 65,900 | 400 | 85,800 | 30,200 | 116,000 |
| 1968 | 41,800 | 22,100 | 2,800 | | 2 | 66,700 | | 62,400 | 138,200 | 176,900 |
| 1969 | 86,500 | 38,200 | 2,200 | | 56,200 | 183,100 | | 184,000 | 75,400 | 258,700 |
| 1970 | 51,551 | 13,533 | 1,608 | | 50,902 | 117,594 | | 117,594 | 53,544 | 171,138 |
| 1971 | 53,078 | 19,180 | 2,163 | | 67,103 | 141,524 | 21,297 | 162,821 | 140,339 | 303,160 |
| 1972 | 6,405 | 9,109 | 975 | | 140,382 | 156,871 | 21,931 | 178,802 | 138,115 | 316,917 |
| 1073 | | 8,895 | 1,069 | | 143,149 | 153,113 | 21,827 | 174,940 | 310,639 | 485,570 |
| 1974/75 | | 4,302 | | | 73,869 | 78,171 | | 78,171 | 806,824 | 884,995 |
| 1976 | | 187 | | | 62,764 | 62,764 | 11 | 62,951 | 659,644 | 722,426 |
| 1977/78 | | | | | 63,306 | 63,306 | | 63,306 | 992,033 | 1,055,339 |
| 1979 | | | | | 42,094 | 42,094 | | 42,094 | 1,344,799 | 1,386,893 |
| 1980 | | | | | 32,532 | 32,532 | | 32,532 | 1,585,172 | 1,617,704 |
| TOTAL | 757,706 | 184,826 | 128,294 | 22,123 | 732,303 | 1,825,063 | 324,515 | 2,165,854 | | 8,587,627 |

Source: PL480 Annual Reports 1955

commodity imports will account for savings and thus investment resources.

7.1.2 The Overall Effects on the Macro-Economy

In addition to examining the investment potential of commodity aid through direct contributions such as raw cotton and the Schulzian 10% notion, there are other means of investigating the potential contribution of food aid to the Korean economy.[1] As discussed in Chapter Six, commodity aid provided a source of revenue to government through counterpart funds generated by PL 480 sales within the South Korean economy. The use of these funds as allocated to sectors of the economy also provides an additional channelling of resources for investment purposes. How the government allocated these funds, and particularly between industry and other uses, is a secondary source of the 'investment potential' of the uses of commodity aid. In addition to the investment potential of commodity aid, there are other direct and indirect effects through counterpart fund allocations. Food aid can be considered to have provided a source of general revenue, foreign exchange, imports and balance of payments savings, although great care has to be taken that these effects should not be double-counted when assessing the investment role of food aid.

Figure VII.II illustrates from PL 480 Annual Reports the

---

1 Counterpart funds are also generated in the recipient economy from financial and other forms of aid as well as from food aid sales. The won equivalent of the dollar value of US aid was required to be placed on a special counterpart account. The use of counterpart funds was subject to the mutual agreement of donor and recipient. (See Kuznets, 1977 for a discussion of this matter, and Chapter Three, Section 3.5)

Table VII.III Aid Received in South Korea (1953-75) and its relationship with: GNP/GDP; Imports; Aid % Imports; Imports% GDP/GNP; Food Aid% Imports and estimate of the Contribution of Aid and Food Aid to GDP/GNP

| | (1) Total aid*to South Korea $millions | (2) GNP or GDP $millions | (3) Total Imports $millions | (4) Imports % GNP | (5) Aid % Imports | (6) Aid % GNP | (7) Food Aid % Total Aid | (8) Food Aid % Imports | (9) Food Aid % GNP |
|---|---|---|---|---|---|---|---|---|---|
| 1953 | 201.2 | na | 345.4 | 12.9 | 58.2 | 7.5 | | | |
| 1954 | 179.9 | na | 243.4 | 7.3 | 73.9 | 5.3 | 19.0 | 14.0 | 1.0 |
| 1955 | 236.7 | na | 341.4 | 9.8 | 69.3 | 6.6 | 20.3 | 14.0 | 1.3 |
| 1956 | 329.4 | na | 386.1 | 13.1 | 85.3 | 9.9 | 22.1 | 18.8 | 2.4 |
| 1957 | 382.9 | na | 442.1 | 12.0 | 86.6 | 10.3 | 32.1 | 27.7 | 3.3 |
| 1958 | 321.3 | na | 378.2 | 10.7 | 84.9 | 9.0 | 32.6 | 27.6 | 2.9 |
| 1959 | 249.5 | na | 303.8 | 10.1 | 82.1 | 7.3 | 19.6 | 16.0 | 1.6 |
| 1960 | 268.8 | 3135.1 | 364.5 | 11.6 | 73.7 | 8.5 | 22.3 | 16.4 | 1.9 |
| 1961 | 215.2 | 3293.4 | 329.9 | 10.0 | 65.2 | 6.5 | 36.1 | 23.5 | 2.3 |
| 1962 | 223.5 | 3393,3 | 447.9 | 13.1 | 49.8 | 6.5 | 33.5 | 16.6 | 2.1 |
| 1963 | 255.8 | 3692.5 | 577.5 | 15.6 | 44.2 | 6.8 | 38.9 | 17.1 | 2.6 |
| 1964 | 159.2 | 4011.3 | 425.5 | 10.6 | 37.4 | 3.9 | 50.7 | 18.9 | 2.0 |
| 1965 | 176.8 | 4252,9 | 467.9 | 11.00 | 37.7 | 4.1 | 43.2 | 16.2 | 1.7 |
| 1966 | 173.2 | 4764.9 | 752.5 | 15.7 | 23.0 | 3.6 | 30.1 | 6.9 | 1.0 |
| 1967 | 229.7 | 5111.4 | 1032.4 | 20.1 | 22.2 | 4.4 | 37.3 | 8.2 | 1.64 |
| 1968 | 197.5 | 5763.8 | 1524.4 | 26.4 | 12.9 | 3.4 | 31.5 | 4.06 | 1.07 |
| 1969 | 239.6 | 6637.5 | 1919.1 | 28.9 | 12.4 | 3.5 | 76.7 | 9.5 | 2.74 |
| 1970 | 181.8 | 7207.7 | 2049.6 | 28.4 | 8.8 | 2.4 | 64.6 | 5.6 | 1.5 |
| 1971 | 185.9 | 7910.7 | 2458.3 | 31.0 | 7.5 | 2.3 | 87.5 | 6.5 | 2.00 |
| 1972 | 241.4 | 8489.3 | 2504.8 | 29.5 | 9.6 | 2.8 | 74.0 | 7.1 | 2.00 |
| 1973 | 92.0 | 9925.9 | 3173.4 | 31.9 | 2.8 | 0.8 | 190.1 | 5.3 | 1.6 |
| 1974 | 46.2 | | | | | | 28.0 | | |
| 1975 | 277.0 | | | | | | | | |

1.9% over period

* See notes to Table.

## Notes to Table VII.III

(1) This estimate of Total Aid is from USAID, Suk Tai Suh 1975; and Krueger (1979) and is definitely an underestimate of Total Aid Received and is at least 1.5 billion lower than other aggregate estimates.

(2) GNP or GDP 1960-1975 is extracted from IBRD World Tables 1976 p 141, and is given as an average of 1967-69 market prices and exchange rates. The calculation of GNP used by Krueger was not available; however the key calculations were available. There is an element of cross-checking in period 1960-65 with Krueger's figures.

(3) Total Imports at constant prices. The estimates from 1953-60 are from Krueger (1979) and from 1960-73 the IBRD (1976) p 140-141 and are estimated at an average of 1967-69 market prices and exchange rates.

(4) Imports as a proportion of GNP from 1953-59 are at current prices and are taken from Krueger's calculations. From 1959 to 1973 the data used is from IBRD (1976). (Krueger estimates from 1960-65 12.6, 14.9, 17.1, 16.4, 13.9, 16.0.)

(5) Calculated from data. Krueger estimates Aid % Imports as follows (1953-65):

| | | | | | |
|---|---|---|---|---|---|
| 1953 | 58.3 | 1954 | 73.9 | 1955 | 69.3 |
| 1956 | 76.1 | 1957 | 86.6 | 1958 | 84.9 |
| 1959 | 73.1 | 1960 | 71.4 (and 83.6) | 1961 | 73.1 |
| 1962 | 51.2 | 1963 | 41.8 | 1964 | 38.6 |
| 1965 | 32.2 | | | | |

Calculations are made in the following manner: (1) x (4).

(6) Krueger (p 68) writes, "If one takes aid as a percentage of imports, and multiplies that by imports as a percentage of GNP (to obtain an implied estimate of aid as a fraction of GNP - a not entirely trustworthy procedure), the result indicates that aid was equal to 6 to 7 per cent of GNP in 1953-54, and rose in relative (and absolute) importance in the 1955-57 period, reaching almost 14% of GNP in 1957."
Calculation of Krueger's estimate of the contribution of aid to GNP (4) x (5).

(7) Food aid as a proportion of total aid is calculated from PL 480 Annual Reports estimates of Total Food Aid to Korea and Total Aid to Korea is estimated from USAID in Suk Tai Suh (1976) Table II.1 page 27.

(8) Food aid as a proportion of imports is estimated by (5) x (7)

ie $$\frac{\text{aid}}{\text{imports}} \times \frac{\text{Food aid}}{\text{aid}} = \frac{\text{Food aid}}{\text{imports}}$$

(9) Food aid as a proportion of GNP is estimated by (8) x (4)

ie $$\frac{\text{Food aid}}{\text{imports}} \times \frac{\text{imports}}{\text{GNP}} = \frac{\text{Food aid}}{\text{GNP}}$$

Figure VII.IV The Relationship of Aid and Food Aid to Imports in the South Korean Economy 1953-75

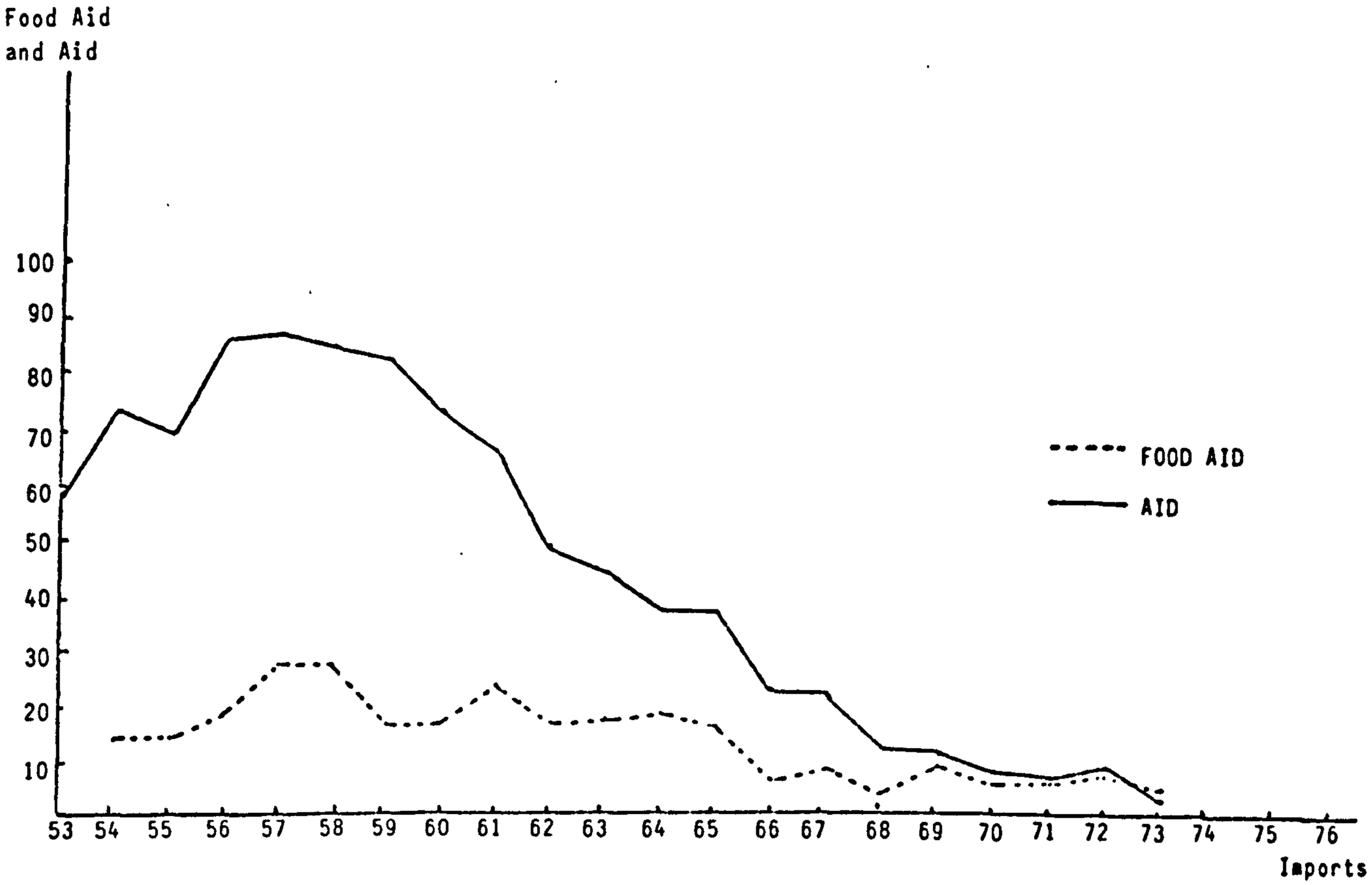



Figure VII.V The Relationship of Aid and Food Aid to GNP in South Korea 1954-75

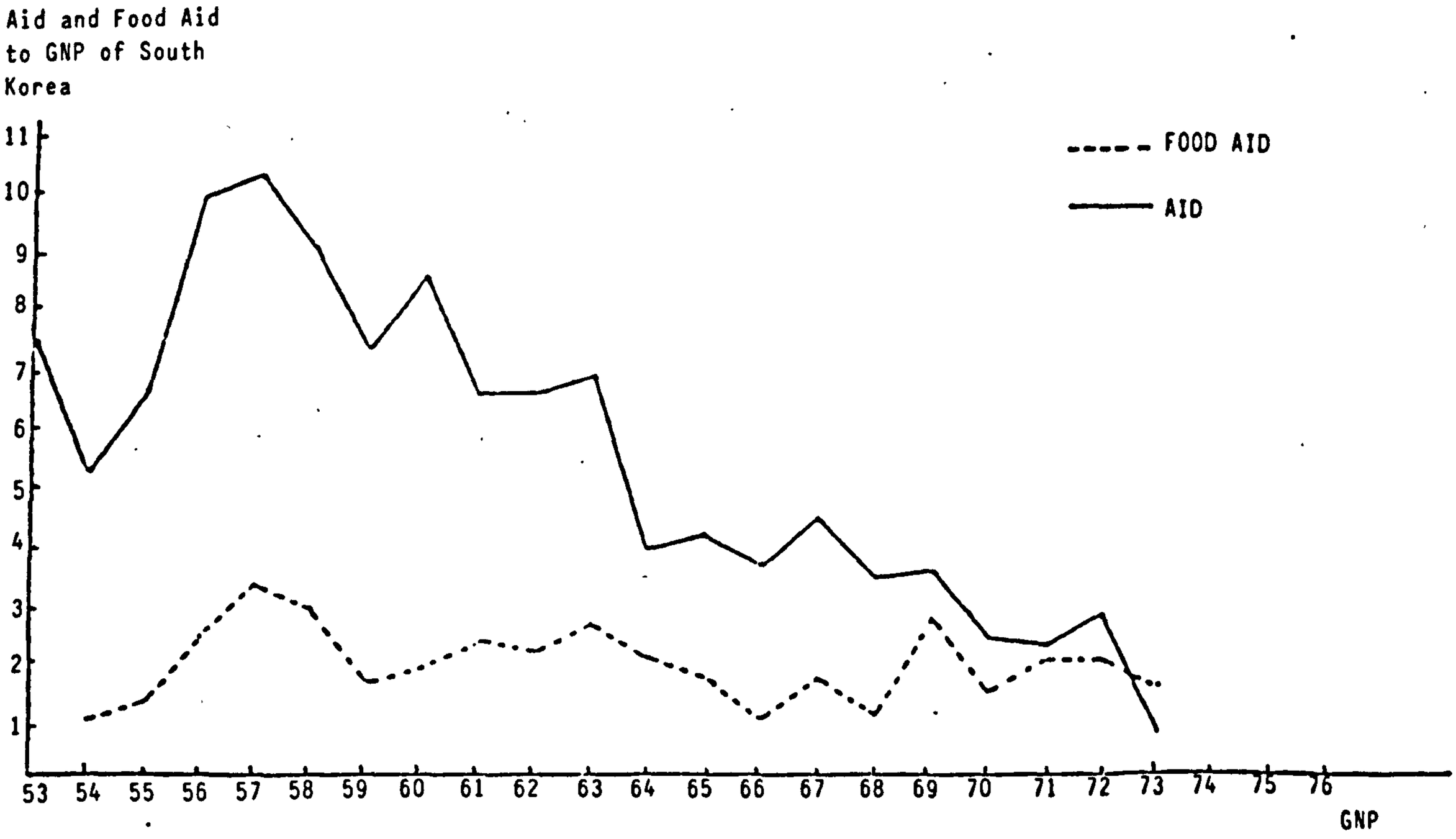


Figure VII.IV The Relationship of Aid and Food Aid to Imports in the South Korean Economy 1953-75

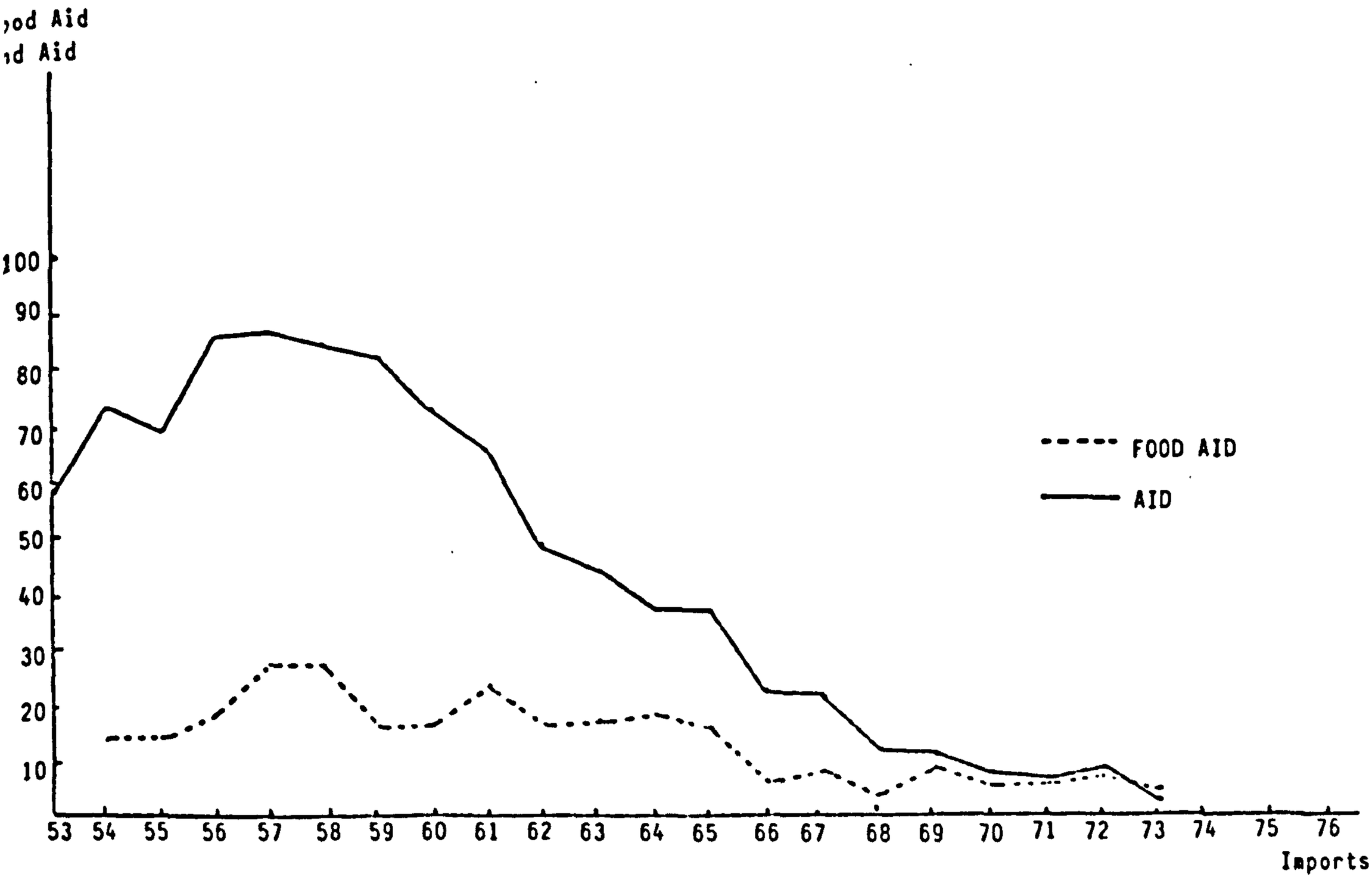
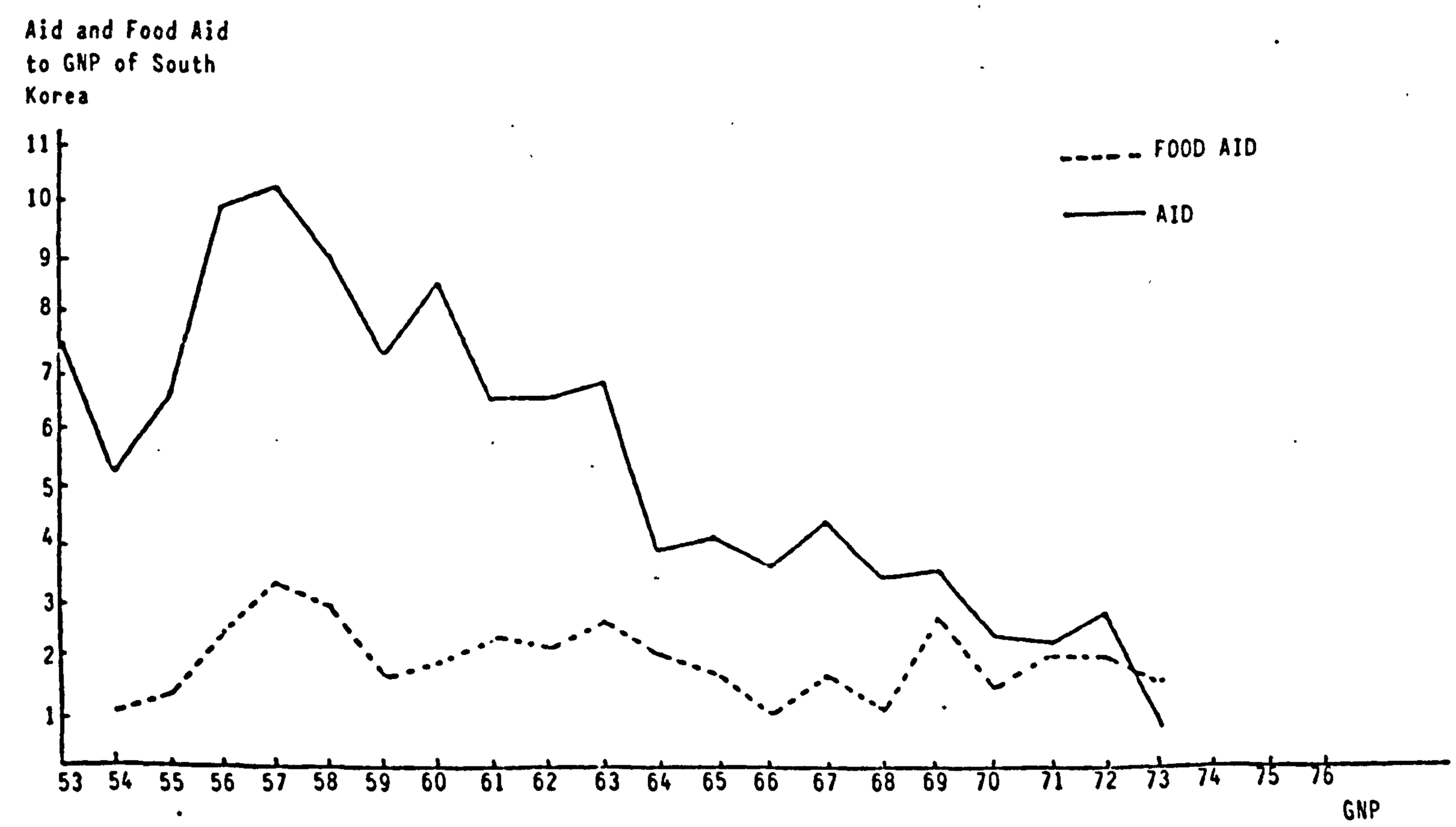



Figure VII.V The Relationship of Aid and Food Aid to GNP in South Korea 1954-75



total agricultural exports to South Korea from the United States during the period 1954-80, including food aid. A value of $2.1 billion of commodity aid under specified government programmes is probably an accurate figure for US commodity aid given. These figures are valued at world prices for the year's donation and do not include additional costs such as transport, storage and interest. As discussed in Chapter Three, this can be as much as 30% or 40% in addition to the commodity costs. So the full cost of aid to South Korea met by the American taxpayer (and possibly third parties) is much more than this figure suggests and may be nearer $3 billion.

The overall effects of food aid and general aid on the macro-economy of South Korea can be further analysed and illustrated. This set of calculations follows that of Professor Krueger (1979) but extends the calculation and analysis further to include an assessment of the role of food aid. The figures used are those of Professor Krueger but supplemented where necessary by other data. The notes accompanying Table VII.III set out the calculations and sources. Aid as % of imports (5) was very high during the period 1953-65 and leads Krueger to conclude that aid is obviously diminishing in importance in respect of import support; similarly this conclusion applies to aid as % of GNP (6). Figures VII.IV and VII.V illustrate these relationships. Column (6) is Professor Krueger's estimate that aid as a proportion of GNP was at its highest point in 1957 with 10.3% of GNP attributable to foreign aid. This proportion declined over the period but even at the end of the 1970s 3% to 2% of GNP is considerable. Professor Krueger does express some

caution at this type of estimation; nevertheless it is the means of assessing the contribution of aid to South Korea which she proceeds to use in her analysis.

Bearing in mind Krueger's caution, it is possible to extend the aid contribution assessment to GNP to that of food aid alone. Column (7) shows food aid as a share of aid increasing in importance over the period 1953-73. Although column (8) indicates that food aid as a percentage of imports declines from its peak in 1957-58 as industralisation began to increase in importance (mid-1960s), foreign loans and the self-generated means to pay for raw materials and capital goods for the process of further industrialisation would naturally see the reduction of the share of food aid in the import bill. Improved agricultural production and productivity would be another source of reduced imports of food stuffs. The importance of food supplies as the wage good and source of raw materials for industry (the classical paradigm); in the absence of excessive population growth rates; would lead one to expect food supplies to reduce as a proportionate share of imports. Of course the picture will be altered by indigenous production which, other things being equal, will have lower productivity increases than the industrial sector. The price of food supplies and raw materials on the world market, and particularly concessions made such as food aid, will have an effect, as will finally the rate of population increase or migration affecting the population size.

Table VII.III column (9) shows that food aid as a proportion of GNP appears to have been relatively constant over the period 1953-73. The question arises, why has the

constancy of food aid been apparent in the South Korean economy over the period? (Figures VII.IV and VII.V show this 'relative constancy' with respect to imports and GNP.) Given the sizeable average of 1.9% of GNP over the period, it is necessary to ask what overall contribution food aid has made to South Korean growth and development?

The apparent constancy of food aid to the GNP of the South Korean economy may be explained in a number of ways. The volumes and value of food aid given to South Korea in the first instance was determined by the United States administration of the day, and complemented both surplus domestic agricultural policy and foreign policy objectives of the United States. South Korea was on the frontier of cold-war conflict and food aid provided, in the first instance, an essential source of food and raw material, and this was in turn a substantial source of general budgetary revenue for the South Korean government. This view of the role of food aid and, indeed, all aid, is consistent with the Krueger analysis, although Krueger's analysis did not identify the constancy of food aid over the period 1953-73. Krueger focussed upon the overall decline of total aid during the period, which necessarily underplays the role of food aid.

In addition to the view of food aid being an expedient form of foreign assistance from the donor's point of view (as was argued in Chapter Three), it can also be considered as having been an expedient form of assistance from the recipient's point of view - in the South Korean case. As will be discussed later in this chapter, the Rhee government and

the Park government were very keen to maximise food aid imports to Korea. The Rhee government preferred grains as the major food aid commodity, whereas the Park government requested industrial raw materials such as cotton which were donated through the PL 480 programme.

It can be argued that the constancy of food aid was in part due to the expediency of donor and recipient, in so far as the volume and value of food aid requested in any one year was a function of the previous year's values and volumes. One variant of this argument would be that the original donation in the post-Korean-war period set subsequent levels of food aid given over the period as a whole. Food aid dramatically decreased to South Korea, and most other PL 480 recipient economies, when the United States altered the basis of its agricultural policy, that is, both its domestic and trade policies. Given South Korea had received food aid in the early 1950s, it can be argued that it was convenient to continue this form of aid throughout the 1950s and 1960s. As was discussed in Chapter Six, South Korea did not receive a constant commodity mix in its food aid imports - cotton under PL 480 became more prominent as a proportionate share of commodity donations. The South Korean government, within the confines of PL 480 commodities available, selected those commodities which contributed as an industrial raw material and underpinned their industrialisation programme. The increase in the volume and value of cotton as an industrial raw material of itself was significant for Korean industrialisation. The commodity composition of food aid was

not constant over the period and the Korean governments of the time requested commodities which they required for their development strategies. The data shown in Table VII.III does not show a direct relationship between food aid and GNP growth, indeed, GNP growth is faster than food aid growth. It cannot be argued from these figures that food aid has contributed to GNP growth in a directly 'observable' manner.

It will be recalled that these data are at a high level of aggregation and are from the same source as Professor Krueger's study, being subject to the same caution expressed by her in her analysis. The constancy of food aid to GNP suggests that from a statistical point of view the determination of the volume and value of food aid has been exogenously determined. The most likely and obvious explanation is that the food aid has been given predominantly on the basis of political factors rather than directly for economic reasons. This of course does not mean that the food aid has not had economic benefits, nor that it was fully understood what were the exact longer-term economic benefits of this kind of aid.

It is rather curious to note (over the period where data was available) that the relationship between rising GNP and a somewhat slower rising food aid was constant. The relationship between the two series, when one is expressed as a proportion of the other, was remarkably constant: food aid had an average of 1.9% over the period given, but in 1956 was as high as 3.3% and as low as 1% in 1966. This constancy implies that rising GNP was matched by increasing food aid imports and it is

therefore tempting to suggest that food aid as an independent variable had more than a neutral or passive relationship with GNP. To tackle this hypothesis an appropriate statistical analysis was used. To test the hypothesis, that this relationship was in statistical and functional terms what statisticians would describe as 'greater than zero', required estimations of the correlation coefficient and of the food aid elasticity, and these estimations were made. The hypothesis is that the correlation coefficient which measures the statistical relationship between food aid and GNP (1960-73) is either equal to zero or greater than zero and likewise for the corresponding food aid elasticity. In both cases the null hypothesis was rejected by the analysis. (It should be noted that for statistical reasons it was not possible to obtain a bias free estimate of the food aid elasticity because of the nature of the model used.)

It is not unreasonable to assume ex ante that there may be some association between the underlying trend in GNP in South Korea and the level of food aid during the period 1960-73 (for which data are available). Notwithstanding the considerable problems associated with the use of this aggregate data for this purpose, it is nonetheless of some interest to see if there is any statistical relationship between the movement in food aid and the corresponding movement in GNP. A standard technique was used to test the hypothesis that there is no connection between these two variables. (This is offered as a test of the null hypothesis.) Using a standard statistical computer package it was found that this hypothesis was

rejected, and that there was a significant degree of correlation over the period between food aid and GNP.

This relationship can be articulated in economic terms as an indication that food aid as an 'independent variable' has had some effect, albeit weak, on the movement of GNP (1960-73). In setting up the model, preliminary work indicated that if food aid was lagged one and two years respectively, its explanatory power was greatly enhanced. A function with a two-year lag gave the more plausible results in the economic sense. A study of the results shows that these coefficients were significantly different from zero at the 5% level, confirming yet again that the null hypothesis can be rejected. It must be appreciated, however, that these results must be interpretated with caution, since GNP is clearly a function of many variables other than food aid. However, the task is to demonstrate that the relationship between food aid and GNP is not zero, that it is not neutral in the economic sense. Having established that it was not neutral or zero it is then tempting to investigate the functional form of this relationship, albeit in a model which, for reasons given, is somewhat misspecified. This specification problem is not seen as a serious drawback to the basic hypothesis, provided the results are not used to attempt to predict GNP on the basis of food aid levels. As can be seen from the fitted equation(s) the coefficient from a one-year lag is certainly greater than zero and suggests that the implicit elasticity is about 0.4; a 10% increase in food aid would be 'accompanied' by about 4% increase in GNP at the level of imports over the period

1960-73.[1] It can be cautiously argued from these results thatin general over the period in which data was available, for every $10 increase in food aid GNP rose by over $200. This should not be interpreted too strongly or rigidly, given the original data limitations. However, the spirit of the analysis is to attempt to show that food aid has had more than a passive relationship with GNP and, having established this, to attempt to quantify this relationship in economic and statistical terms.

This analysis has differed from that of the Harvard school in that it has attempted to demonstrate, albeit with similar data limitations, that food aid has not been passive in its role in Korean economic development. Having established doubt on the passive role of food aid it is now necessary to investigate the possible mechanisms whereby food aid has

---

1. The following models were used to investigate the statistical relationship between food aid and GNP.

(1) $y_t = \hat{\alpha} + \hat{\beta}x_t$ where $\hat{y}_t$ = GNP in year t

$x_t$ = food aid in year t

(2) $\hat{y}_t = \hat{\alpha} + \hat{\beta}x_{t-1}$ where $\hat{y}_t$ = GNP in year t

$x_{t-1}$ = food aid in year t-1

(3) $y_t \equiv \hat{\alpha} + \hat{\beta}x_{t-1} + \hat{\beta}x_{t-2}$

where $\hat{y}_t$ = GNP in year t

$x_{t-1}$ = food aid in year t-1

$x_{t-2}$ - food aid in year t-2

Results: $y_t = \hat{\alpha} + \hat{\beta}x_{t-1} + \hat{\beta}x_{t-2}$

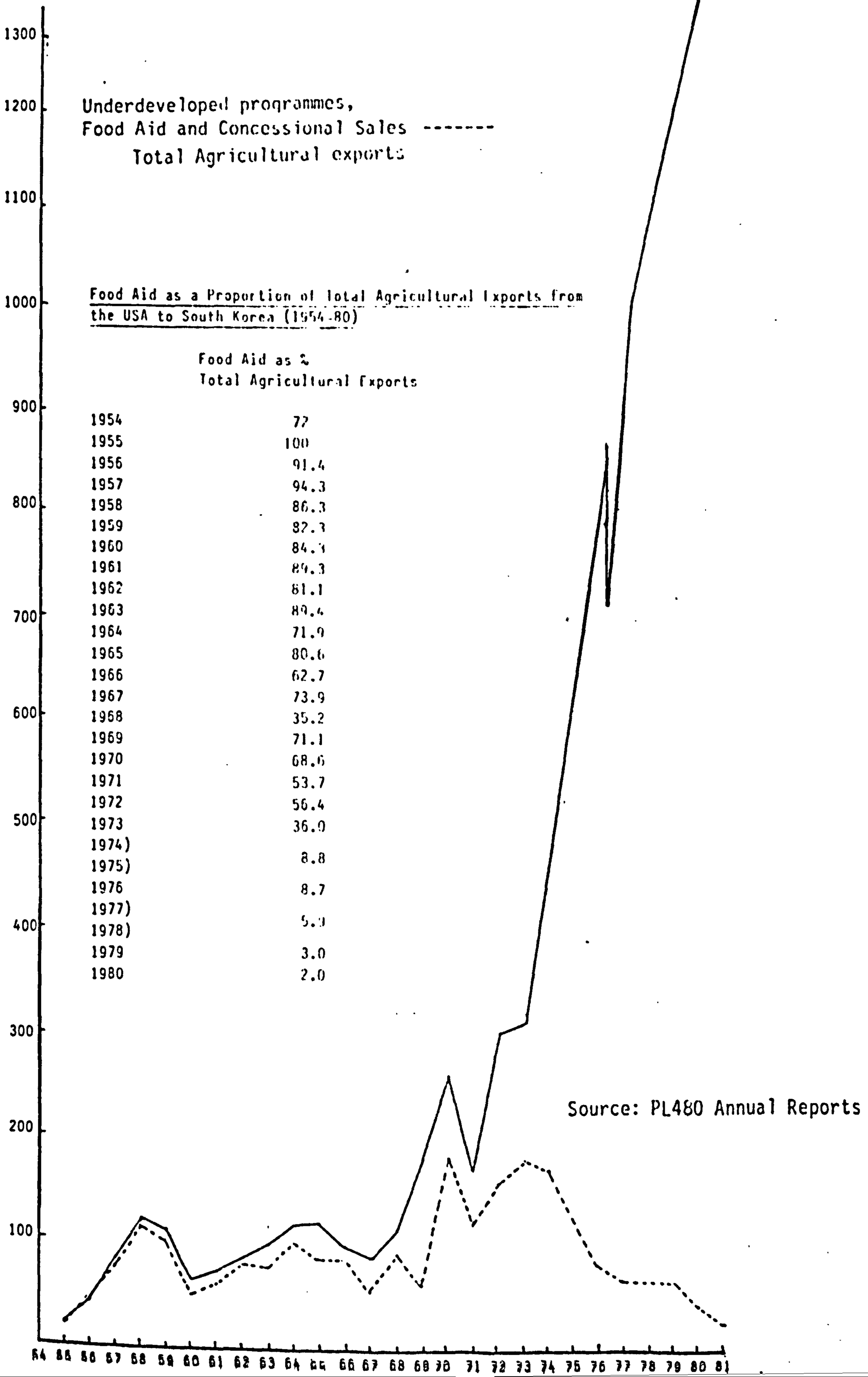
$\hat{y}_t = 1075.4 + 26.0x_{t-1} + 23.2x_{t-2}$

t ratio (1.12) (3.15) 2.49

Durban Watson Statistic = .62 S correlation = .66
This model gave the best results.

Figure VII.VI Total Agricultural Exports to Korea from USA 1954-80

in million dollars




Food Aid as a Proportion of Total Agricultural Exports from the USA to South Korea (1954-80)

| | Food Aid as % Total Agricultural Exports |
|---|---|
| 1954 | 77 |
| 1955 | 100 |
| 1956 | 91.4 |
| 1957 | 94.3 |
| 1958 | 86.3 |
| 1959 | 82.3 |
| 1960 | 84.3 |
| 1961 | 89.3 |
| 1962 | 81.1 |
| 1963 | 89.4 |
| 1964 | 71.9 |
| 1965 | 80.6 |
| 1966 | 62.7 |
| 1967 | 73.9 |
| 1968 | 35.2 |
| 1969 | 71.1 |
| 1970 | 68.6 |
| 1971 | 53.7 |
| 1972 | 56.4 |
| 1973 | 36.0 |
| 1974) 1975) | 8.8 |
| 1976 | 8.7 |
| 1977) 1978) | 5.9 |
| 1979 | 3.0 |
| 1980 | 2.0 |

Source: PL480 Annual Reports

contributed to Korean growth and development. The analysis must now necessarily pursue sectoral aspects of food aid donations within the South Korean economy. The form of disaggregation is not entirely satisfactory and must necessarily imply a partial and somewhat fragmented approach to tracing the possible mechanisms whereby food aid has contributed to South Korean industrialisation and growth. Without an attempt to explore the mechanisms whereby food aid has contributed to the development of the South Korean economy it would be insufficient to conclude from the aggregate data alone (see Table VII.III) that, because food aid has not been passive, it was necessarily beneficial. However, the analysis so far indicates that the Harvard school have underestimated, if not discounted, the role of commodity aid in the South Korean economy. These aggregate results cast considerable doubt on the view that food aid has had a passive role in regard to South Korean economic growth and, by implication, industrialisation.

It is worth noting that the Harvard school considers foreign aid to have prevented South Korea becoming vulnerable, as other countries have, to the debt of the 1970s and 1980s. The Harvard view would be that foreign aid has helped South Korea by increasing consumption as opposed to investment, and this is of course consistent with the view that aid and food aid has been passive in respect to industrialisation and economic growth.

If the Harvard school view of aid as having been passive were the only explanation for its role in South Korea, it could be argued that food aid provided more of an investment

for American excess agricultural capacity than it did for the South Korean Economy.

As American agricultural domestic and trade policies changed in the 1960s food aid began to decline in its importance for US agricultural trade growth; the South Koreans were weaned to commercial purchases of US food. 1971 saw the dramatic increase in commercial food purchases by the Koreans and the transition period of two or three years saw the greater part of agricultural purchases on commercial terms. Of course American agricultural trade policy, through a multiplicity of subsidised credit and 'counter trade' measures, does embody an element to 'encourage' purchases. (See Cathie (1985) for detailed discussion of these devices and inducements from USA to developing countries.) Figure VII.VI shows the transition period to 'commercial' purchases with the decline of concessional sales to South Korea. South Korea had graduated to a 'billion dollar' market for the United States in 1979-80. South Korea purchased nearly $1.9 billion in agricultural commodities from America. Without the industrial means to pay through exports of light and heavy manufactures this particular change would not have been possible. South Korea could make this transition in the 1970s despite the additional balance of payments pressure from the 'oil hike', because her economy was flexible and able to adjust to these dramatic events.

### 7.1.3 The Food Aid Contribution to Industrial Structure: Counterpart Funds; Government Loans and USAID Development Allocations

Counterpart funds provide a general budgetary support for

the South Korean Government and this was so in the years 1957 to 1963 where data was available (see Table VI.XVI).[1] As a source of Government revenues, allocated to general administrative, defence, military assistance and investment, Table VI.XVI shows that investment up until 1965 received less resources that could be attributed to counterpart earmarking. In short, a proportion of counterpart funds financed non-investment expenditures of the Korean Government.

Inflation during the period 1954-58 was particularly high at 30% (see Table VI.XVII) and this slowed down to an average of 10.4% in the period 1959-62. However, the period taken as a whole, at 20%, suggests that an increase in the Korean money supply may have been encouraged by the counterpart funds generated by the exceptionally large food aid shipments of the late 1960s. It has not been possible to acquire data that would resolve the issue of the potential inflationary effects of counterpart funds in South Korea. The monetary policy pursued by the Rhee government would suggest that the government ignored the constraining effect of these funds.

Certainly the military government and the government of

---

1. Table VII.VII(a)

Title I, Public Law 480:
Status of Foreign Currencies 1966-80 Korea (million dollars)

| Korea | Agreement Amounts | Sale Proceeds | Other Proceeds | Disbursements by Agencies |
|---|---|---|---|---|
| 1966 | 537.0 | 486.6 | .8 | 466.7 |
| 1967 | 585.3 | 557.5 | 1.0 | 528.7 |
| 1968 | 655.2 | 576.0 | 1.1 | 556.5 |
| 1969 | 704.4 | 644.8 | 1.3 | 607.5 |
| 1970 | 758.2 | 700.2 | 7.7 | 684.7 |
| 1971 | 814.9 | 753.6 | 12.5 | 738.8 |
| 1972 | 814.9 | 778.1 | 28.5 | 748.7 |
| 1973 | 811.9 | 778.0 | 61.4 | 818.1 |
| 1975 | 811.9 | 778.0 | 81.2 | 840.2 |
| 1976 | 811.9 | 778.0 | 106.5 | 866.4 |
| 1978 | 811.9 | 778.0 | 158.7 | 918.8 |
| 1979 | 811.9 | 778.0 | 178.6 | 938.7 |
| 1980 | 811.9 | 778.0 | 193.6 | 951.7 |

PL 480 Annual Reports record the annual value of sales proceeds and these are given for the period 1966-80.

Park Chung Hee in the mid 1960s criticised the previous Rhee regime for:

(i) frittering away foreign aid

(ii) an overemphasis on consumer goods

(iii) the depressing effects of aid financed imports on agriculture (see Discussion 7.2 below)

(iv) the heavy dependence of the budget on aid receipts, and finally,

(v) inefficient management and lack of long-range planning.

(Cole and Lyman, 1971).

The issue of the effects of counterpart funds or for that matter monetary policy embodies the problem of causation which is generally much argued between monetarists and economists of other persuasions.

Counterpart funds did provide notional and actual revenue for the South Korean Government and part of this revenue can be attributed to military, general and investment uses. However, the investigation of counterpart fund use does not provide conclusive evidence of the investment potential of food aid.

### 7.1.4 Programmes and Projects including Food Aid

Another way of trying to trace the aid resources earmarked for investment can be followed by the USAID data, allocating resources for specific South Korean development projects and programmes. Table VII.VII(b) sets out AID financial expenditures for Korean programme CY 1954-75. Of the total aid allocated under USAID over 40% was food aid. The majority of USAID was non-project supporting assistance (38%); project aid

Foreign Aid: Data soure USAID to Korea

Table VII.VII b AID Financial Expenditures for Korean Program from CY 1954 through to CY 1975

(as of Dec 30, 1975)

| | 1. Supporting Assistance Non-Project | 2. Supporting Assistance Project & Tech Coop Defense Support & Dev Grant Project | 3. Technical support | 4. Public Law 480 Title I Sale | 4. Public Law 480 Title I Loan | 5. Public Law 480 Title II & III | 6. Development Loan | Total |
|---|---|---|---|---|---|---|---|---|
| 1954 | 74,339,911 | 6,045,447 | - | - | - | - | - | 80,385,357 |
| 1955 | 168,336,492 | 34,801,077 | 112,000 | 9,935,726 | - | 15,900,000 | - | 229,135,295 |
| 1956 | 220,802,526 | 53,115,469 | 1,214,000 | 37,536,339 | - | 16,800,000 | - | 329,468,355 |
| 1957 | 207,170,200 | 92,557,807 | 2,842,000 | 30,432,986 | - | 28,278,687 | - | 361,281,080 |
| 1958 | 163,038,082 | 67,218,293 | 3,362,000 | 38,613,278 | - | 22,300,000 | - | 294,531,653 |
| 1959 | 148,235,043 | 68,789,567 | 3,084,000 | 12,544,072 | - | 16,900,000 | - | 249,552,682 |
| 1960 | 160,043,555 | 56,329,937 | 3,416,000 | 32,600,744 | - | 15,140,068 | 1,288,815 | 268,819,119 |
| 1961 | 113,581,960 | 30,939,150 | 2,872,000 | 36,074,489 | - | 28,625,539 | 3,160,806 | 215,253,944 |
| 1962 | 126,613,807 | 22,028,699 | 1,753,000 | 62,666,254 | - | - | 10,472,746 | 223,534,506 |
| 1963 | 102,724,430 | 13,023,311 | 1,256,000 | 94,728,871 | - | 24,038,146 | 20,037,838 | 255,808,500 |
| 1964 | 72,824,489 | 5,519,776 | 847,000 | 54,345,992 | - | 21,140,204 | 4,545,996 | 159,223,457 |
| 1965 | 79,208,447 | 4,159,130 | 1,002,000 | 62,328,338 | - | 27,560,580 | 2,629,915 | 176,888,410 |
| 1966 | 54,833,131 | 3,999,429 | 1,186,000 | 35,038,010 | - | 28,456,787 | 49,689,527 | 173,202,883 |
| 1967 | 59,826,579 | 4,360,791 | 1,252,000 | 58,025,151 | - | 31,575,798 | 74,750,223 | 229,790,542 |
| 1968 | 43,704,591 | 8,660,711 | 1,320,000 | 58,545,143 | - | 47,291,221 | 37,990,768 | 197,512,434 |
| 1969 | 16,746,754 | 6,269,184 | 1,255,000 | 64,972,292 | 78,705,385 | 39,841,360 | 31,887,374 | 239,677,349 |
| 1970 | 14,214,491 | 5,298,741 | 1,078,000 | 54,667,406 | 45,852,810 | 21,929,431 | 38,763,156 | 181,804,035 |
| 1971 | 9,421,475 | 4,158,349 | 922,000 | 30,810,224 | 68,896,628 | 16,070,644 | 55,666,240 | 185,945,560 |
| 1972 | 568,286 | 2,464,509 | 919,000 | 3,664,875 | 185,452,451 | 11,571,601 | 36,776,224 | 241,416,949 |
| 1973 | - | 2,477,155 | 848,000 | - | 60,392,134 | 633,933 | 27,705,639 | 92,056,862 |
| 1974 | - | 1,753,509 | 345,000 | - | - | - | 44,117,793 | 46,216,303 |
| 1975 | - | 867,677 | - | - | 83,975,246 | - | 192,182,459 | 277,025,382 |
| Total: | 1,836,234,247 | 494,837,738[1] | 30,885,000[2] | 777,580,191 | 523,274,655 | 414,053,399 | 631,665,519 | 4,708,530,749 |

(Source: USAID to Korea.)

1. Separate CY Data are not available for project and Tech. Coop. Defense Support & Grant Project

Food is 40.9% of total aid.

Table VII.VIII Total Food Aid and the Proportions of USAID Allocated under Specified headings

| | (1) Total Agricultural Exports (Food Aid) | (2) Food Aid % Total Aid | (3) Support Assistance Programme Aid % Total Aid | (4) Development Loan% Total Aid | (5) PL480 Title I Sale | % Total Aid (Sale + Loan) | (6) PL 480 Titles II & III % Total Aid | (7) All PL 480 (5)+(6) |
|---|---|---|---|---|---|---|---|---|
| 1954 | 15,968,000 | 19.0 | 92.5 | | - | | | |
| 1955 | 46,794,000 | 20.3 | 73.4 | | 4.3 | | 6.9 | 11.2 |
| 1956 | 72,826,000 | 22.1 | 67.0 | | 11.3 | | 5.1 | 16.4 |
| 1957 | 116,167,000 | 32.1 | 57.3 | | 8.4 | | 7.8 | 16.2 |
| 1958 | 96,290,000 | 32.6 | 55.3 | | 13.1 | | 7.5 | 20.6 |
| 1959 | 49,192,000 | 19.6 | 59.3 | | 5.0 | | 6.7 | 11.7 |
| 1960 | 60,257,000 | 22.3 | 59.5 | 2.1 | 12.1 | | 5.6 | 17.7 |
| 1961 | 77,737,000 | 36.1 | 52.7 | 1.4 | 16.9 | | 13.2 | 30.1 |
| 1962 | 75,014,000 | 33.5 | 56.6 | 4.6 | 28.0 | | - | 28.0 |
| 1963 | 99,682,000 | 38.9 | 40.1 | 7.8 | 37.0 | | 9.3 | 46.3 |
| 1964 | 80,840,000 | 50.7 | 45.7 | 2.8 | 34.1 | | 13.2 | 47.3 |
| 1965 | 77,390,000 | 43.7 | 44.7 | 1.4 | 35.2 | | 15.5 | 50.7 |
| 1966 | 52,286,000 | 30.1 | 31.6 | 28.6 | 20.2 | | 16.3 | 36.5 |
| 1967 | 85,800,000 | 37.3 | 26.0 | 32.4 | 25.2 | | 13.7 | 38.9 |
| 1968 | 62,400,000 | 31.5 | 22.1 | 19.1 | 29.6 | | 23.8 | 53.4 |
| 1969 | 184,000,000 | 76.7 | 6.9 | 13.1 | 27.0 | 59.9 | 16.6 | 76.5 |
| 1970 | 117,594,000 | 64.6 | 7.8 | 21.2 | 30.0 | 55.2 | 12.0 | 67.2 |
| 1971 | 162,821,000 | 87.5 | 5.0 | 29.9 | 16.5 | 53.5 | 8.6 | 62.1 |
| 1972 | 178,802,000 | 74.0 | 0.2 | 15.2 | 1.4 | 78.2 | 4.7 | 82.9 |
| 1973 | 174,940,000 | 190.1. | 0.0 | 30.1 | - | 65.5 | 0.6 | 66.1 |
| 1974/75 | 78,171,000 | 28.0 | 0.0 | 95.4 | 0.0 | 30.2 | | |
| | Average | 47% | | | | | | |

Notes: (1) Total Agricultural Exports under specified programmes.
(2) Food Aid as % Total Aid from Table VII.III
(3) From Table VII.VII.(b)
(4) Table VII.VII(b)
(5) From Table VII.VII(b)
(6)

Table VII.IX (a) Summary of US Aid Financial Expenditure: CY 1954-75

Unit in US Dollars

| | Grant total | AID Grant | | | | PL 480 | | | Development Loan | Total Loan & Grant |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Supporting Assistance: Non-Project | Supporting Assistance: Project | Tech. Coop. & Defense Support Dev. Grant Project | Technical Support | Title I Loan | Title I Sale | Titles II and III | | |
| 1954-61 | 1,682,246,536 | 1,225,547,769 | 409,796,767 | | 16,902,000 | - | 197,787,634 | 143,943,694 | 4,449,621 | 2,028,427,485 |
| 1962-65 | 430,960,089 | 381,371,173 | 44,730,916 | | 8,858,000 | - | 274,069,455 | 72,738,930 | 37,686,495 | 815,454,969 |
| 1966-73 | 245,784,176 | 199,315,307 | 37,688,869 | | 8,780,000 | 439,299,408 | 305,723,101 | 197,370,775 | 353,229,151 | 1,541,406,611 |
| 1974-75 | 2,966,186 | - | 2,621,186 | | 345,000 | 83,975,246 | - | - | 236,300,252 | 323,241,684 |
| Total | 2,361,956,987 | 1,836,234,248 | 494,837,738 | | 30,885,000 | 523,274,654 | 777,580,190 | 414,053,399 | 631,665,519 | 4,708,530,749 |

(b) Summary of AID Financial Expenditures: FY 1954-75 (As of Dec 1974)

| | Grant total | AID Grant | | | PL 480 | | | Development Loan | Total Loan and Grant |
|---|---|---|---|---|---|---|---|---|---|
| | | Supporting Assistance: Non-Project | Supporting Assistance: Project | & Defense Support Dev. Grant Project | Title I Loan | Title I Sale | Titles II and III | | |
| 1954-61 | 1,797,458,930 | 1,342,375,777 | 455,083,153 | | - | 211,125,500 | 135,929,000 | 20,053,852 | 2,164,567,282 |
| 1962-65 | 350,545,222 | 329,428,198 | 21,117,024 | | - | 274,274,958 | 82,043,000 | 127,690,014 | 834,553,194 |
| 1966-73 | 207,145,535 | 162,468,452 | 44,677,083 | | 436,130,748 | 292,179,731 | 215,810,000 | 274,536,600 | 1,425,802,614 |
| 1974-75 | 487,780 | - | 487,780 | | - | - | - | 10 | 487,790 |
| Total | 2,355,637,467 | 1,834,272,427 | 521,365,040 | | 436,130,748 | 777,580,189 | 433,782,000 | 422,280,476 | 4,425,410,880 |

Source: USAID, Seoul, Korea.

Table VII.X Supporting Assistance Project and Technical Cooperation, Defense Support and Development Grant Projects 1954-75

(As of June 30, 1975)

Unit in US Dollars

| | 10. Agriculture Resources | 20. Industry and Mining | 30. Transport-ation | 40. Labour | 50. Health and Sanitation | 60. Education | 70. Public Administration | 80. Commodity Development | 90. General Misc. | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1954 | 43,300 | 4,520,387 | 1,157,765 | - | 312,908 | - | 11,087 | - | - | 6,045,447 |
| 1955 | 1,828,190 | 8,502,368 | 22,168,149 | - | 1,744,421 | 303,800 | 101,339 | 152,810 | - | 34,801,077 |
| 1956 | 3,664,438 | 17,743,528 | 28,645,862 | 4,796 | 819,973 | 802,898 | 243,075 | 1,190,919 | - | 53,115,489 |
| 1957 | 5,746,891 | 24,304,268 | 51,113,207 | 11,704 | 3,858,960 | 3,344,343 | 654,462 | 3,445,736 | 78,238 | 92,557,807 |
| 1958 | 4,700,155 | 21,613,042 | 28,954,845 | - | 3,266,551 | 2,851,735 | 1,243,127 | 4,088,953 | 499,887 | 67,218,293 |
| 1959 | 7,700,489 | 20,014,794 | 29,590,076 | - | 3,046,805 | 3,672,350 | 1,649,994 | 1,955,453 | 1,159,606 | 68,789,567 |
| 1960 | 3,322,374 | 26,650,416 | 11,072,692 | - | 3,975,162 | 4,206,048 | 1,757,464 | 3,787,239 | 1,558,543 | 56,329,937 |
| 1961 | 1,627,344 | 16,501,669 | 7,023,238 | - | 594,653 | 1,783,972 | 1,072,725 | 1,411,252 | 924,298 | 30,939,150 |
| 1962 | 687,728 | 15,023,189 | 3,050,422 | - | 126,060 | 1,172,960 | 1,661,855 | 204,963 | 101,521 | 22,028,699 |
| 1963 | 285,096 | 9,141,058 | 2,111,590 | - | -15,168 | 696,465 | 557,344 | 203,498 | 43,428 | 13,023,311 |
| 1964 | 189,980 | 4,178,442 | 195,708 | - | -76,568 | 425,225 | 419,847 | 20,121 | 68,021 | 5,519,976 |
| 1965 | 288,903 | 3,103,531 | 132,029 | - | - | 115,246 | 593,050 | -73,909 | 281 | 4,159,130 |
| 1966 | 487,232 | 2,142,922 | 279,861 | 6,130 | - | 23,070 | 831,783 | - | 228,432 | 3,999,429 |
| 1967 | 687,274 | 2,296,023 | 134,996 | 39,204 | 26,446 | 115,827 | 992,509 | 8,552 | 59,958 | 4,360,791 |
| 1968 | 721,422 | 2,392,775 | 37,756 | 55 | 158,009 | 209,315 | 5,048,818 | 6,384 | 86,178 | 8,660,711 |
| 1969 | 817,350 | 3,267,212 | 42,056 | - | 886,263 | 59,328 | 1,170,253 | 12,905 | 13,816 | 6,269,184 |
| 1970 | 745,171 | 2,606,791 | 28,062 | - | 440,354 | 110,430 | 1,313,046 | 8,385 | 46,502 | 5,298,741 |
| 1971 | 764,723 | 599,169 | 28,366 | - | 1,158,960 | 417,526 | 1,030,229 | - | 159,376 | 4,158,349 |
| 1972 | 683,385 | 206,116 | 8,966 | - | 503,181 | 384.123 | 548,648 | - | 130,090 | 2,464,509 |
| 1973 | 575,141 | 227,868 | - | - | 496,235 | 640,413 | 452,043 | - | 85,454 | 2,477,155 |
| 1974 | 254,587 | 595,702 | - | - | 361,335 | 127,588 | 383,959 | - | 30,338 | 1,753,509 |
| 1975 | 156,526 | 326,878 | - | - | 268,734 | 26,400 | 89,138 | - | - | 867,677 |
| Total | 35,977,699 | 185,958,147 | 185,775,646 | 61,890 | 21,953,275 | 21,588,062 | 21,825,794 | 16,423,263 | 5,273,964 | 494,837,738 |
| | 7.2% | 71.9% | | | | 4.3% | 4.4% | | | |

Source: USAID to Korea

was 10%; development loans began to assume greater importance from 1960 onwards (13% for the period as a whole). However in 1975 69% of USAID was for development loans. Table VII.VIII summarises the USAID and food aid position. As we have already seen food aid increased in importance during the period 1954-75 (see Table VII.VI). Support assistance (3) of a general kind declined in importance, by 1969 phasing out. Development loans increased in importance adding investment to the already gathering export and general improved performance of the South Korean economy. Food aid began to be switched from pure grants to sales and loans (still with a high grant element) from 1969. Column (7) all PL 480 shows how food aid grew in importance from 1960 as part of USAID contribution to the South Korean development effort. Estimates by USAID given in Table VII.IX give the grant element of total aid at 48.9% on a calendar year basis and 52% on a financial year basis. (That is, grant total as a proportion of total loan and grant, see Tables VII.IX(a) and (b).) It is generally argued by the Harvard School and others that South Korea received some $6 billion in aid mainly in grants. These USAID figures on grants and loans are really to be regarded as 'creative accounting' for the consumption of US Congress and South Korean pride.

Project assistance from USAID is given in Table VII.X. This aid comprised 10% of total aid and of this total aid 7.8% can be directly attributed to industry, mining and infrastructure, the highest category with project allocations.

### 7.1.5 Cooley Loans and South Korean Government USAID Loans

Another means of tracing the investment potential of food aid is Cooley loans and USAID loans. It has proved difficult

to obtain data or information on the extent of Cooley loans in South Korea. That is to say, loans to non-Korean private foreign industry. (See Chapter Three, 3.5.2 on Cooley Loans.) Had the Cooley amendment been carried through to its full extent in South Korea, $.42 billion would have been earmarked for low interest loans to foreign companies. Given that the Koreans are reluctant to have foreign control and/or ownership of their industry, some joint ventures between South Korean and US agribusiness companies were financed in part by Cooley Loans. These projects were to build up grain storage capacity one example of this was the US agribusiness company, Ralston Purina (see Wallerstein (1980). Generally it is not possible to say exactly to what degree foreign companies benefitted from loans at low rates of interest beyond that the Koreans being highly nationalistic, did not favour foreign company expansion without Korean control.

Public Law 480 annual reports in the period 1957-73 give, under the use of foreign currency as provided in Title I for South Korea, a total of loans for private development of $14.5 million which would appear to make Cooley loans not of significance in South Korea (see PL 480 Annual Reports 1957- )

The Korean Government, through the Korean Development Bank and other agencies, gave loans at extremely low rates of interest with long pay-back periods and a 10-year grace period. Table VII.XI gives a sample of these government loans endorsed by USAID. Loans were given to the Economic Planning Board, ministries, local authorities and private companies. It is notable that Hyundai, the future major Korean multinational conglomerate (or sogo shosha) should be an early recipient of

Table VII.XI Payment Conditions of Development Loans to South Korean Companies from Korean Government/USAID

Unit in US Dollars

| Loan Number | Date Loan Agreement Signed | Borrower or Beneficiary | Grace year | Interest (%) | Payment year | Interest (%) | Amount |
|---|---|---|---|---|---|---|---|
| 489 A 001 | 1/20/59 | Tong Tang Cement Mfg Co | - | - | 8 | 5.25 | 2,139,599.93 |
| 489 A 002 | 6/27/58 | Ministry of Communication | - | - | 20 | 3.5 | 3,491,279.69 |
| 489 A 003 | 5/26/59 | Korea Electric Co | - | - | 10 | 3.5 | 1,114,631.44 |
| 489 A 004 | 12/11/59 | Oriental Chemical Co | 10 | 1 | 30 | 2.5 | 5,179,003.79 |
| 489 A 007 | 4/12/60 | Korea Development Bank | 10 | 0.75 | 30 | 0.75 | 4,999,871.46 |
| 489 A 012 | 2/6/61 | Korea Nylon Co | - | - | 10 | 5.75 | 3,130,464.65 |
| 489 A 014 | 4/4/62 | Korea Electric Co | 10 | 0.75 | 30 | 0.75 | 19,022,336.26 |
| 489 H 015 | 7/13/62 | Hyun Dai Const Co | 10 | 0.75 | 30 | 0.75 | 3,986,847.23 |
| 489 H 016 | 10/29/62 | National Railroad | 10 | 0.75 | 30 | 0.75 | 6,388,391.10 |
| 489 H 018 | 12/7/63 | Dai Han Coal Corp | 10 | 0.75 | 30 | 0.75 | 9,061,123.78 |
| 489 H 019 | 3/9/64 | Korea Electric Co | 10 | 0.75 | 30 | 0.75 | 12,786,112.61 |
| 489 H 021 | 11/27/64 | City of Tadgu | 10 | 0.75 | 30 | 2.0 | 1,759,030.46 |
| 489 H 022 | 3/12/65 | Korea National Railroad | 10 | 0.75 | 30 | 2.0 | 10.711,923.28 |
| 489 H 023 | 12/14/64 | Korea Electric Co | 10 | 0.75 | 30 | 2.0 | 7,382,436.87 |
| 489 H 024 | 12/8/64 | Ministry of Communication | 10 | 0.75 | 30 | 2.0 | 7,791,813.04 |
| 489 H 026 | 6/24/65 | Chinhae Chemical Co | 10 | 1 | 30 | 2.5 | 24,600,000.00 |
| 489 H 027 | 6/24/65 | Yong Nam Chemical Co | 10 | 1 | 30 | 2.5 | 24,200,000.00 |
| 489 H 030 | 9/9/65 | Economic Planning Board | 10 | 1 | 30 | 2.5 | 1,975,632.02 |
| 489 H 031 | 12/14/65 | Economic Planning Board | 10 | 1 | 30 | 2.5 | 9,930,218.72 |
| 489 H 032 | 4/13/66 | Hyun Dai Const Co | 10 | 1 | 30 | 2.5 | 2,977,295.30 |
| 489 H 033 | 2/5/66 | Korea Electric Co | 10 | 1 | 30 | 2.5 | 20,668,083.23 |
| 489 H 034 | 6/2/66 | Special City of Seoul | 10 | 1 | 30 | 2.5 | 2,853,094.86 |
| 489 H 035 | 5/14/66 | Dai Han Synthetic Fibre | 10 | 1 | 30 | 2.5 | 1,650,000.00 |
| 489 H 036 | 6/15/66 | Korea Nylon Co | 10 | 1 | 30 | 2.5 | 5,810,000.00 |
| 489 H 037 | 6/29/66 | Korea National Railroad | 10 | 1 | 30 | 2.5 | 18,509,995.30 |
| 489 H 038 | 7/13/66 | Special City of Seoul | 10 | 1 | 30 | 2.5 | 773,650.32 |
| 489 H 039 | 6/22/66 | Ministry of Transportation | 10 | 1 | 30 | 2.5 | 3,793,885.62 |
| 489 H 040 | 8/11/66 | Medium Industry Bank | 10 | 1 | 30 | 2.5 | 6,923,468.37 |
| 489 H 041 | 7/30/66 | Economic Planning Board | 10 | 1 | 30 | 2.5 | 11,973,656.42 |
| 489 H 042 | 11/9/66 | Korea Development Bank | 10 | 1 | 30 | 2.5 | 11,374,202.91 |
| 489 H 046 | 6/29/67 | Korea Electric Co | 10 | 1 | 30 | 2.5 | 15,693,218.32 |
| 489 H 047 | 6/17/67 | Korea Electric Co | 10 | 1 | 30 | 2.5 | 10,210,783,48 |
| 489 H 048 | 6/30/67 | Inchon City | 10 | 1 | 30 | 2.5 | 1,716,553.20 |
| 489 H 0249 | 2/24/68 | Economic Planning Board | 10 | 2 | 30 | 2.5 | 9,929,183.58 |
| 489 H 051 | 1/31/68 | Korea Dev Finance Corp | 10 | 2 | 30 | 2.5 | 2,891,644.54 |
| 489 H 052 | 6/26/68 | Korea Development Bank | 10 | 2 | 30 | 2.5 | 11,000,195.12 |
| 489 H 054 | 11/7/68 | KIST | 10 | 2 | 30 | 2.5 | 1,855,672,58 |
| 489 H 060 | 6/5/69 | Economic Planning Board | 10 | 2 | 30 | 2.5 | 9,626,291.19 |
| 489 H 065 | 9/25/69 | Chung ju Fertilizer | 10 | 2 | 30 | 2.5 | 4,953,966.14 |
| 489 H 066 | 10/20/69 | Tong Suh Petrochemical Corp | 10 | 2 | 30 | 2.5 | 4,998,958.67 |
| 489 H 073 | 6/3/70 | Economic Planning Board | 10 | 2 | 30 | 2.5 | 8,672,587.23 |
| 489 H 079 | 3/16/71 | Economic Planning Board | 10 | 2 | 30 | 3 | 31,837,873.00 |
| 489 H 080 | 6/24/71 | Economic Planning Board | 10 | 2 | 30 | 3 | 14,000,000.00 |
| 489 H 081 | 8/31/71 | Korea Advanced Inst of Sci | 10 | 2 | 30 | 3 | 2,084,772.50 |
| 489 H 083 | 1/20/72 | Economic Planning Board | 10 | 2 | 30 | 3 | 965,603.30 |
| 489 H 084 | 3/16/72 | Economic Planning Board | 10 | 2 | 30 | 3 | 17,000,000.00 |
| 489 H 085 | 9/13/72 | Korea Education Dev Inst | 10 | 2 | 30 | 3 | 996,072.41 |
| 489 H 086 | 6/27/73 | Economic Planning Board | 10 | 2 | 30 | 3 | 4,827,099.32 |
| 489 H 087 | 2/28/73 | Economic Planning Board | 10 | 2 | 30 | 3 | 24,149,855.73 |
| 489 H 088 | 1/28/74 | Office of Rural Dev | 10 | 2 | 30 | 3 | 100,219.40 |
| 489 H 089 | 4/19/74 | Special City of Seoul | 10 | 2 | 30 | 3 | 10.00 |
| 489 T 090 | 9/11/74 | Ministry of Agri & Fishery | 10 | 2 | 30 | 3 | 25,700,000.00 |
| 489 V 091 | 9/3/75 | Seoul National University | 10 | 2 | 30 | 3 | 5,000,000.00 |
| 489 U 092 | 9/3/75 | Korea Health Dev Inst | 10 | 2 | 30 | 3 | 5,000,000.00 |
| 489 V 093 | 9/19/75 | Korea Standard Research Inc | 10 | 2 | 30 | 3 | 5,000,000.00 |

Source: USAID to Korea

government support and USAID support.

The contribution of food aid to industrial investment and ultimately to South Korean growth can be seen from the earmarked view of government investment and to a lesser extent directly in projects sponsored by USAID, of which part were food-aid funded. As seen in Chapter Six, cotton was a major industrial raw material. Programme Aid largely supported administrative and military uses until 1965 and from that time onwards a major switch of emphasis came about with resources being channelled to development projects which ultimately added to the Korean export miracle. However, the contribution of food aid to the Korean industrial and export success is not limited only to projects or programmes funded by counterpart funds or food aid revenues.

### 7.1.6 The Role of Wage Goods and Producer Goods in South Korean Development

In Chapter Five on food aid and industrialisation, the role of food supplies on economic growth and development was examined from the theoretical policy writings and analysis of the classical school of economic thinking. The classical view considers the supply of food as a major constraint upon the prospects for economic growth and development.

As previously discussed in Chapter Six, the South Korean government had a specific policy towards wages in the economy and it was clearly recognised that the supply of food affected wages.

> 'Adequate food supplies at reasonable prices were essential in keeping Korean wages low enough to make Korean products competitive abroad.' (Chung Hee Park (1965; quoted in Morgan, 1977.)

The price of foodstuffs was determined by the South Korean government with a view to adequacy of supply and price. (It might be suggested that this is a manifestation of the Confucian notion of sufficiency of food as a responsibility of good government.) The emphasis of Korean governments on a wage policy to encourage industrialisation as the development priority in the economy necessarily meant that the food supply was a critical factor in their development strategy. Food aid complemented this South Korean development policy on food supply and prices by providing not only foodstuffs for the consumption of the workers but also agricultural raw materials such as cotton. As previously suggested, the commodity mix of food aid to South Korea changed over the period analysed because the South Korean government increasingly requested, in addition to the foodstuffs, commodities for industrialisation. It can be seen in terms of volume in Table VII.XXXVI that during the period 1963-82 (where data was available) cereals imports increased continuously. In 1964, 614,500 metric tons were imported, whereas in 1972, 3,395,164 metric tons were imported. Figure VII.VI showed that in 1964 food as a percentage of imports was 71.9% and in 1972, 56.4% of imports. The United States, through food aid cereal donations, continued throughout the period to provide increased volumes of grain which were destined to supplement the South Korean food supply and thus complement South Korean wage policy. The United States was of course virtually the sole supplier of agricultural imports to South Korea. From 1964 to 1972 the physical volume of food aid increased by a factor of three. By continuing to supply increasing volumes of

grain it can be argued that the United States was in effect providing a major supplement to the single most important constituent in the wage good - food itself. As is to be expected from general development experience, a rising income and general prosperity in an economy will be accompanied by changing food consumption patterns. With rising real wages, workers consumption patterns change from basic foods to more expensive types of food. The increasing supply of cereals reflects the South Korean change in food consumption as real incomes and real wages increased. The increase in cereal imports were destined for the growing livestock sector which of course relied on cereals as feedstocks.

The role of food aid in the South Korean development experience cannot be seen as just a convenient means of getting rid of unwanted US agricultural surplus. As a form of development aid, food aid complemented the development strategy, particularly that major strategy on wages and adequate supplies of food. The export miracle was based on low wages and food aid contributed to keeping that element of South Korean development strategy. In the absence of food aid the Korean government would have had to rely on higher prices for its own agricultural production, or have had to pay for food and imports of agricultural raw materials at commercial prices. While agricultural productivity increased in South Korea (see 7.2) during the period 1953-73, it is arguable that these increases would have been greater with higher producer prices. However, food supplies would almost certainly have been inadequate to meet the growing demand for produce in the urban areas.

In the case of the commodity cotton which is not grown in South Korea, the government would have had to purchase from abroad. The effects of a bottleneck in the supply of agricultural commodities to the growing industrialisation of South Korea would have, in the classical manner as suggested by Kalecki, set off inflation to levels which would have impaired the growth and development of the economy. Increasing food imports on a commercial basis during the 1950s and 1960s would have diverted scarce foreign exchange from the industrialisation effort by the need to purchase consumption goods, necessarily less foreign exchange would have been available for capital goods and industrial raw materials.

The role of food aid is not shown clearly in the aggregate data which was analysed in section 7.1.2. Its contribution to economic development and industrialisation is far greater than is apparent from the analysis of the aggregate data. The adequacy of the food supply is a critical factor in the industrialisation of an economy and is recognised as such in classical thinking.

There is a growing awareness of the importance of wage goods and particularly food aid as a potential source of the wage good among neo-classical economists of which Professor Mellor is one of the most notable.

Professor Schultz refers to the increase in energy and general physical health benefits from increased nutritional intake provided by food aid as a 'producer good'. The idea of food aid as a producer good has in fact two meanings: i) that of Professor Schultz' already referred to and ii) the 'food aid' supplied as an industrial raw material such as cotton

(see below and Chapter Six). Raw cotton is of course a producer good and through industrial processing also a consumer good. The link in the process is that of industrialisation and capital accumulation itself.

In theory, then, food aid can act as both a consumer good and a producer good Wheat has supplemented the food supply and wage policies of the South Korean government, which in turn has contributed to industrialisation. In the case of South Korea, cotton (food aid) has acted as a 'producer good' adding to the process of capital accumulation which in turn has fuelled the growth and development process.

### 7.1.7 Real Wages in South Korea 1954-75

The 'constancy' of the supply of food aid to GNP throughout the period 1953-73 provided a statistically 'weak' contribution to South Korean GNP. Food aid, as a supplement to the supply of food and the wage good in South Korea, assumes a far greater importance than is suggested by the analysis of the aggregate data and this is particularly so if considered from the classical standpoint.

The regular supply of this food aid supplemented domestic supply and ensured adequate food resources at prices which supported industrialisation throughout the period 1953-73. Given that food is the most important part of the wage good in a low-income country, an adequate supply ensures that real wages, by definition, will not fall.

An examination of real wages over the period shows a constancy which mirrors the constancy of the food aid supply to South Korea. Although the relationship between the food aid (foodstuff element) and the constancy of real wages has not been investigated statistically, it is not unreasonable to

suggest that there is more than a coincidental connection between these two 'constancies'. Indeed the role suggested by Enke, in theory, argues a direct connection between food aid supplies and industrialisation policy through adequate supplies of the wage good which would be at least constant if not modestly rising. If food aid were to have contributed to industrialisation then ex ante real wages have to be constant and can be rising. The evidence on real wages in South Korea is examined in this section with a view to establishing the pattern of change over the period. The evidence is presented to suggest that the relationship between food aid as a 'constant' over the period and 'real wages' as a constant can be partially explained by considering the classical importance of the food supply and its relationship to industrialisation. The two 'constancies' can be explained through the classical paradigm. It would, however, be necessary to test this hypothesis statistically to determine if the relationship has statistical significance.

In the Harvard or neo-classical writings and analysis of the capital, trade, aid and economic growth and development process in South Korea, it is taken without any attempt to explain that wages were low and kept so for a substantial period of the early real growth of the economy. Economists who have referred to the constancy of real wages in the South Korean economy, especially in the period 1955-65, are: Rao, 1978; Lal, 1983; Ranis and Fei, 1975; Krueger, 19769; Wan San, 1972; Squire, 1981; McDairmid, 1977; Bai Moo-Ki, 1982; Koo Hagen, 1981.

Professor Krueger towards the end of her magnum opus refers almost as an afterthought to real wages in the following

manner: '... the real wages appear to have remained relatively constant during the early years of rapid growth of manufacturing. This enabled the upward shift in the demand for labour to be reflected in increasing employment opportunities, rather than in rising real wages for those already employed.' (Krueger, 1979, p 220). The Westphal and Kim view is that government has intervened in labour markets to counter organised labour which explains the low real wages.

A strong exploitative argument for the role of government and business in its attitude to the labour force is reported in Hayter (1981) in which she argues that the Seoul worker averages a 7-day week and an 84-hour week at that. Joan Robinson (1979) echoes the Hayter type pure exploitative view by arguing that, 'wages are even lower and discipline harsher in South Korea than in Hong Kong and Taiwan'. Professor Robinson also argues that 'heavy and light industry have been built up largely financed by American and Japanese corporations to fabricate imported materials'. This view is in fact not correct; evidence of foreign corporations developing South Korea does not fit the facts.

While it is no doubt correct that the degree of industrial pliability, discipline and the capacity for long hours and hard work among South Korean workers is something that has perhaps not been seen in the West since the nineteenth century and early twentieth century, Korean workers have not had their real wages cut - since 1966 real wages have increased. Westphal and Kim report that real wages increased 3.3% per annum in mining and manufacturing since 1960 (p 175). A harsh industrial regime is unlikely alone to ensure the levels of

productivity and even a 'strike free' workforce. The Koreans have in the past shown that they have a limit to their tolerance of government, and the student riots of the 1960s toppled the Rhee government. Industrial discipline is an undoubted advantage to the flexibility of national economic ends. However the extent and influence of the state as an exploitative agent can be overstated. The state may have provided the stick to industrial labour but it also provided the carrot of constant real wages to manufacturing and ultimately of rising real wages. The South Korean labour policy may be described as that of a benevolent dictatorship in regard to the labour force.

Froebel et al. (1981) in an extensive study of the international textile industry compare the average hours of work per week in the textile industry in South Korea and United States of America in 1975 as follows:

| | ISIC*.321 | ISIC.322 | Earnings $/hr. | |
|---|---|---|---|---|
| South Korea | 51.1 | 52.9 | 0.31 | 0.23 |
| United States of America | 39.2 | 35.1 | 3.40 | 3.19 |

* ISIC: International Standard Industrial Classification of All Economic Activity

(Source: Froebel, 136, Table 1.15.)

The hours per week worked in South Korea are high compared with those of the United States but are not of the 84-hour week Hayter claims. The competitive advantage on earnings per hour is clearly shown with the United States earnings per hour being 11-14 times those of South Korea.

The importance of a regular food supply to industrial workers or consumers generally is highlighted by a comparison given by S S Park of the Engel's Law type:

Comparison of Dependency Ratios on Consumer Goods by Consumers of different per capita income levels (%)*

| | Agriculture | Manufacturing |
|---|---|---|
| South Korea 1960 | 38.2 | 25.5 |
| Japan 1965 | 5.4 | 40.3 |
| United Kingdom 1963 | 5.9 | 30.3 |
| USA 1963 | 1.3 | 33.9 |

In South Korea 38% of consumer income is spent on food supply compared with 1.3% spent on food supply in the United States. This food dependency is also noted in McDairmid, (op cit p 167) where, in 1971, manufacturing workers spent 38% of their income on food. An even more detailed study for the period 1964-67 was undertaken by Ki Hyuk Pak and Kee Chun Mau in An Analysis of Food Consumption in the Republic of Korea.

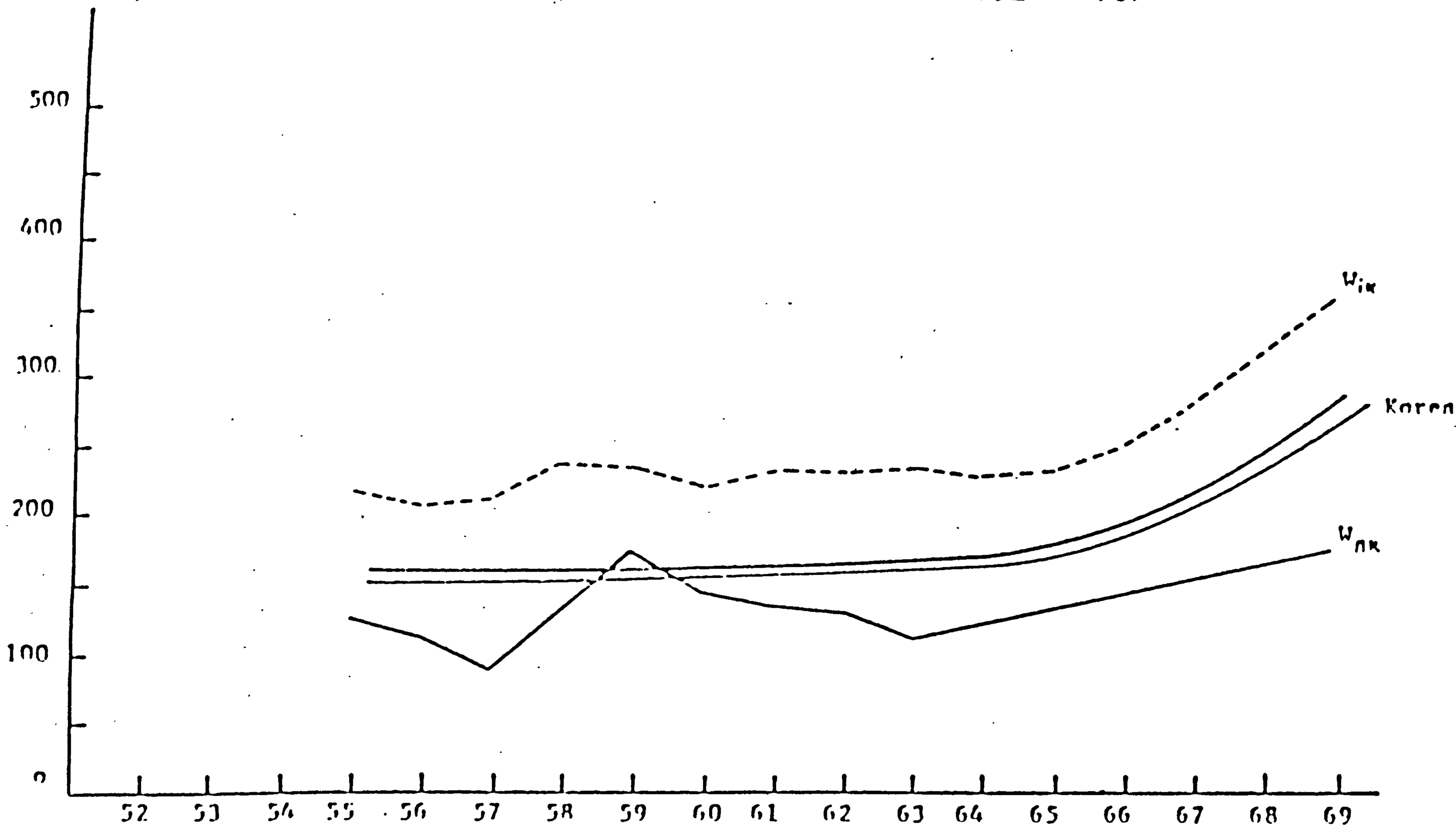
Real wage trends for South Korea 1952-1969 are given in Figure VII.XII and for the period 1960-78 in Table VII.XII. From 1952 until 1965 real wages remained relatively constant, particularly in the industrial sector (Wik). The large food aid shipments of 1957 may have had a price-depressing effect on real wages in agriculture. From 1957-60 agricultural wages rose in real terms and from 1960-63 fell. From 1963 to 1969 agricultural wages rose modestly. The familiar differential between agricultural and industrial wages is represented in this figure and of course has been a feature of most

---

* These ratios are constructed for private household consumption and indicate consumer expenditure as a percentage of income in the agricultural and manufacturing sectors (see S S Park, p 83)

Figure VII.XII

Real Wage Trends - South Korea 1952 - 1969




Wak = Real Wages in agriculture
Wik = Real Wages industrial

Source: Ranis & Fei 1975

Table VII.XIII Real Wages in Manufacturing, South Korea 1960-78

| | Monthly Earnings Per Employee (won) (I) | WPI (II) | CPI[1] (III) | Real Wage (won) (I/II) | Real Wage (won) (I/III) | Real Wage in Index (1975=100) by WPI | Real Wage in Index (1975=100) by CPI |
|---|---|---|---|---|---|---|---|
| 1960 | 2,390 | 13.0 | 13.4 | 17,923 | 17,388 | 46.7 | 45.3 |
| 1961 | 3,610 | 14.8 | 15.0 | 17,635 | 17,400 | 46.0 | 45.3 |
| 1962 | 2,780 | 16.1 | 16.3 | 17,267 | 17,055 | 45.0 | 43.2 |
| 1963 | 3,180 | 19.4 | 21.6 | 16,392 | 14,722 | 42.7 | 38.4 |
| 1964 | 3,880 | 26.2 | 29.4 | 14,809 | 13,197 | 38.6 | 34.4 |
| 1965 | 4,600 | 28.8 | 31.9 | 15,072 | 14,420 | 41.6 | 37.6 |
| 1966 | 5,420 | 31.4 | 34.9 | 17,261 | 15,530 | 45.0 | 40.5 |
| 1967 | 6,640 | 33.4 | 36.8 | 19,880 | 18,043 | 51.8 | 47.0 |
| 1968 | 8,400 | 36.2 | 39.0 | 23,204 | 21,538 | 60.5 | 56.1 |
| 1969 | 11,270 | 38.5 | 40.7 | 29,273 | 27,690 | 76.3 | 72.2 |
| 1970 | 14,150 | 42.0 | 44.0 | 33,690 | 32,159 | 87.8 | 83.8 |
| 1971 | 17,349 | 45.7 | 46.5 | 37,963 | 37,310 | 98.9 | 97.2 |
| 1972 | 10,104 | 52.0 | 51.7 | 38,662 | 38,886 | 100.7 | 101.3 |
| 1973 | 22,330 | 55.6 | 56.2 | 40,162 | 39,733 | 104.6 | 103.5 |
| 1974 | 30,209 | 79.0 | 82.1 | 38,239 | 36,795 | 99.6 | 95.9 |
| 1975 | 38,378 | 100.0 | 100.0 | 38,378 | 38,378 | 100.0 | 100.0 |
| 1976 | 51,685 | 112.1 | 109.8 | 46,106 | 47,072 | 120.1 | 122.7 |
| 1977 | 69,168 | 122.2 | 116.7 | 56,602 | 59,290 | 147.5 | 154.4 |
| 1978 | 92,907 | 136.5 | 123.6 | 68,064 | 75,167 | 177.4 | 195.6 |

1 From 1960-64, CPI for Seoul City.
WPI. Wages Price Index
CPI Consumer Price Index

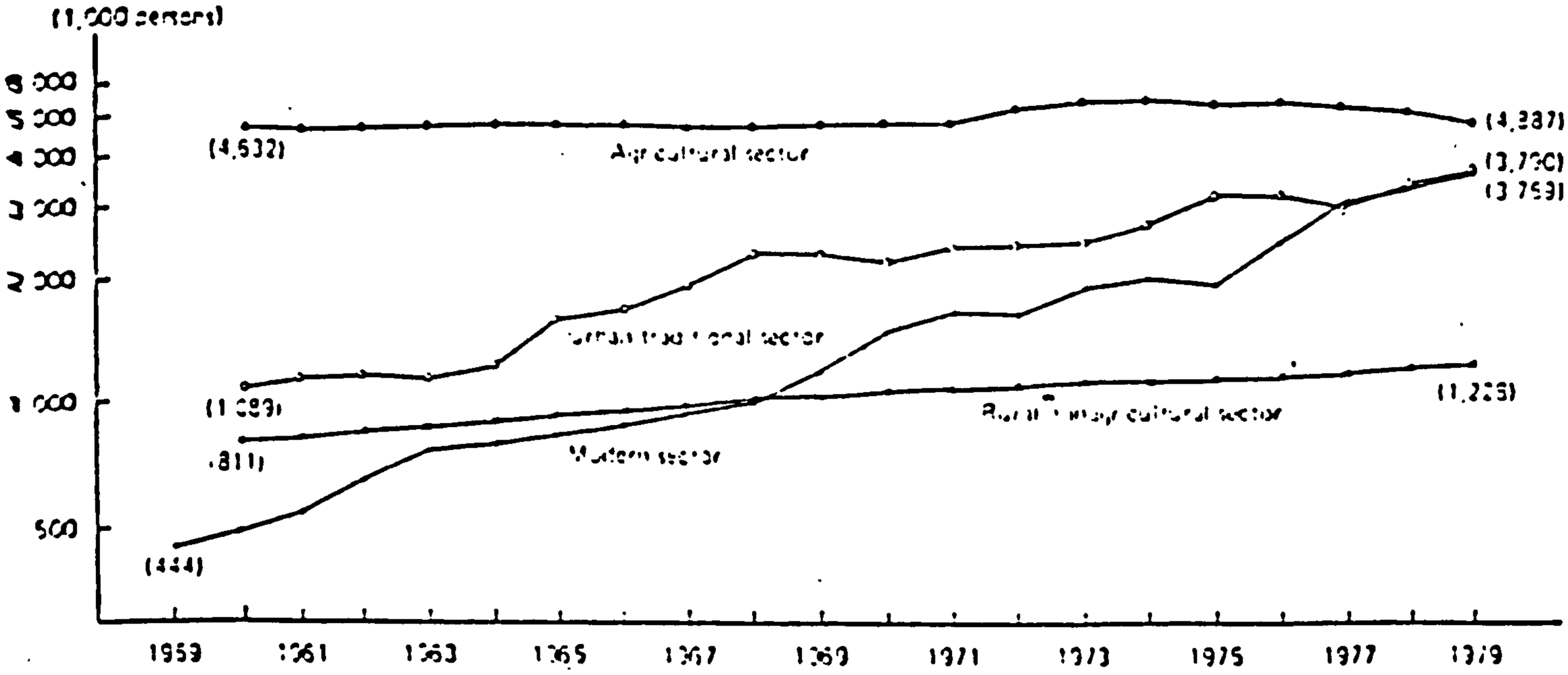
Source: Bank of Korea, Economic Statistics Yearbook, various issues.

Table VII.XIV Index of Monthly Earnings of Production Workers (1965=100)

| Year | Index in current prices | | | Seoul Consumer Price Index | Index in real terms | | |
|---|---|---|---|---|---|---|---|
| | Agri-culture | Mining | Manufac-turing | | Agri-culture | Mining | Manufac-turing |
| 1957 | | 36.6 | 43.5 | 45.5 | | 80.4 | 95.6 |
| 1958 | | 38.0 | 47.8 | 43.8 | | 86.5 | 109.1 |
| 1959 | 42.6 | 45.1 | 52.0 | 45.3 | 94.0 | 99.6 | 114.8 |
| 1960 | 43.1 | 46.5 | 50.0 | 49.8 | 86.5 | 93.4 | 100.4 |
| 1961 | 47.6 | 53.5 | 56.5 | 53.9 | 88.3 | 99.3 | 104.8 |
| 1962 | 51.5 | 59.2 | 60.9 | 57.5 | 89.6 | 103.0 | 105.9 |
| 1963 | 65.2 | 66.2 | 70.3 | 68.8 | 94.8 | 96.2 | 102.2 |
| 1964 | 88.5 | 78.9 | 84.3 | 88.0 | 100.6 | 89.7 | 95.8 |
| 1965 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1966 | 116.9 | 118.3 | 117.4 | 112.1 | 104.3 | 105.5 | 104.7 |
| 1967 | 142.7 | 154.9 | 143.5 | 124.2 | 114.9 | 124.7 | 115.5 |
| 1968 | 178.3 | 171.8 | 182.6 | 138.0 | 129.2 | 124.5 | 132.3 |

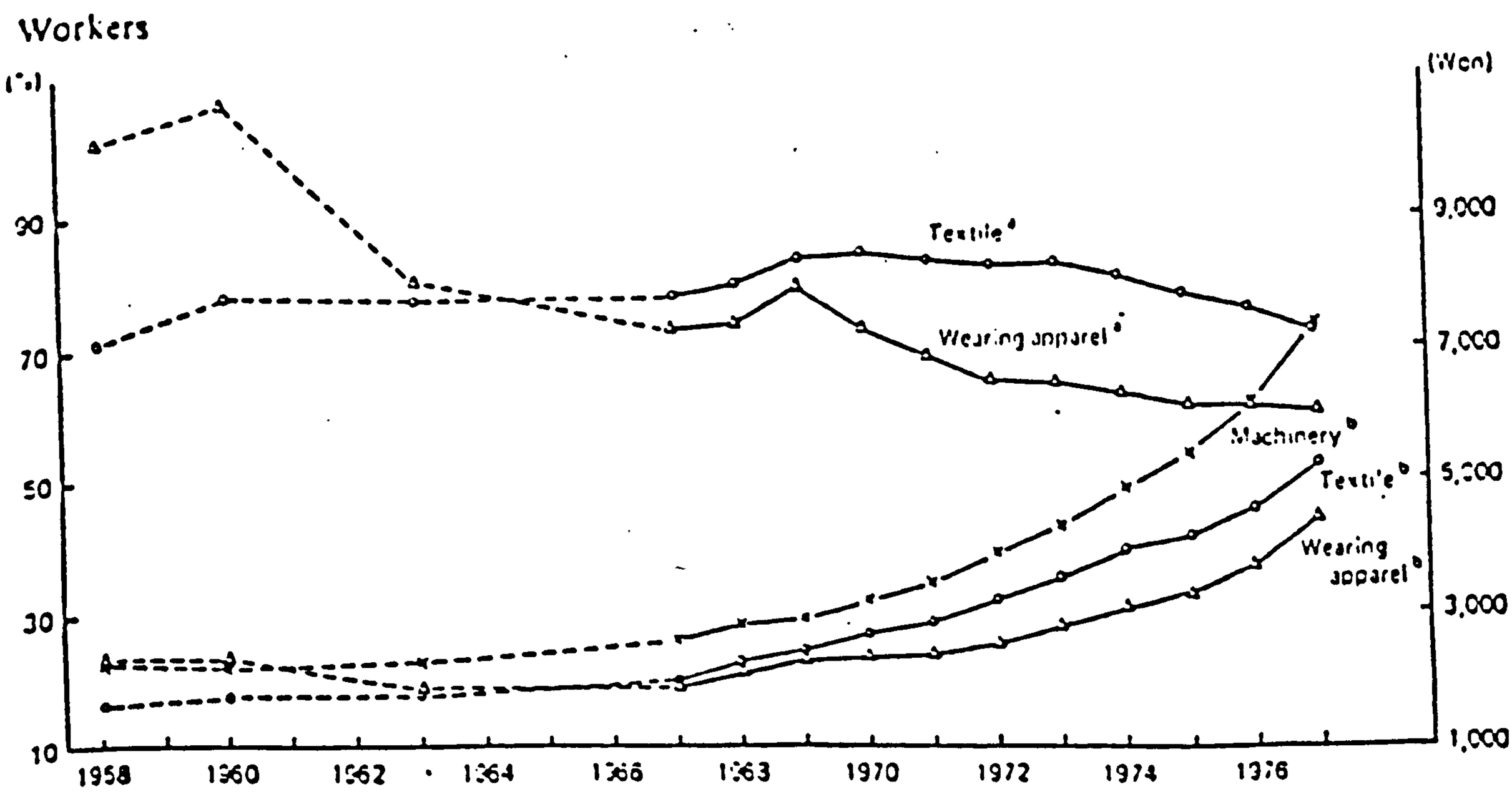
Source: Economic Planning Board: Major Economic Indicators, Mar 1969.

Figure VII.XV Number of Persons Employed in Agricultural, Modern, and Urban Traditional Sectors, South Korea 1959-79




(Source: Bai Moo-Ki, 1982.)

Figure VII.XVI Changes in Wage Rates and Wage Differentials between Skilled and Unskilled, South Korea 1953-77




(Source: Bai Moo-Ki, 1982.)

a Wage differential=(wage rates in the industry indicated/wage rates in the machinery industry)x100.

b Average wage rates per day in won for the workers employed in the industry indicated.

Table VII.XVII Labour Productivity: Value Added Per Worker in Manufacturing

| | Value Added in 1975 Prices (in Million Won) (I) | Persons Employed (Thousand) (II) | Productivity (I)/(III) |
|---|---|---|---|
| 1960 | 240,158 | - | - |
| 1961 | 249,793 | - | - |
| 1962 | 278,968 | - | - |
| 1963 | 323,914 | 610 | 531.0 |
| 1964 | 356,071 | 637 | 559.0 |
| 1965 | 429,112 | 772 | 555.8 |
| 1966 | 503,162 | 833 | 604.0 |
| 1967 | 612,082 | 1,021 | 599.5 |
| 1968 | 778,538 | 1,176 | 662.0 |
| 1969 | 946,991 | 1,232 | 768.7 |
| 1970 | 1,135,630 | 1,284 | 884.4 |
| 1971 | 1,349,424 | 1,336 | 1,010.0 |
| 1972 | 1,538,188 | 1,445 | 1,064.5 |
| 1973 | 1,937,761 | 1,774 | 1,092.3 |
| 1974 | 2,301,124 | 2,012 | 1,143.7 |
| 1975 | 2,590,354 | 2,205 | 1,174.8 |
| 1976 | 3,176,644 | 2,678 | 1,186.2 |
| 1977 | 3,633,584 | 2,798 | 1,298.6 |
| 1978 | 4,349,920 | 3,016 | 1,442.3 |

Rate of Increase of Labour Productivity:

1963-68 (4.5%), 1969-78 (7.2%), 1970-78 (6.3%)

Source: Bank of Korea, National Income in Korea, 1978.
Bank of Korea, Economic Statistics Yearbook, various issues.

industrialising and industrialised economies. For South Korea the urban-rural wage bias is a 'normal' feature accompanying the industrial growth process.

Table VII.XIII shows that wages, (taking 1975 = 100) rose steadily from 1960 at a rate of nearly 7% per annum during the period 1963-75.

The monthly earnings of production workers in manufacturing, as shown in Table VII.XIV, in real terms dropped below, 1965 = 100, in 1964. Real wages were relatively constant in the period 1957-68 showing substantial rises in 1967-68. Figure VII.XV shows that in the period 1959-1979 employment remains relatively constant in agriculture, but the modern and urban traditional sectors increase employment dramatically.

Figure VII.XVI shows that from 1958 to 1976 textile skilled workers received a relatively constant money wage during the period. Finally, labour productivity increased considerably during the period 1960-78, as shown in Table VII.XVII.

South Korea during the period 1952-75 increased employment in manufacturing at a very fast rate while maintaining employment in agriculture. Real wages throughout the period either remain relatively constant or increased, especially towards the end of the period. It will be recalled from Chapter Six that during the 1960s imports of food aid began to increase from the United States food aid programme. (See Section 7.2 for estimation of physical volumes of wheat supplies.) While agriculture did increase productivity and output within South Korea this increase was insufficient to meet the growing food demands of the growing industrial labour

force. The increase in supply of wheat for the modern industrial labour force provided an important stability of food supply which in turn allowed a constancy of real wages in the early period of development. The later period of South Korean development allowed real wages to increase and that element of growth of employment and certainty of the wage good was provided by United States surplus wheat and other foodstuffs which was given as food aid.

7.1.8 Food Aid as Producer Good and its Direct Contribution to Industry

The inflow of foreign resources to South Korea in the period 1945-65 was predominantly in the form of American aid.

From 1965 the Koreans began to receive loans, reparations from Japan and a greater emphasis in the American USAID programme on development projects, as distinct from general government budgetary support for military or other general uses.

Japanese reparations, or as they were euphemistically called 'Property and Claims', were the beginning of stronger economic and diplomatic relations between the two countries which started in 1965. Table VII.XVIII gives an account of these Japanese reparations indicating the grant and loan element in the total half billion payment. It is worthy of note that the great majority of these funds were destined for investment in the mining and manufacturing sectors of the South Korean economy.

The inflow of foreign investment was relatively small from the United States during the period 1962-74 with a high point of nearly $40 million in 1970 and a total of $198 million over

Table VII.XVIII Summary of PAC Fund by Sector (Arrival Basis) (1965)

In US Dollars

| | Grant | Ratio | Loan | Ratio | Total | Ratio |
|---|---|---|---|---|---|---|
| Agriculture and Forestry | 36,547,573 | 12.2 | 2,309,190 | 1.2 | 38,856,763 | 7.8 |
| Fishery | 27,175,542 | 9.1 | - | - | 27,175,542 | 5.4 |
| Mining & Manufacturing | 164,262,801 | 54.8 | 113,724,594 | 56.9 | 277,987,395 | 55.6 |
| Development of Science and Technology | 20,125,402 | 6.7 | - | - | 20,125,402 | 4.0 |
| SOC Service | 6,029,275 | 2.0 | 83,966,216 | 41.9 | 89,995,491 | 18.0 |
| Others (Liquidation accounts and bank fees) | 45,859,407 | 15.2 | - | - | 45,859,407 | 9.2 |
| Total | 300,000,000 | 100.0 | 200,000,000 | 100.0 | 500,000,000 | 100.0 |

Source: Suk Tai Suh, 1976

Table VII.XIX

Inflow of Foreign Investment (1962-74)

(In thousand dollars)

| | From USA | From Japan | Total |
|---|---|---|---|
| 1962 | 1,370 | - | 1,370 |
| 1963 | 5,442 | - | 5,442 |
| 1964 | 185 | - | 404 |
| 1965 | 20,138 | - | 20,138 |
| 1966 | 2,092 | - | 2,215 |
| 1967 | 17,964 | 1,258 | 19,884 |
| 1968 | 13,244 | 4,450 | 24,167 |
| 1969 | 6,023 | 15,391 | 28,193 |
| 1970 | 39,605 | 14,684 | 61,446 |
| 1971 | 18,825 | 23,328 | 45,209 |
| 1972 | 29,410 | 75,033 | 110,441 |
| 1973 | 12,044 | 246,364 | 264,679 |
| 1974 | 32,223 | 94,789 | 139,903 |
| Total | 198,565 | 474,697 | 723,491 |

Source: Economic Planning Board

Table VII.XX Status of Foreign Investment

Authorization by Year

In thousand US Dollars

| | No of firms | Value of Authorization |
|---|---|---|
| 1962 | 1 | 1,370 |
| 1963 | 3 | 5,442 |
| 1964 | 3 | 404 |
| 1965 | 6 | 20,138 |
| 1966 | 9 | 2,215 |
| 1967 | 16 | 19,884 |
| 1968 | 28 | 24,167 |
| 1969 | 31 | 28,193 |
| 1970 | 85 | 61,446 |
| 1971 | 83 | 45,209 |
| 1972 | 158 | 110,441 |
| 1973 | 356 | 264,679 |
| 1974 | 170 | 139,903 |
| Sub total | 949 | 723,491 |
| 1975(1-10) | 33 | 179,497 |
| TOTAL | 982 | 902,988 |

Source: Economic Planning Board

## Table VII.XXI Status of Foreign Loans Authorization by Industry

Unit in million US Dollars

| | 1959-1973 | | | 1974 | | | Sub-Total | | | 1975, 1-9 | | | Grand Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Public Loan | Private Loan | Total | Public Loan | Private Loan | Total | Public Loan | Private Loan | Total | Public Loan | Private Loan | Total | Public Loan | Private Loan | Total |
| I | | | | | | | | | | | | | | | |
| Agriculture & Fishery | 218.2 | 143.8 | 362.0 | 123.2 | 27.2 | 150.4 | 341.4 | 171.0 | 512.4 | 8.5 | 14.3 | 22.8 | 349.9 | 185.3 | 535.2 |
| Agriculture | 204.9 | 28.5 | 233.4 | 123.2 | - | 123.2 | 328.1 | 28.5 | 356.6 | 8.5 | 0.6 | 9.1 | 336.3 | 29.1 | 365.7 |
| Fishery | 13.3 | 115.3 | 128.6 | - | 27.2 | 27.2 | 13.3 | 142.5 | 155.8 | - | 13.7 | 13.7 | 13.3 | 156.2 | 169.5 |
| II | | | | | | | | | | | | | | | |
| Mining | 13.5 | 8.5 | 22.0 | - | - | - | 13.5 | 8.5 | 22.0 | - | - | - | 13.5 | 8.5 | 22.0 |
| III | | | | | | | | | | | | | | | |
| Manufacturing | 498.6 | 1,765.0 | 2,263.6 | 121.5 | 861.1 | 982.6 | 620.1 | 2,626.1 | 3,246.2 | 134.5 | 118.7 | 253.6 | 754.6 | 744.8 | 3,499.4 |
| Textile | 10.6 | 501.6 | 512.2 | - | 115.5 | 115.5 | 10.6 | 617.1 | 627.7 | - | 23.7 | 23.7 | 10.6 | 640.8 | 640.8 |
| Rubber & Products | - | 11.0 | 11.0 | - | 5.7 | 5.7 | - | 16.7 | 16.7 | - | 0.2 | 0.2 | - | 16.9 | 16.9 |
| Chemical | 88.7 | 291.7 | 380.4 | - | 207.2 | 207.2 | 88.7 | 498.9 | 587.6 | - | 18.7 | 18.7 | 88.7 | 517.6 | 606.3 |
| Petroleum | - | 203.3 | 203.3 | - | 2.8 | 2.8 | - | 206.1 | 206.1 | - | - | - | - | 206.1 | 206.1 |
| Stone, Clay & Glass | 11.4 | 202.7 | 214.1 | - | 42.0 | 42.0 | 11.4 | 244.7 | 256.1 | - | 6.2 | 6.2 | 11.4 | 250.9 | 261.3 |
| Metal Products | 46.4 | 234.1 | 280.5 | 41.5 | 249.6 | 291.1 | 87.9 | 483.7 | 571.6 | - | - | - | 87.9 | 483.7 | 571.6 |
| Machinery | 15.5 | 93.2 | 108.7 | - | 94.1 | 94.1 | 15.5 | 187.3 | 202.8 | 19.5 | 25.8 | 45.3 | 35.0 | 213.1 | 248.1 |
| Electronic | - | 25.5 | 25.5 | - | 6.9 | 6.9 | - | 32.4 | 32.4 | - | 16.2 | 16.2 | - | 48.6 | 48.6 |
| Shipbuilding | 10.6 | 60.2 | 70.8 | - | 96.5 | 96.5 | 10.6 | 156.7 | 167.3 | - | 3.2 | 3.2 | 10.6 | 159.9 | 170.5 |
| Other Manufacturing | 315.4 | 63.4 | 378.8 | 80.0 | 30.0 | 110.0 | 394.4 | 93.4 | 488.8 | 115.0 | 24.7 | 139.7 | 510.4 | 118.1 | 628.5 |
| | - | 78.3 | 78.3 | - | 10.8 | 10.8 | - | 89.1 | 89.1 | - | - | - | - | 86.1 | 89.1 |
| IV | | | | | | | | | | | | | | | |
| Social Overhead Capital | 830.6 | 1,162.3 | 1,992.9 | 161.8 | 186.6 | 348.4 | 992.4 | 1,348.9 | 2,341.3 | 399.9 | 173.3 | 513.2 | 1,332.3 | 1,522.2 | 2,854.5 |
| Electric Utility | 115.6 | 548.4 | 664.0 | 42.0 | 149.5 | 191.5 | 157.6 | 697.9 | 855.5 | 38.2 | 9.6 | 47.8 | 195.8 | 707.5 | 903.3 |
| Transportation & Warehousing | 455.8 | 450.0 | 905.8 | - | 33.9 | 33.9 | 455.8 | 483.9 | 939.7 | 167.1 | 128.0 | 295.1 | 622.9 | 611.9 | 1,234.8 |
| Communication | 66.0 | 36.8 | 102.8 | 15.0 | - | 15.0 | 81.0 | 36.8 | 117.8 | 29.6 | - | 29.6 | 110.6 | 36.8 | 147.4 |
| Construction | 105.2 | 68.1 | 173.2 | 82.0 | - | 82.0 | 187.2 | 68.1 | 255.3 | 44.2 | - | 44.2 | 231.4 | 68.1 | 299.5 |
| Residential Housing | 12.7 | 26.4 | 39.1 | 20.0 | - | 20.0 | 32.7 | 26.4 | 59.1 | - | 25.0 | 25.0 | 32.7 | 51.4 | 84.1 |
| Education & Technology | 71.9 | - | 71.9 | - | - | - | 71.9 | 37.5 | 42.1 | 37.5 | - | 37.5 | 109.4 | - | 109.4 |
| Other | 3.5 | 32.6 | 36.1 | 2.8 | 3.2 | 6.0 | 6.3 | 35.8 | 42.1 | 23.3 | - | 34.0 | 29.6 | 46.5 | 76.1 |
| V | | | | | | | | | | | | | | | |
| Commodity Loans | 747.1 | - | 747.1 | 50.0 | 12.0 | 62.0 | 797.1 | 12.0 | 809.1 | 100.0 | 42.6 | 142.6 | 897.1 | 54.6 | 951.7 |
| Total: | 2,307.9 | 3,079.6 | 5,387.5 | 456.5 | 1,086.9 | 1,543.4 | 2,764.4 | 4,166.5 | 6,930.9 | 582.9 | 348.9 | 931.8 | 3,347.3 | 4,515.4 | 7,862.7 |

Source: Economic Planning Board.

Table VII.XXII Imports by Commodity Groups

| | Total Imports (US$mil) | Food & Other Consumer Goods (%) | Raw Materials for Industrial Use (%) | Capital Goods (%) | Non-durable Consumer Goods (%) | Durable Consumer Goods (%) |
|---|---|---|---|---|---|---|
| 1963 | 560.3 | 21.8 | 55.8 | 21.0 | 0.2 | 1.2 |
| 1964 | 404.4 | 17.2 | 63.7 | 17.7 | 0.4 | 1.0 |
| 1965 | 463.4 | - | - | - | - | - |
| 1966 | 716.4 | 10.4 | 63.3 | 23.8 | 0.3 | 2.3 |
| 1967 | 996.2 | 9.9 | 56.0 | 31.3 | 0.3 | 2.5 |
| 1968 | 1,462.9 | 11.7 | 48.3 | 35.8 | 0.4 | 3.8 |
| 1969 | 1,823.6 | 17.0 | 46.6 | 31.6 | 0.8 | 4.0 |
| 1970 | 1,984.0 | 16.5 | 50.6 | 29.1 | 0.6 | 3.3 |
| 1971 | 2,394.3 | 17.2 | 50.6 | 28.4 | 0.8 | 3.0 |
| 1972 | 2,522.0 | 14.5 | 51.6 | 29.9 | 1.1 | 3.0 |
| 1973 | 4,240.3 | 14.0 | 55.0 | 26.7 | 0.6 | 3.7 |
| 1974 | 6,851.8 | 12.2 | 57.7 | 27.0 | 0.3 | 2.7 |
| 1975 | 7,274.4 | 13.3 | 57.2 | 26.5 | 0.3 | 2.6 |
| 1976 | 8,773.6 | 7.7 | 60.7 | 27.7 | 0.4 | 3.5 |
| 1977 | 10,810.5 | 7.2 | 61.0 | 28.6 | 0.4 | 3.2 |
| 1978 | 14,971.9 | 6.8 | 56.0 | 33.9 | 1.3 | 2.3 |

Source: Department of Customs Administration.

Table VII.XXIII Composition of Manufactured Exports

Unit in Million US Dollar

| | Light Industry | | Heavy & Chemical Industry | | Total |
|---|---|---|---|---|---|
| | Amount | (per cent) | Amount | (per cent) | Amount |
| 1964 | 54.3 | (82.9) | 11.2 | (17.1) | 65.5 |
| 1965 | 90.6 | (79.1) | 23.9 | (20.9) | 114.5 |
| 1966 | 141.0 | (84.7) | 25.5 | (15.3) | 166.5 |
| 1967 | 204.5 | (88.1) | 27.7 | (11.9) | 232.1 |
| 1968 | 317.3 | (88.6) | 40.9 | (11.4) | 358.2 |
| 1969 | 422.1 | (83.4) | 84.1 | (16.6) | 506.2 |
| 1970 | 581.6 | (84.4) | 107.2 | (15.6) | 688.8 |
| 1971 | 769.3 | (83.6) | 151.4 | (16.4) | 920.7 |
| 1972 | 1,081.4 | (75.8) | 345.8 | (24.2) | 1,427.2 |
| 1973 | 2,043.5 | (72.7) | 767.0 | (27.3) | 2,810.5 |
| 1974 | 2,414.1 | (62.5) | 1,446.1 | (37.5) | 3,860.2 |
| 1975 | 2,916.0 | (69.6) | 1,276.0 | (30.4) | 4,192.0 |
| 1976 | 4,471.0 | (66.0) | 2,303.0 | (34.0) | 6,774.0 |
| 1977 | 5,297.0 | (61.0) | 3,299.0 | (38.4) | 8,596.0 |
| 1978 | 6,810.0 | (60.4) | 4,467.0 | (39.6) | 11,277.0 |

Source: Ministry of Finance and Korean Traders Association

Table VII.XXIV Dependence of Sectoral Production on the Direct and Derived Demand for Exports in 1963 and 1966 (in per cent)

| | 1963 | 1966 |
|---|---|---|
| Agriculture, forestry, and fisheries | 1.8 | 4.7 |
| Mining | 17.8 | 26.0 |
| Manufacturing | 6.6 | 14.8 |
| Food, beverages, and tobacco | 3.2 | 7.6 |
| Textiles | 8.3 | 24.0 |
| Other light manufacturing | 6.1 | 15.5 |
| Chemicals and ceramics | 3.5 | 9.7 |
| Metal products | 13.5 | 17.1 |
| Overhead and services | 6.3 | 10.3 |
| TOTAL | 4.7 | 10.6 |

Source: Derived from the 1963 and 1966 Input-Output Tables in the Bank of Korea Economic Statistics Yearbook, 1966 and 1969.

Table VII.XXV(a) Foreign Investment Projects Approved through 1968, by Industrial Category[1]

| | Number of projects | Amounts of foreign loan or investment (millions of $) | Per cent of total |
|---|---|---|---|
| Agriculture | 12 | 2.9 | 0.2 |
| Fisheries | 26 | 73.1 | 4.8 |
| Mining and manufacturing | 236 | 706.4 | 46.3 |
| Mining | 3 | 15.9 | 1.0 |
| Food, beverages, and tobacco | 8 | 8.6 | 0.6 |
| Textiles | 64 | 167.7 | 11.0 |
| Wood, paper, and leather products | 12 | 16.9 | 1.1 |
| Chemicals | 24 | 35.9 | 2.6 |
| Fertilizer | 11 | 121.3 | 7.9 |
| Petroleum | 5 | 72.2 | 5.0 |
| Cement and ceramics | 20 | 104.2 | 6.8 |
| Metals and metal products | 23 | 47.3 | 3.1 |
| Machinery and transport equipment | 44 | 52.4 | 3.4 |
| Miscellaneous manufacturing | 22 | 59.1 | 3.9 |
| Construction | 24 | 82.9 | 5.4 |
| Electricity | 29 | 290.1 | 19.0 |
| Water and sanitation | 7 | 17.9 | 1.2 |
| Communication | 13 | 42.0 | 2.7 |
| Transportation | 35 | 240.2 | 15.7 |
| Other | 11 | 72.8 | 4.8 |
| TOTAL | 393 | 1528.3 | 100.0 |

Source: Economic Planning Board.

1. Includes all government loans, private or commercial loans with repayments extending beyond three years, and direct private investments that had been approved by the Economic Planning Board. The amounts in each category are:

| | Mining and manufacturing | Other sectors | Total |
|---|---|---|---|
| Government loans | 150.4 | 367.4 | 517.8 |
| Commercial loans | 483.4 | 434.4 | 917.8 |
| Direct investment | 72.5 | 20.0 | 92.5 |

Table VII.XXV(b) The Value of Textiles as a Proportion of Total South Korean Exports 1953-1974* ($ millions)

| | Textiles** | Total Exports | Textiles % Exports |
|---|---|---|---|
| 1953 | 2.5 | 39.5 | 6.5 |
| 1954 | 2.6 | 24.2 | 11.1 |
| 1955 | 2.2 | 17.6 | 12.6 |
| 1956 | 2.7 | 25.1 | 11.0 |
| 1957 | 3.2 | 21.5 | 15.1 |
| 1958 | 0.9 | 16.4 | 5.6 |
| 1959 | 2.1 | 19.1 | 11.3 |
| 1960 | 3.8 | 31.8 | 11.9 |
| 1961 | 4.1 | 38.6 | 10.6 |
| 1962 | 7.6 | 54.8 | 13.8 |
| 1963 | 17.6 | 86.7 | 20.2 |
| 1964 | 32.7 | 118.8 | 27.5 |
| 1965 | 54.5 | 174.9 | 31.1 |
| 1966 | 79.6 | 247.6 | 32.1 |
| 1967 | 124.5 | 320.3 | 38.8 |
| 1968 | 190.3 | 455.2 | 41.8 |
| 1969 | 249.3 | 622.6 | 40.0 |
| 1970 | 330.2 | 835.2 | 39.5 |
| 1971 | 467.5 | 1,067.6 | 43.7 |
| 1972 | 660.2 | 1,632.6 | 40.4 |
| 1973 | 1,236.6 | 3,225.3 | 38.3 |
| 1974 | 1,428.0 | 4,456.2 | 32.0 |

* Sources: Tables 13, 25, 34. Commodity Composition of Exports (Krueger, 1979).

** Fibre Spinning Textile Fabrics, Textile Products (including man made fibres).

the period. This figure is low when compared with Japanese investment, in a much shorter period (1967-74), of $474.6 million with half of this being invested in 1973 alone (see Table VII.VIX). As foreign aid tailed off in the 1970s so the inflow of foreign investment increased, particularly from Japan. The number of foreign firms authorised to invest in South Korea by the government is given in Table VII.XX. The total figures in these two tables differ due to different sources and compliancy periods.

The industrial sectors to which these foreign loans were destined is given in Table VII.XXI. It is notable that manufacturing received the highest share at 44% of investment, social overhead capital 36.3% of investment and agriculture 6.8% of investment during the period 1959-75. Government commanded 42% of this investment and the private sector 58%. Within the manufacturing sector the highest amount, $640 million, was invested in the textile industry (8.2% of all investment) and 18.8% of investment in the manufacturing sector. Total imports of commodities began to rise in the mid-1960s as export-led manufacturing growth began to rise rapidly (see Table VII.XXII). Food imports were 21.8% of total imports in 1963 and therafter declining. Raw material imports (including cotton and textile materials under PL 480 and USAID) began to rise from the 1950s to a substantial 50-60% of imports. Capital goods averaged between 25-30% of imports.

The Korean export miracle was heavily dependent upon light industry manufactures, with textiles the leading export industry (usually taken together in official figures with plywood). This rapid growth-phase in Korean exports (1964-75)

is argued by the Harvard School, Professor Krueger and others as a direct outcome of sensible trade and foreign exchange policies adopted by the South Korean Government. However, as we have seen, industrial raw materials were heavily subsidised by United States PL 480 and USAID thus adding to the South Korean 'comparative advantage' in textile production and export trade. This contribution has not hitherto been highlighted or acknowledged in the writings on aid and the Korean export miracle. Table VII.XXIII indicates the period of rapid growth of manufacturing exports with an emphasis on light industry products (88-60% in the period). Heavy industry began to assume a greater proportion of exports in the 1970s. Foreign exchange for example was earned in the post-oil crisis period by South Korean construction contracts in the Middle East, most notably in Saudi Arabia where the Korean multinational Hyundai employed 250,000 South Korean workers building roads and construction. The Koreans have increasingly secured contracts for construction in the Middle East and have become a major shipbuilder and possibly will become a major mass car producer. The Hyundai 'Pony' is already penetrating foreign car markets.

The South Koreans switched their industry emphasis in the 1970s from light to heavy industry. This was in response to low income and linkage effects, low income elasticity and low expansion rates of demand in world trade (see Wan-Son, 1972). South Korea had a very rapid rate of textile export expansion, which took advantage of import dependency for textiles of the United States and Japan, particularly in the late 1960s and early 1970s. The Koreans benefitted in the world market by

finding a niche for labour-intensive light manufactures and exploiting this to the full.

The textile niche was apparent in the mid-1960s as shown in Table VII.XXIV where textiles showed an increased dependence in the three-year period, and its emergence as the leading export sector. By 1968 (Table VII.XXV(a)) textiles had become a major investment sector fuelling the rapid export growth. (Transportation and electricity were being heavily invested in providing the infrastructure for the 'heavy industry' phase beginning in the early 1970s.)

The textile industry provided the cutting edge for the South Korean export miracle as shown in Table VII.XXV(b). With one year exception (1958) textiles since 1954 had provided at least 10% of exports, and from 1963 at least 20% rising throughout the late 1960s and early 1970s to 40%. As was shown in Chapter Six, raw cotton and USAID textile raw materials provided a major $1.8 billion contribution to this extraordinary growth. Foreign investment, government and private investment provided further impetus to this sector growth. Wage rates and labour costs were kept low in part by the contribution of PL 480 wheat, to the wage good.

The South Korean comparative advantage in low-cost labour-intensive textile production was aided as much by US foreign aid policy, particularly concessional commodity policy generally known as food aid policy. It is debatable whether the South Korean export miracle could have been achieved without the role of the leading sector, the textile industry, and whether export performance would have been as spectacular without the massive US food aid subsidies. In this unique

Korean experience it has been argued that food aid has made a positive contribution to the industrialisation of one of the most spectacular growth performances of a newly industrialising country, South Korea.

## 7.2 THE EFFECTS OF FOOD AID ON THE GROWTH AND DEVELOPMENT OF SOUTH KOREAN AGRICULTURE

A major observation of the classical school on growth and development is that productivity, overall output growth and employment gains are faster in manufacturing than in agriculture. As a consequence of this historical observation from many country experiences it is concluded that faster overall economic growth and development can be achieved through the process of industrialisation.

This classical observation is shown to be true in the South Korean example in Table VII.XXVI where productivity growth per head in agriculture was high during the period 1950-65 compared with that of manufacturing per head during the period 1960-68. However, GDP in manufacturing and employment growth far outstripped that in agriculture.

**Table VII.XXVI**

**Growth Rates of Output, Employment and Productivity in Agriculture and Manufacturing as a percent of average Annual Rate. South Korea (1960-68)**

| | | |
|---|---|---|
| TOTAL GDP | 1960-68 | 8.3 |
| AGRICULTURAL SECTOR | | |
| GDP Agriculture | 1958-68 | 3.6 |
| Population in Agriculture | 1960-65 | 0.6 |
| Productivity per head | 1950-65 | 3.0 |
| MANUFACTURING SECTOR | | |
| GDP in Manufacturing | 1960-68 | 15.9 |
| Manufacturing employment | 1960-68 | 15.6 |
| Productivity per head | 1960-68 | 0.3 |

(Source S S Park, 1977, Table 6.3 page 75.)

It has been a major contention of critics of food aid that this form of aid can be positively harmful to the economic development of the recipient through price depressing and price displacement effects. The argument runs, as discussed in Chapter Four, Section 4.4, that local production is displaced by low-cost aid imports and this is to the overall detriment of local producers which in turn affects overall welfare and growth of the recipient.

In the case of South Korea a number of studies on aid and agriculture have been undertaken and references have been made to price depressing or displacement effects, (Moore, 1984; Wessel, 1983; Morgan, 1975 and 1977). Critics of food aid policy have tended to cite Colombia, Pakistan, Indonesia and South Korea as examples of the detrimental influences of food aid on agricultural and rural development growth and prosperity. Morgan (1975/77) argues that the value of the United States food aid programme to South Korea, while freeing foreign exchange, helping the balance of payments and softening inflation, was detrimental to the rural sector. The rural sector he argues would have been more prosperous in the absence of food aid supplies, presumably because farmers would have received higher prices than they in fact did receive. Food aid adversely affected farmers and their productivity, it skewed the distribution of wealth and adversely affected the general economic development of South Korea. As we have seen, productivity in agriculture output per head increased at a faster rate during the period 1950-65 than in manufacturing during the period 1960-68. (See S S Park, 1977, for a discussion of agriculture and its

importance to South Korean development.) Morgan's specific claim on productivity strictly examined does not hold close scrutiny. Morgan, quoting a United State's aid official, Bernie Widerman, argues that PL 480 shipments allowed the Korean Government to maintain its stranglehold on the country's grain supply and that PL 480 reduced pressure on the Korean Government to offer peasants higher prices. Widerman concluded that 'long-term low interest loans from the United States were damaging to the Koreans, not helpful' (Morgan, 1975), and that 'food aid loans obviously are of no benefit to the South Korean people'. A similar argument by two United States agricultural economists is made in the Wall Street Journal 1982, 'What Cheap Food does to Poor Countries' (Adams and Larson, November, 1982).

Similar arguments are put forward in Wessel, 1983 (Chapter 10) where John Sayer is quoted as arguing that 'food aid policy in South Korea was mainly to benefit the United States'. A major argument of critics of US food aid to South Korea is that this policy has changed food consumption patterns and habits making South Korea dependent on the United States for food supplies. It is quoted that there are 7000 bakeries in Korea, whereas in 1950 the country did not eat bread. The substitution of wheat for rice is considered as undesirable per se.

In fact hard systematic analysis of the effects of food aid on South Korean agriculture is hard to come by and so much of the evidence of the adverse effects on Korean agriculture is anecdotal at best and at worst sensational journalese that does not bear close scrutiny. It is not in

dispute that the Korean Government favoured urban workers with a cheap food policy but the detrimental effects on South Korean agriculture have yet to be clearly established and empirically shown.

### 7.2.1 Land Reform and Agricultural Policy in South Korea

As discussed in Chapter Six, the land reform was regarded as a political success in the long run because of, in part, the Korean war and economic output success.

Throughout the 1950s the Rhee government was heavily dependent on US aid and increasingly requested food aid. The government's desire to have more food aid went so far as to counsel Korean ministries, particularly agriculture, to understate Korean harvests in order to try to persuade the United State's authorities to give more food aid. The Rhee government, it has been argued, also overvalued exchange rates and discouraged exports to strengthen their case for US aid (See Cole and Lyman, 1971).

In the mid-1960s rice production estimates were revalued six times, indicating that previous estimates were underestimated by at least 30%. (The Bank of Korea Bulletin, July, 1965, "Revised 1964 Preliminary GNP by New Price Production Data". The Korean Government was not only keen on food aid during the Rhee regime but also under Park. See Koreagate, Section 7.2.4.)

The Korean Government relied heavily on the manipulation of grain prices as a means to supplement industrial policy. Rural-urban income disparities consequently increased and rural areas generally suffered in the 1980s; the Korean Government has attempted to adjust this inequality (see

Moore, 1984; Rao, 1978, for a discussion of these disparities).

### 7.2.2 Project Aid and Land Reclamation

While resources attributed to agricultural investment in terms of government resources, and 'aid' resources were much smaller as a proportion of overall investment (see previous discussion), food aid resources invested in agriculture had a quite dramatic effect upon land area suitable for cultivation and ultimately upon total output. Upland development in South Korea (RDD/USOM. S616. K8U5. February 1966, Washington) indicates that 64,000 acres were developed using 42,000 MT of PL 480 Title II commodities in 1964 and in 1965 a further 100,000 acres were reclaimed by bench terracing. PL 480 Title II, by funding soil erosion schemes, provided employment and enhanced the agricultural capacity of Korean agriculture. The programme employed 300 staff members and 1,712 technicians with 11,000,000 man-days of labour used in 1965 alone. It was estimated in the mid-1960s that 1 million acres of land could be reclaimed using food aid projects. In the 1960s project food aid did contribute to rural renewal and development in this major project.

### 7.2.3 Farm Incomes, Employment and the Terms of Trade in Korean Agriculture

If price depressing effects are estimated in terms of growth of total agricultural output, the period of the Rhee government (1950s) where output was deliberately underestimated in order to maximise food aid allocations from the United States, it would appear that food aid had caused a reduction of output. In reality of course the Korean

Government deliberately underestimated production statistics. This falsification of the figures could be explained in terms of the 'fiscal drug' inducement of food aid. However, the South Korean Government in the 1950s was mindful of the importance of low urban consumer prices as the basis for economic and political stability. It is worthy of note that bad crop years in 1959 and 1960 preceded the student riots and the downfall of Rhee. Food prices or food shortages do cause governments to fall in countries where political and economic stability as reflected in the institutions and the general consensus is still in its infancy.

The farm population in South Korea (Table VII.XXVII) from 1948 through to 1978 has gone down from 14 or 15 million, (reaching a high point of 16 million in 1967), to 11.5 million in 1978. The proportion of the total employed in the economy has seen agriculture with 80% of employment in the 1950s falling throughout the 1960s and 1970s to 38% of the population. The actual numbers of persons employed in agriculture have ranged between over 6 million to 4.8 million. Mining and manufacturing has increased its share of total employment from 8.7% in 1963 to 23.2% in 1978. The urban population has grown from 41.7% in 1960 of population to 68.9% in 1978. South Korea has witnessed a rapid growth of urbanisation which has accompanied industrialisation.

A first approximation to price displacement effects can be sought from the agri-parity ratio (Table VII.XXVIII) where it can be seen that the terms of trade between urban and rural Koreans move against the rural sector from 1965-73 and move in favour of rural areas from 1974-77. In 1962-63 during the

Table VII.XXVII Population, Employment, Terms of trade in Agriculture

(unit: thousand person)

| | POPULATION | | | | | EMPLOYMENT | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Farm Population | (%) | Non-Farm Population | (%) | Total | Agri. Forestry & Fishery | (%)[1] | Mining & Manufacturing | (%)[1] | Agricultural Parity ratio[2] |
| 1960 | 14,559 | (58.3) | 10,430 | (41.7) | 24,989 | - | - | - | - | - |
| 1961 | 14,509 | (56.3) | 11,257 | (43.7) | 25,766 | - | - | - | - | - |
| 1962 | 15,097 | (57.6) | 11,416 | (42.4) | 26,513 | - | - | - | - | 70.3 |
| 1963 | 15,266 | (56.6) | 11,996 | (43.4) | 27,262 | 4,837 | (63.1) | 667 | (8.7) | 116.2 |
| 1964 | 15,553 | (56.2) | 12,431 | (43.8) | 27,984 | 4,825 | (61.9) | 690 | (8.8) | 129.2 |
| 1965 | 15,812 | (55.1) | 12,893 | (44.9) | 28,705 | 4,810 | (58.6) | 849 | (10.4) | 99.7 |
| 1966 | 15,781 | (54.1) | 13,655 | (45.9) | 29,436 | 4,875 | (57.9) | 913 | (10.8) | 80.6 |
| 1967 | 16,078 | (53.4) | 14,053 | (46.6) | 30,131 | 4,811 | (55.2) | 1,115 | (12.8) | 60.1 |
| 1968 | 15,908 | (51.6) | 14,930 | (48.4) | 30,838 | 4,801 | (52.4) | 1,282 | (14.0) | 62.6 |
| 1969 | 15,589 | (49.4) | 15,955 | (50.6) | 31,544 | 4,825 | (51.3) | 1,346 | (14.3) | 65.3 |
| 1970 | 14,422 | (45.9) | 17,819 | (54.1) | 32,241 | 4,916 | (50.4) | 1,395 | (14.4) | 67.1 |
| 1971 | 14,712 | (44.7) | 18,171 | (55.3) | 32,883 | 4,876 | (48.4) | 1,428 | (14.2) | 78.9 |
| 1972 | 14,677 | (43.8) | 15,828 | (56.2) | 30,505 | 5,346 | (50.6) | 1,499 | (14.2) | 83.0 |
| 1973 | 14,645 | (42.9) | 19,458 | (57.1) | 34,103 | 5,569 | (50.0) | 1,821 | (16.3) | 87.4 |
| 1974 | 13,459 | (38.8) | 21,233 | (61.2) | 34,692 | 5,584 | (48.2) | 2,062 | (17.8) | 104.6 |
| 1975 | 13,244 | (38.2) | 22,037 | (61.8) | 35,281 | 5,425 | (45.9) | 2,265 | (19.1) | 101.6 |
| 1976 | 12,785 | (35.7) | 23,075 | (64.3) | 35,860 | 6,601 | (44.6) | 2,743 | (21.9) | 100.4 |
| 1977 | 12,309 | (33.8) | 24,127 | (66.2) | 36,436 | 5,405 | (41.8) | 2,901 | (22.4) | 102.0 |
| 1978 | 11,528 | (31.1) | 25,491 | (68.9) | 37,019 | 5,181 | (38.4) | 3,123 | (23.2) | 98.3 |

1 Per cent of total employed population
2 Ratio of nominal income of farm household to nominal income of urban salary and wage earners (per household).

Source: Economic Planning Board, Major Statistics of the Korean Economy, 1979.

REPUBLIC OF KOREA

| | Total population | Agricultural Population | Economic Active population | | % in Agriculture |
|---|---|---|---|---|---|
| | | | Total | In Agriculture | |
| 1948-52 | 20.2 | | | | |
| 1950 | 20.5 | | | | |
| 1954 | | | | | |
| 1955 | 21.5 | 14.48 | 8.0 | 6.4 | 80.00 |
| 1956 | 21.7 | | | | |
| 1957 | | | | | |
| 1958 | | | | | |
| 1959 | | | | | |
| 1960 | 24.6 | 15.0 | 8.1 | 5.4 | 66.4 |

Source: FAO Prod. Year Books)

Table VII.XXVIII Indices of Agricultural Ouput, Inputs, and Relative Prices (1960=100)

| | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| OUTPUT | | | | | | | | | | | |
| Value of all farms crops | 85 | 95 | 103 | 103 | 100 | 115 | 106 | 117 | 136 | 135 | 155 |
| Value of rice and barley | 81 | 91 | 100 | 104 | 100 | 114 | 101 | 115 | 128 | 125 | 140 |
| Value of all other crops | 97 | 101 | 106 | 100 | 100 | 117 | 122 | 117 | 160 | 175 | 211 |
| INPUTS | | | | | | | | | | | |
| Cultivated area | 99 | 99 | 99 | 100 | 100 | 100 | 102 | 103 | 107 | 112 | 113 |
| Planted area | 100 | 102 | 102 | 99 | 100 | 101 | 104 | 106 | 113 | 119 | 114 |
| Fertilizer supply | 82 | 98 | 97 | 108 | 100 | 116 | 137 | 154 | 165 | 213 | 237 |
| Pesticide supply | 83 | 115 | 86 | 95 | 100 | 95 | 125 | 319 | 397 | 383 | 450 |
| Organized farm credit | | 76 | 80 | 79 | 100 | 124 | 131 | 115 | 107 | 110 | 115 |
| Government workers in agriculture | 67 | | | | 100 | 106 | 129 | 138 | 158 | 181 | 208 |
| RELATIVE PRICES | | | | | | | | | | | |
| Ratio of grain to nongrain prices | 137 | 133 | 111 | 83 | 100 | 111 | 108 | 149 | 139 | 114 | 111 |
| Prices received and paid by farmers | | | | 93 | 100 | 104 | 106 | 124 | 115 | 109 | 104 |

Source: Cole & Lyman, 1971.

Table VII.XXIX Shares, Growth Rates, and Contributions to Growth of Main Farm Crops

| Crop | 1956-1957 Average value | 1956-1957 % of total | 1960-1961 Average value | 1960-1961 % of total | 1965-1966 Average value | 1965-1966 % of total | 1956-57 to 1960-61 Growth rate | 1956-57 to 1960-61 % of total growth of output | 1960-61 to 1965-66 Growth rate | 1960-61 to 1965-66 % of total growth of output |
|---|---|---|---|---|---|---|---|---|---|---|
| Rice | 78,785 | 58.6 | 94,105 | 58.4 | 108,523 | 50.0 | 3.7 | 57.6 | 2.9 | 25.8 |
| Barley | 20,530 | 15.3 | 28,356 | 17.6 | 40,100 | 18.5 | 6.7 | 29.4 | 7.2 | 21.0 |
| Cereals | 1,640 | 1.2 | 1,771 | 1.1 | 2,172 | 1.0 | 1.6 | 0.5 | 4.2 | 0.7 |
| Pulses | 4,587 | 3.4 | 4,493 | 2.8 | 5,281 | 2.4 | -0.4 | -0.3 | 3.3 | 1.4 |
| Potatoes | 5,375 | 4.0 | 6,416 | 4.0 | 17,386 | 8.0 | 3.6 | 3.9 | 22.0 | 19.6 |
| Fruits | 2,234 | 1.7 | 3,016 | 1.9 | 6,264 | 2.9 | 6.2 | 2.9 | 15.7 | 5.8 |
| Tobacco | 4,322 | 3.2 | 4,928 | 3.0 | 10,495 | 4.8 | 2.7 | 2.3 | 16.3 | 9.9 |
| Vegetables | 14,056 | 10.4 | 15,763 | 9.8 | 24,648 | 11.4 | 2.3 | 6.4 | 9.4 | 15.9 |
| Special Crops[1] | 2,981 | 2.2 | 2,239 | 1.4 | 2,209 | 1.0 | -5.9 | -2.8 | -0.3 | -0.1 |
| TOTAL | 134,510 | 100.0 | 161,087 | 100.0 | 217,078 | 100.0 | 3.7 | 100.0 | 6.2 | 100.0 |

1 Special crops include ginseng, hemp, herbs, and tobacco.

**Table VII.XXX** Irrigation South Korea 1954-81

(thousand hectares)

(Irrigated arable land and land under permanent crops)

(rice only)

| | Arable Land | Permanent Crops | |
|---|---|---|---|
| 1954 | | | |
| 1955 | | | |
| 1956 | | | |
| 1957 | | | |
| 1958 | | 587 | |
| 1959 | | 629 | |
| 1960 | | 663 | |
| 1961 | | 660 | |
| 1962 | | 676 | |
| 1963 | | 935 | (1228) |
| 1964 | 690 | 949 | (1261) |
| 1965 | 702 | | 1286 |
| 1966 | 731 | | |
| 1967 | 753 | | |
| 1968 | 759 | | |
| 1969 | 993 | | |
| 1970 | 1000 | 848 | |
| 1971 | 1030 | 868 | |
| 1972 | 1060 | | |
| 1973 | 1100 | | |
| 1974 | 1130 | | |
| 1975 | | 915 | |
| 1976 | | 936 | |
| 1977 | | 1082 | (1104) |
| 1978 | | 1122 | |
| 1979 | | 1140 | |
| 1980 | | 1150 | |
| 1981 | | 1160 | |

Source: FAO Production Year Books

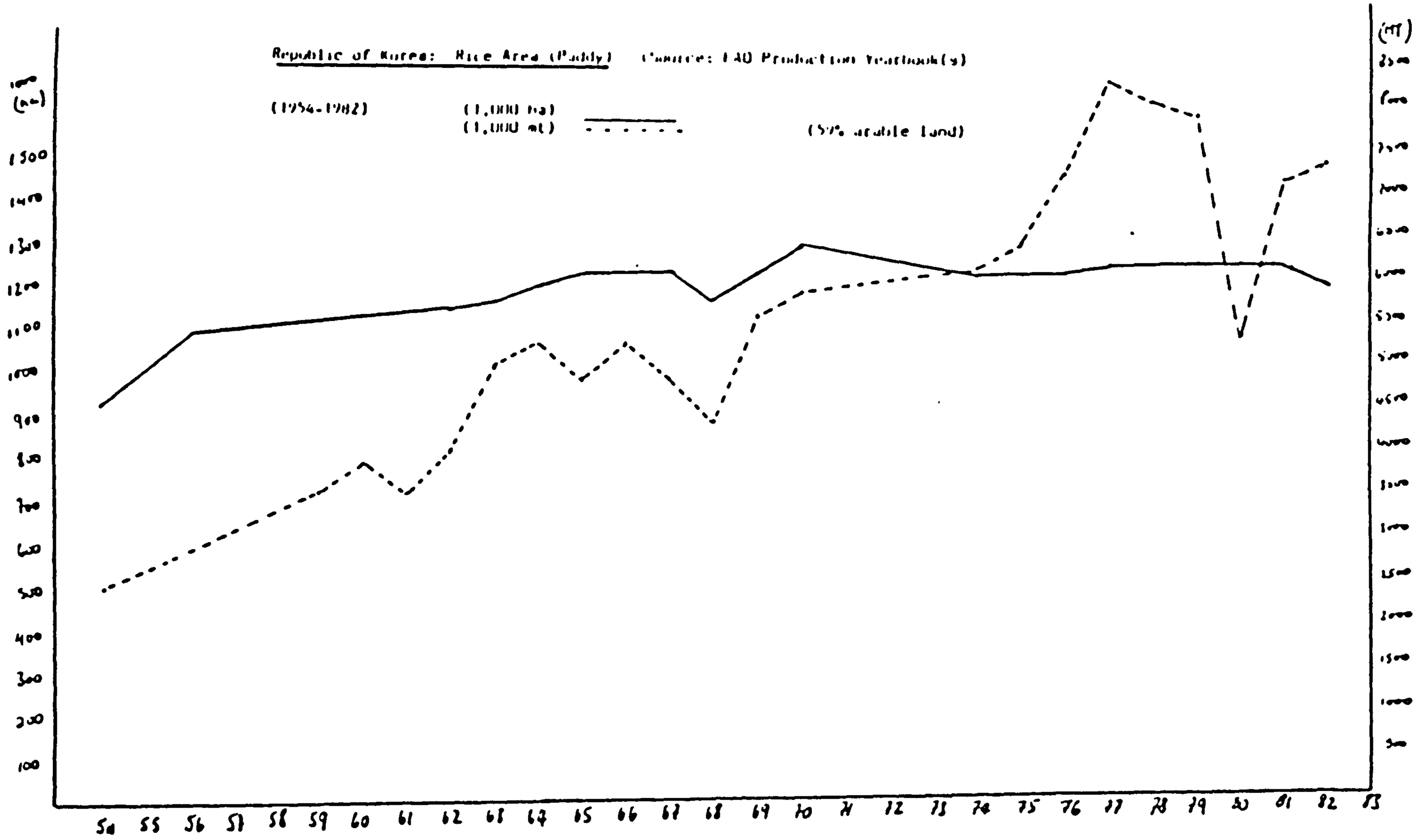
**Table VII.XXXI** Korea: Land Use

(1000 Ha)

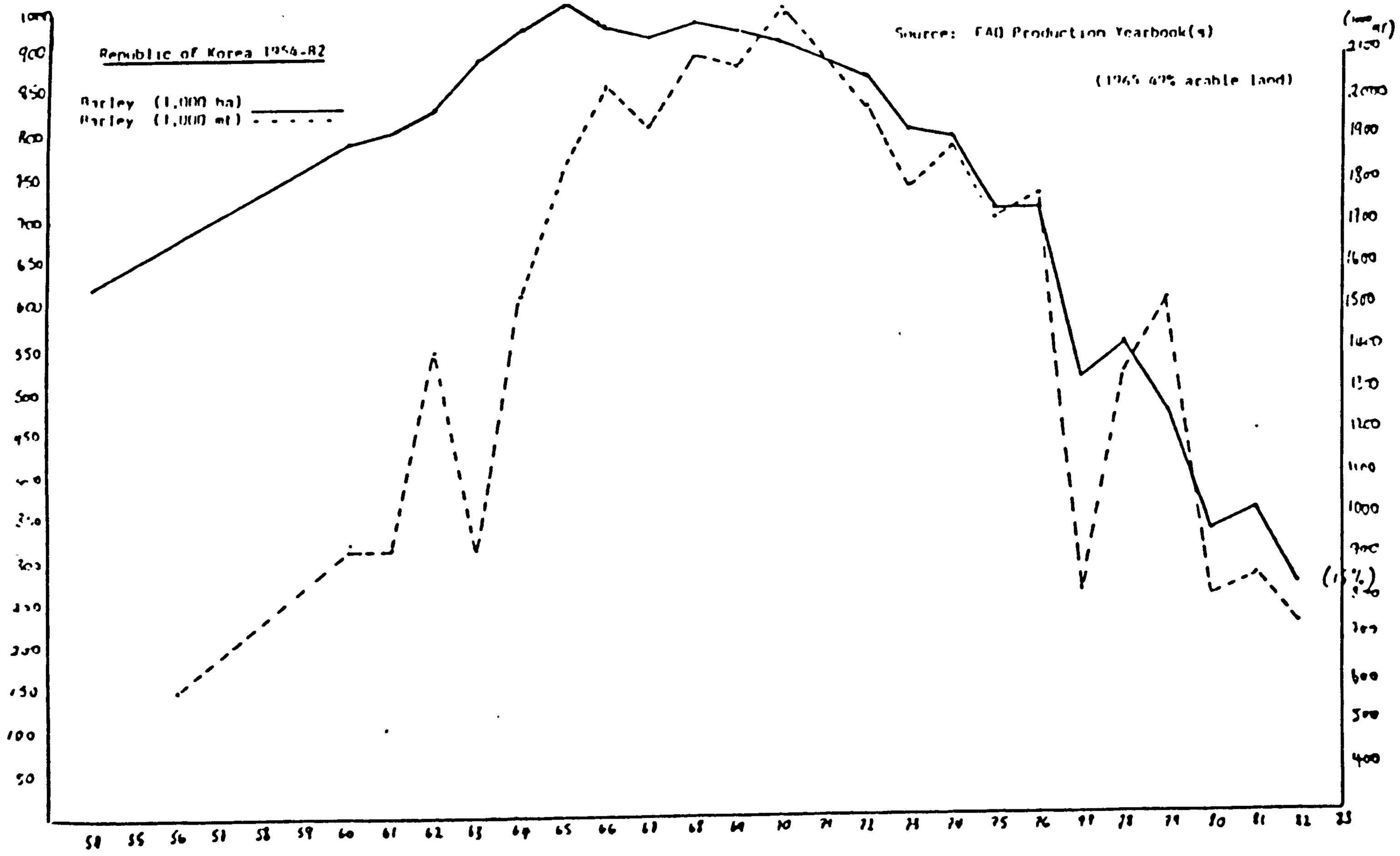
| | Arable land | Permanent crops | Pasture |
|---|---|---|---|
| 1954 | | | |
| 1955 | | | |
| 1956 | | | |
| 1957 | | | |
| 1958 | | | |
| 1959 | | | |
| 1960 | | | |
| 1961 | | | |
| 1962 | 2063) | 74 | |
| 1963 | 2080) | | |
| 1964 | 2091 | 80 | 18 |
| 1965 | 2256 | 2163 93 | |
| 1966 | 2187 | 106 | 18 |
| 1967 | 2196 | 116 | 24 |
| 1968 | 2199 | (2312) 145 | 120 24 |
| 1969 | 2186 | 2311 | 125 18 |
| 1970 | 2200 | 130 | 18 |
| 1971 | | (2271) 137 | 18 |
| 1972 | | (2242) 138 | 28 |
| 1973 | 2095 | (2241) 146 | 30 |
| 1974 | 2075 | (2238) 183 | 30 |
| 1975 | 2239 | 179 | 18 |
| 1976 | 2060 | 178 | 18 |
| 1977 | 2067 | 164 | 36 |
| 1978 | 2079 | 143 | 41 |
| 1979 | 2069 | 138 | 45 |
| 1980 | 2060 | 136 | 48 |
| 1981 | 2051 | 137 | 50 |
| 1982 | | | |
| 1983 | | | |

Source: FAO Production Year Books

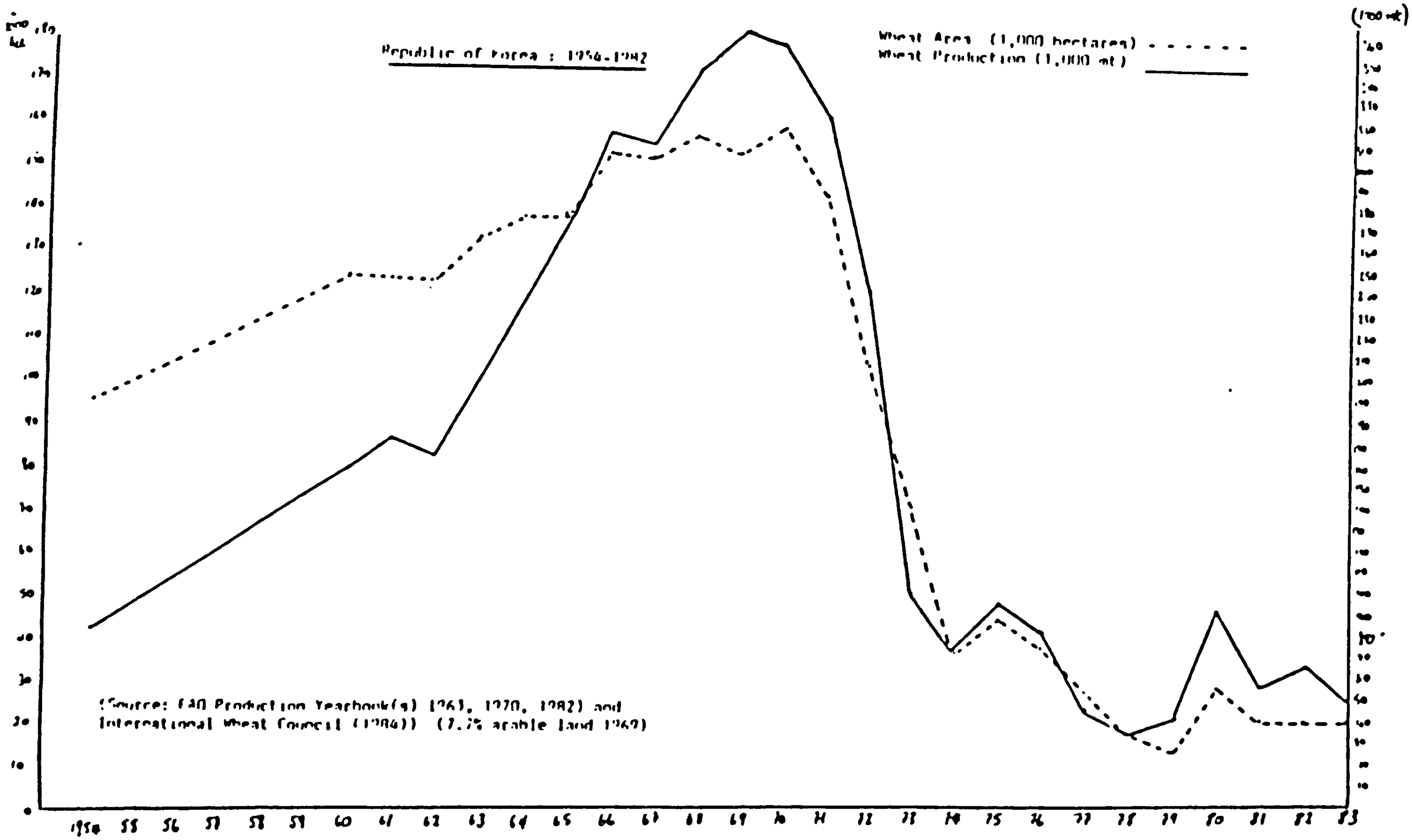
# Figure VII.XXXII



# Figure VII.XXXIII



# Figure VII.XXXIV



'food crisis' the terms of trade moved in favour of the farm population. Food aid volumes increased considerably during the 1965-73 period (see Chapter Six, Figure VI.IX) and this evidence alone might suggest an adverse effect from increased food imports under PL 480. Further evidence for the price policy towards farmers followed by the South Korean government is given in Table VII.XXVIII. Farmers received a modest increase in prices from 1960 through to 1966, with 1963 being the high point. Output in the main crops, rice and barley, increased from 1958 to 1966. Cultivated area increased as did the planted area. Notably, input supply of fertilizers and pesticides increased - doubling in the case of fertilizers and by a factor of 4 in the case of pesticides. Credit and extension also improved considerably from 1960.

The main crops produced in South Korea are shown in Table VII.XXIX. Rice and barley had growth rates of 3.7% and 6.7% respectively in 1956-61; 2.9% and 7.2% in 1961-66. Potatoes showed a considerable increase.

The changing pattern of irrigation and land use in Korea is given in Tables VII.XXX and VII.XXXI. Land under irrigation increased from 587,000 hectares in 1958 to 1,160,000 hectares in 1981. These FAO figures may for each of the years given be inaccurate, thus three columns are given reflecting the widely changing estimates given in the FAO Production Year Books. These figures therefore have to be treated with caution, although the trend to increased irrigation seems apparent and real. Arable land increased to a high point in 1965, perhaps reflecting renewed government emphasis on

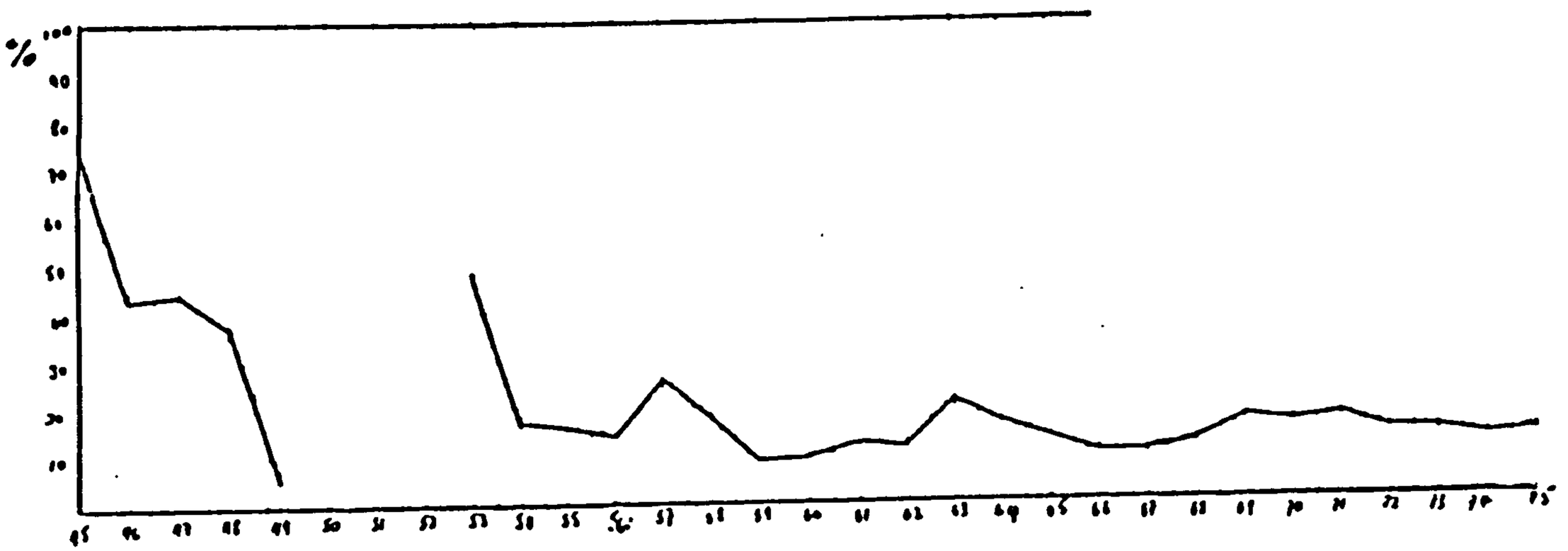
agriculture and the farmers response to more favourable prices, as is possibly the case in 1975.

The overall picture of the three main crops grown in South Korea - rice, barley and to a lesser extent wheat - is given in Figure VII.XXXII, rice; Figure VII.XXXIII, barley; Figure VII.XXXIV, wheat.

The land area under rice cultivation increased over the period 1954-83. Rice varies between 59% and 63% of total arable production. During this period output per hectare increased steadily but with the years 1961, 1965 and 1968 seeing a fall in yield growth. However, 1981 saw a major problem when yields fell considerably (see Moore, 1984, for a discussion).

Barley, wheat and rice are commodities which are in direct competition from PL 480 imports, since all these commodities are given under the US food aid programme (see Chapter Six). Barley production and hectarage have undergone considerable (if not dramatic) change during the 1954 to 1983 period. Both production and output (including yields) increased up to the mid-1960s. However, paradoxically from 1970-71 when food aid imports 'ceased', the land area and total barley output fell from 49% of arable land use in 1965 to 15% in 1982. As South Korea had to pay in hard currency terms for food imports at that time, home production steadily declined; during the high food aid import period of 1954 to 1971 production and land area increased. At this level of analysis it appears that the exact opposite happened in terms of production of a direct substitute for food aid than the received theory would expect. A similar picture applies to wheat production from

Figure VII.XXXV Food as a Proportion of Total Imports: South Korea 1945-1975




The Share of Food in Total Imports
South Korea 1945-78

| | Foodstuffs as % of Total Imports |
|---|---|
| 1945 | 73.0 |
| 1946 | 43.5 |
| 1947 | 44.2 |
| 1948 | 37.7 |
| 1949 | 5.2 |
| 1950 | n.a. |
| 1951 | n.a. |
| 1952 | n.a. |
| 1953 | 47.6 |
| 1954 | 17.3 |
| 1955 | 15.9 |
| 1956 | 14.0 |
| 1957 | 26.0 |
| 1958 | 18.4 |
| 1959 | 9.0 |
| 1960 | 9.2 |
| 1961 | 12.7 |
| 1962 | 11.6 |
| 1963 | 21.6 |
| 1964 | 16.9 |
| 1965 | 13.7 |
| 1966 | 10.0 |
| 1967 | 10.0 |
| 1968 | 12.0 |
| 1969 | 17.0 |
| 1970 | 16.0 |
| 1971 | 17.0 |
| 1972 | 14.0 |
| 1973 | 14.0 |
| 1974 | 12.0 |
| 1975 | 13.0 |
| 1976 | 7.7 |
| 1977 | 7.2 |
| 1978 | 6.8 |

Source: Krueger Tables 4, 20, 28,37

Table VII.XXXVI Republic of Korea (Trade)

Imports of Cereals (MT)

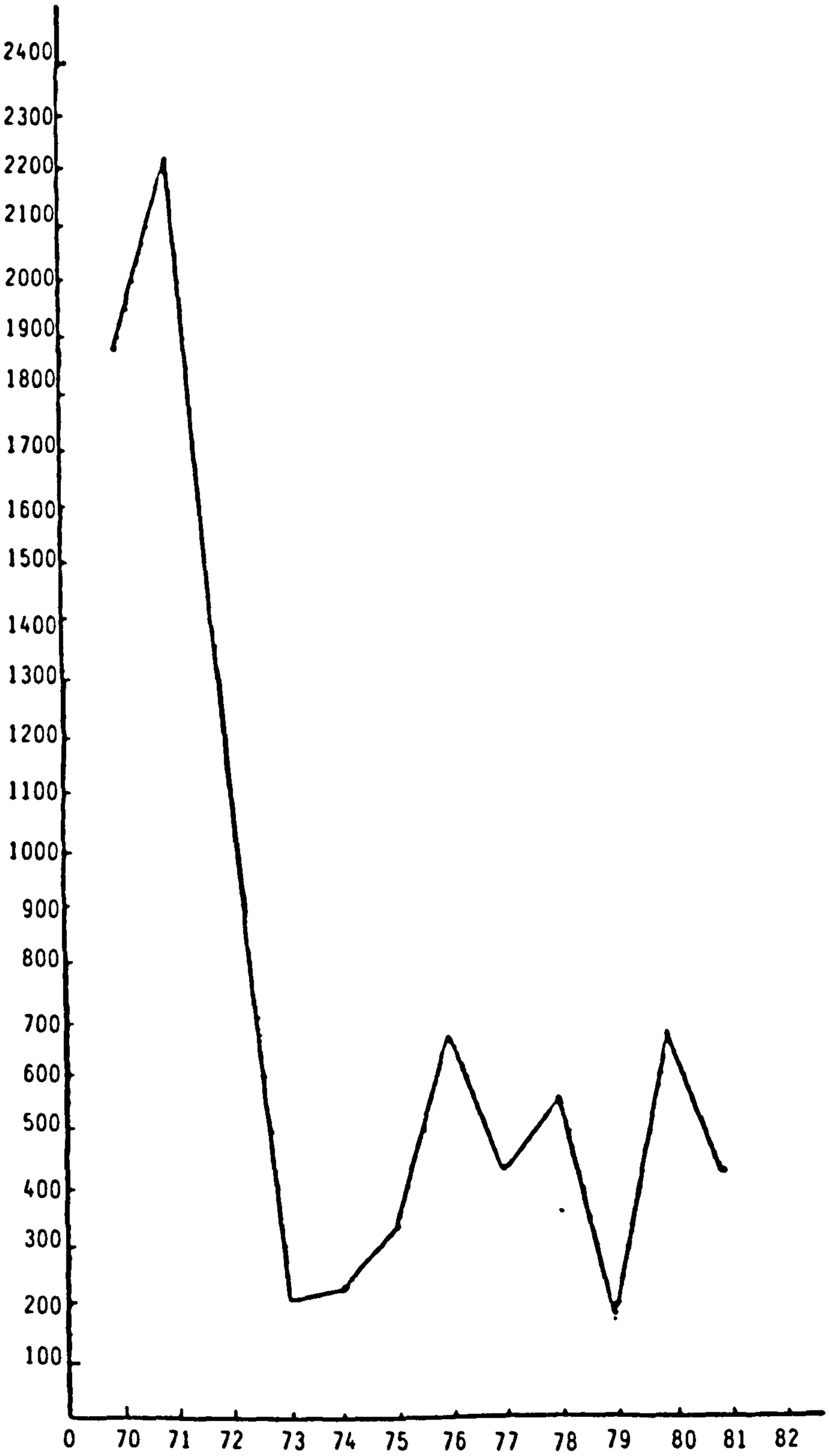
| | MT | $ 10,000 | Barley | |
|---|---|---|---|---|
| | | | (MT) | ($ m) |
| 1954 | | | | |
| 1955 | | | | |
| 1956 | | | | |
| 1957 | | | | |
| 1958 | | | | |
| 1959 | | | | |
| 1960 | | | | |
| 1961 | | | | |
| 1962 | | | | |
| 1963 | *1274100 | 10138 | 207500 | 13.50 |
| 1964 | 614500 | 5435 | 194400 | 14.50 |
| 1965 | 648800 | 4689 | 105800 | 5.70 |
| 1966 | 600400 | 5624 | 7200 | .66 |
| 1967 | 807900 | 7487 | 3200 | .29 |
| 1968 | 1319247 | 12620 | 154600 | 11.00 |
| 1969 | 2471920 | 24803 | 107105 | 7.50 |
| 1970 | 2210312 | 24346 | 10892 | .95 |
| 1971 | 3205317 | 30217 | 60708 | 4.10 |
| 1972 | 3395164 | 28178 | 330503 | 22.10 |
| 1973 | 3285750 | 44314 | 490118 | 54.10 |
| 1974 | 2678530 | 61166 | 492243 | 84.00 |
| 1975 | 3123580 | 68803 | 536047 | 106.00 |
| 1976 | 2987320 | 45700 | 4100 | .84 |
| 1977 | 3715730 | 48556 | 324834 | 39.00 |
| 1978 | 3646990 | 48278 | 103388 | 12.00 |
| 1979 | 4811440 | 75196 | 2976 | .42 |
| 1980 | 5142870 | 107510 | | |
| 1981 | 7687400 | 194359 | | |
| 1982 | 5537680 | 92408 | | |
| 1983 | | | | |

Source: FAO Production Year Books:
These figures differ from US Cereal Estimates because of different reporting periods and sources.

* These figures include the years 1961 and 1962.

Figure VII.XXXVII

Cereals Food Aid to South Korea 1972-1981




Source: FAO

1954 through to 1971 from increases in land area and output (although wheat was only 7.7% of arable land in 1969) when food aid stopped production and output fell steadily (Figure VII.XXXIV).

A possible key to explain this apparent paradox lies with the South Korean Government policy towards rice production and, of course, to food import pricing policy. The Koreans, like the Japanese, have followed a policy of increasing prices for rice and thus encouraging, with an additional investment for irrigation, a greater production of rice. Farmers receive a greater return per hectare for growing rice than for barley or wheat, and policy throughout the 1970s has encouraged this switch to rice.

Imports of food into South Korea as shown in Figure VII.XXXV have declined during the period 1945-75 as a proportion of total imports. Total physical volume of cereals has increased, as shown in Table VII.XXXVI, from 1.2 MT in 1963 to 7.6 MT in 1981.

While food aid supplies to South Korea have undoubtedly affected agricultural production through the prices received by farmers over the period, production output and employment in South Korean agriculture have been subject to government policy which has, in the first instance, favoured urban prices. However, it cannot be said that agricultural policy over the entire period was a residual of food aid import policy. While farm incomes and returns are low in comparison to urban incomes and returns, this is not unusual in terms of the expected pattern and structure of the economy in an industrialising country.

1973 saw a reduction of US food aid to South Korea (Figure VII.XXXVII). However, in 1981-82 South Korea received 429.2 thousand tons of cereals (243.4 thousand tons from Japan (rice) and 160.3 thousand tons from the United States). In that year South Korea, after Bangladesh, Egypt and Morocco, was the fourth largest recipient of food aid. Ethiopia for example received 189.7 thousand tons in that year. In fact, in not one year during the period 1970-82 did Ethiopia approximate the volumes of food aid received by South Korea (see FAO Food Aid Statistics 1973-84 and Cathie, 1984).

7.2.4 Koreagate

In 1977 American food aid policy towards South Korea produced a political scandal in Washington that Washington Post Journalists dubbed 'Koreagate' (Morgan, 1977). In 1970 Korean rice imports amounted to 1 million tons out of a world rice trade of 7 million tons. US food aid policy in South Korea had always had an element of bribery and corruption attached to it and this was particularly evident in the 1950s under Rhee and during the Vietnam war, where Korean participation in that war was rewarded by an increase in food aid payments (Destler 1980; Wallerstein, 1980). However, in the 1970s it became public knowledge that an agent of the South Korean Government, Tongson Park, had bribed nine Congressmen between 1972 and 1976 with over $8 million to vote for increased rice shipments to Korea. The Congressmen were all from the major rice-growing area of the United States - California.

Not only was there corruption at the level of Congress even the White House was involved in secret deals with the South Korean Government. It was reported in 1972 that

President Nixon had agreed to increase rice food aid shipments under PL 480 to South Korea in return for a voluntary export restraint (Ver) on Korean textile exports to the United States. In the matter of food aid policy, government policy is not always what it seems; forces and motives often overrule any notions of the workings of the market.

## CONCLUSIONS: FOOD AID AND INDUSTRIALISATION

In South Korea United States food aid donations have contributed directly and indirectly to the economic growth and development of the economy. Food aid has functioned as a producer good, in the classical sense of a raw material for the industrial process. Raw cotton as a major concessional commodity import under PL 480 provided a major contribution to Korean export growth through the rapid expansion of the textile industry and sales on world markets. Aid policy towards investment in manufacturing complemented and supplemented the commodity aid import policy. Food aid contributed to the textile industry, which became the cutting edge for Korean export growth.

In addition to the direct producer good contribution of food aid to Korean development, food aid contributed as a wage good by helping to keep the real wage increase at a modest level during the period of increased investment, which ultimately contributed to the South Korean economic miracle.

While the agricultural sector was disadvantaged by South Korean emphasis on urban industrial objectives which underpinned export growth as the overriding economic objective, food aid policy did contribute to increases in

agricultural production through PL 480 Title II land reclamation policy. Farm incomes were restrained by food imports and output and, to a lesser degree, employment appears to have responded to industrialisation objectives enunciated by the government, rather than as an afterthought or an adjunct to an imposed foreign food aid policy.

# CONCLUSIONS

'The basis for accumulation through trade lay in foreign exchange allocation and US aid. No systematic study has been made of this period and evidence is almost wholly anecdotal.'

(D C Cole and N P Lyman, 1971)

The role played by foreign economic aid in the growth and development of the South Korean economy during the period 1945-75 has been broadly subject to at least two distinct interpretations. In both these interpretations - the Harvard School theory and the theory of the state approach - it is recognised that foreign aid did contribute to the economic growth and development of the South Korean economy. In the case of the Harvard interpretation of the role of foreign aid, while it is recognised to have made a contribution to the economy, it is generally emphasised that this contribution was in the nature of maintaining the society after the Korean war until such time as Korea adopted economic policies which enhanced growth and development. These policies were essentially free market and free trade emphasis with foreign exchange and export growth adapting to the realities of the world market. It is argued that policies in the foreign sector were the main cause of the South Korean export development success. Foreign aid at best tided the economy and society over a difficult period, and at worst may have retarded the growth prospect until the mid-1960s. The view of foreign aid and Korean development

held by the Harvard School is that on balance it is not to be regarded as having been particularly significant for the advancement of the Korean economy.

In contradistinction to this view of the Korean experience, the theory of the state view of Korean growth and development places foreign aid as being more central to that experience. Aid has assisted the State in its policies to direct development and growth. However, the theory of the state view is more inclined, because of the volumes of aid given regularly over a continuous 30-year period, to argue that foreign aid was so large it must have contributed in a major way to Korean development. The actual way in which foreign aid contributed is not investigated to any degree and therefore the way in which it may have contributed, particularly the means and mechanisms, are not given full consideration.

Both the theory of the state and the Harvard view of Korean development make little distinction in terms of the nature, type and kind of foreign aid given to this economy. Food aid or commodity aid having contributed at least one third of total economic aid, and possibly as much as one half of economic aid, is not given special attention or consideration in terms of its potential role in the development of the Korean economy. Krueger's study on aid and the foreign sector 1945 to 1975 in South Korea failed to identify the increasing volumes or share of food aid in the total economic aid given during that period. Possibly, because of this failure to identify the growing importance of food and commodity aid to South Korea, particularly in the

1960s, the role of this assistance was not considered of particular significance or indeed importance to growth and development.

South Korea is among a small number of developing countries which over a long and continuous period of time have received large, regular volumes of programme commodity aid. Indeed, in Korea's case it was calculated that commodity aid increased during the period of aid donations as total economic aid decreased. Furthermore, at the aggregate level it was estimated that from 1954 to 1975 the contribution made by commodity aid to Korean GNP was of the order of a relatively constant average of 1.9% of GNP. The relationship between movements in food aid and movements in GNP was explored and it was demonstrated that food aid was not passive or neutral to GNP during the period analysed.

Programme commodity aid made a major contribution to the South Korean development experience by providing foreign exchange and imports savings. In addition to this contribution, counterpart revenues generated by the sales of commodity aid financed government expenditure on administrative, military and social infrastructural aspects of the government budget. If the view is taken that these types of expenditure, in the absence of commodity aid, would have been made in any case the source for these revenues would in turn have adversely affected savings and investment and thus growth potential, then commodity aid can be seen to have contributed at one remove to investment.

While commodity aid contributed to the prospect for planned development in South Korea through the support for

government policies such as the direct budget contribution of counterpart funds, revenue in lieu of taxation, the support of military programmes, foreign exchange and imports savings and as a source of savings, ultimately its contribution has been to investment and growth. It has been argued that this form of aid has contributed to the uniqueness of the South Korean growth experience.

In line with classical economic thinking the supply of commodities, particularly the wage good, allows one adverse factor - the prospect of inflation - to be mitigated. In the early period of economic development which focuses on industrialisation, the shortage of the food supply or raw materials from the agricultural sector can result in the wage cost inflation which ultimately chokes off the growth process. The shortage of commodity supply may be a result of lower productivity gains in agriculture compared with productivity gain in industry. The slow rate of productivity growth in agriculture may, through this mechanism, reduce the overall prospects of economic growth in a developing economy with an emphasis on industrialisation and without the convertible foreign exchange or the prospect of foreign investment from achieving the planned growth target.

The regular supply of food for the wage good allowed in the case of South Korea an assuredness of wage good during a critical period when investment was rising and the prospects for future export growth of manufactures were becoming realised. In the absence of food aid supplementing the wage

good it would have been highly improbable that domestic agriculture would have filled the food supply gap.

While it has been argued that the contribution of food aid and commodity aid to the growth and development of the South Korean economy through industrialisation for the expansion of exports in light manufacturing has come in part through the mechanism of allowing relative constancy and assuredness of supply of the wage good and constancy of real wages during the critical investment period of the 1960s, this form of aid has made a further more directly identifiable major contribution to the export success of this newly industrialising country.

Nearly one third of United States commodity and general aid was destined to go to the textile sector in South Korea. While the textile manufacturing sector contributed to Korean exports from the early 1950s it was not until the 1960s that textile exports became the leading sector in the economic miracle of Korean development and export growth. The supply of raw materials for the cotton industry under PL 480 and USAID programmes in such quantity, and at virtually the status of a gift, combined with low wage costs ensured beyond doubt the competitive advantage and growth potential for this sector of exports. Given the importance of textiles in terms of the 'learning experience' in the process of industrialisation and its large share of export growth during the 1960s, commodity aid may warrant a role and a recognition of its unique contribution to the South Korean industrialisation experience which has hitherto gone

unrecognised or unacknowledged.

The South Korean development experience is unique, as indeed is the development experience of all countries The role of commodity aid and food aid in the development of the Korean economy has been far greater than hitherto explained by theories or empirical analysis presented on Korean economic growth. It would not however be correct to attribute the whole of the Korean success to commodity aid or for that matter aid in general but to recognise that this form of aid directly and indirectly has made a major contribution to industrialisation and export growth of that economy.

It is paradoxical that the surplus commodities which have resulted from policies of agricultural protection in a rich country such as the United States of America should be given as grants to developing countries such as South Korea who, in turn, process these into textile goods that reduce the industrial textile capacity in the United States itself. It is even more bizarre that the United States, having encouraged the growth of textile exports from Korea in the 1960s through commodity aid as an industrial raw material for the textile industry, should reverse this policy in the 1970s by discouraging textile imports into the United States offering as a quid pro quo for voluntary export restraint more food aid.

In the case of South Korea food and commodity aid have contributed to growth in a unique and major way. Whether an approximation to this experience could be repeated in other countries would be dependent on a range of factors, of

policies and programmes, planning and circumstances of donor and recipient alike. Programme food aid contributions to economic development and growth of recipient economies are potentially repeatable with due consideration to the time and circumstance of the donor and recipient.

# BIBLIOGRAPHY

ABBOT, G C (1970). Economic Aid as a Unilaterial Transfer of Resources, Journal of Political Economy, Vol 78.

ABBOT G C (1972). Aid as Indebtedness - A Proposal, National Westminster Review.

ABBOT, P C & McCarthy F D (1983). Potential Welfare Losses due to Tied Food Aid, Canadian Journal of Agricultural Economics Vol 31.

ABELSHAUSER, W (1982). West German Economic Recovery, 1945-1951. A Reassessment, The Three Banks Review No 135.

ACOCK, A M (1967). The World Food Programme - an Experiment in Multilateral Food Aid, Monthly Bulletin of Agricultural Economics and Statistics.

ADAMS, D W (1964). Adjustment Possibilities on Colombian Farms under Alternative Levels of PL 480 Imports. PhD Thesis, Department of Agricultural Economics, Michigan State University.

ADAMS, D W (1968). Marshall Aid: Rebuilding Europe. History of the 20th Century, Purnell, London.

ADAMS, D W & LARSON D W (1982). What Cheap Food Does to Poor Countries, Wall Street Journal November 19.

Agra Europe Special Report (1983). The Common Agricultural Policy's Role in International Trade, No 19.

Agricultural Situation in the Community (1982 and 1983 Reports) The Common Agricultural Policy and the Food Industry. Brussels.

Agricultural Trade Development and Assistance, Act of (1954) as amended Public Law 480-83 Congress, Washington.

CHOONG YANG AHN, INDERJIT SINGH AND LYN SQUIRE (1982). The Model of an Agricultural Household in a Multi-crop Economy. The Case of Korea. IBRD, Washington.

ATKAN et al. (1965). Analysis and Assessment of the Economic Effects of PL 480 Title I Program, Turkey, Ankara.

ALLEN, G R (1975). Agricultural Policies in the Shadow of Malthus, Lloyds Bank Review, No 117.

ALLEN, G R (1976). Some Aspects of Planning World Food Supplies, Journal of Agricultural Economics, Vol 27.

ALLEN, G R & SMETHURST, R G (1965). The impact of Food Aid on Donor and other Food Exporting Countries, WFP, Study no 2, Rome.

American Farmers on World Poverty (1975). Worldview No 18.

ANDERSEN, P P (1969). The Role of Food, Feed and Fiber in Foreign Economic assistance: Value, Cost and Efficiency, PhD Thesis, Oklahoma State University.

ANDERSEN, P P & TWEETEN, L G (1971). The Value, Cost and Efficiency of American Food Aid, American Journal of Agricultural Economics Vol 53.

AQUINO, F (1969). The Power of Food: a Progress Report on the World Food Programme, FAO, Rome.

ARDANT, G (1963). A Plan for Full Employment in the Developing Countries, International Labour Review, no 1.

Assessment of the World Food Situation, Present and Future (1974). World Food Conference UN E/Conf 65/Prep/6 April.

AUERBACH, R (1970). The Effects of Price Supports on Output and Factor Prices in Agriculture, Journal of Political Economy, Vol 78.

AWANOHARA, S (1974). Food: Asia's New Burden, Far Eastern Economic Review

The Baby Killer (1974). War on Want, London.

BAI MOO-KI (1982). The Turning Point in the Korean Economy. The Developing Economies, Vol XX. Journal of the Institute of Developing Economics, Tokyo.

BAIROCH, P (1975). The Economic Development of the third World since 1900, Methuen, London.

BALASSA, B (1971). Industrial Policies in Taiwan and Korea, Weltwirtschaftliches Archiv. Vol 106(1).

BARD R L (1972). Food Aid and International Agricultural Trade, a study in legal and administrative control. D C Heath, Lexington, Mass.

BAUER, P T (1981). Equality, the Third World and Economic Delusion. Weidenfeld and Nicholson.

BAUER, P T (1984). Reality and Rhetoric: Studies in the Economics of Development. Weidenfeld and Nicholson.

BENEDICT, M E & BAUER, E K (1960). Farm Surpluses: U S Burden or World Asset, Berkley, University of California Press.

BERG, A (1971). Famine Contained: Notes and Lessons from the Bihar Experience, Swedish Nutritional Foundation.
BERG, A (1973). The Nutritional Factor, its role in National Development, Brookings Institute.

BERINGER, C (1963). Real Effects of Foreign Surplus Disposal in under-developed Economies; Comment. Quarterly Journal of Economics, Vol 78.

BERRY, A & SABOT R M (1978). Labour Market Performance in Developing Countries: A Survey; World Development, Vol 6 No 11/12.

BHAGWATI, J (1970). Amount and Sharing of Aid, Monograph No 2, Overseas Development Council.

BLACK, E (1960). The Diplomacy of Economic Development, Cambridge, Mass. Harvard University Press.

BLANDFORD, D & Van PLOCKI, J A (1977). Evaluating the Disincentive Effect of PL 480. Food Aid: the Indian Case Reconsidered. Cornell, Ithaca.

BLIX, G; HOFVANDER, Y & VAHLQUIST, B (1971). Famine: A Symposium Dealing with Nutrition and Relief Operations in Times of Disaster, Uppsala, Swedish Nutrition Foundation.

BHATTACHJEE, J P (1977). External Assistance and Agricultural Development in the Third World. World Development, Vol 5.

BOERMA, A H (1975). The Thirty Years War against World Hunger, Food and Nutrition, Rome.

BOERMA, A H (1974). The Concept of Emergency Food Reserves, Intereconomics, March/April.

BOERMA, A H (1969). Address to the Freedom from Hunger Foundation FAO.

BORGSTROM, G (1971). The Hungry Planet, Collier-MacMillan.

BORGSTROM, G (1973). World Food Reserves, Intertext Books, New York.

BORGSTROM, G (1973). The Food and People Dilemma, Wadsworth, New York.

BORGSTROM, G (1974). Focal Points: A Global Food Strategy, Collier-MacMillan.

BOXWORTH, B R & LAWRENCE, R Z (1982). Commodity Prices and the New Inflation, Brookings Institution.

BOYD, HILTON (1977). Corn, Cash and Commerce - The Economic Policies of the Tory Governments 1815-1830, Oxford Historical Monographs, Oxford University Press.

BRANDOW, G E (1973). Conflicts and Consistencies in the Agricultural Policies of the United States and Canada, American Journal of Agricultural Economics, Vol 55.

Brandt Commission (1980). North/South: A Programme for Survival. Pan/London.

BRONFENBRENNER, M (1955). Modest Proposals for Surplus Disposal, American Economic Review, Papers & Proceedings, vol 45.

BROWN, G T (1973). Korean Pricing Policies and Economic Development in the 1960s. Johns Hopkins University Press, Baltimore and London.

BROWN, L R & ECKHOLM, E P. By Bread Alone. Pergaman, New York.

BROWN, L R (1973/74). The Next Crisis? Food, Foreign Policy, Winter.

CATHIE, J (1982). Food Aid: Is it better to give than to receive?. Council for World Development Education, London.

CATHIE, J (1982). The Development of International Food Aid Policy. Intereconomics March/April.

CATHIE, J (1982). The Political Economy of Food Aid. Gower/St Martins.

CATHIE, J (1984). Food Aid Policy and World Agricultural Trade. AEU Occasional Paper No 35. Cambridge Agricultural Economics Unit.

CATHIE, J (1985). The Conflict of American and European Agricultural Trade Policy - the longer view. AEU Occasional Paper Cambridge/and Food Policy, Vol 10.

CAVES, R E (1977-78). Organisation, Scale and Performance of the Grain Trade. Food Research Institute Studies, Vol XVI 3.

CHAKRAVARTY, S & ROSENSTEIN-RODAN, P N (1965). The linking of Food Aid with other Aid. WFP Study no 3, Rome.

CHEN, E K Y (1979). Hyper-Growth in Asian Economies: A comparative study of Hong Kong, Japan, Korea, Singapore and Taiwan. MacMillan.

CHENERY, H (1979). Structural Change and Development Policy. IBRD, Oxford University Press.

CHERRY, M (1975). Food Aid: UK's contribution and what it means. Euro-Farm Business.

CLARK, C (1970). Too Much Food?, Lloyds Bank Review, No 95.

CLARK, C & HASWELL, M (1970). The Economics of Subsistence Agriculture, MacMillan.

CLARK, J M (1956). US Surplus Disposals, Quarterly Review of Agricultural Economics, Jan.

CLAY, E J & MITCHELL, M (1984). Is European Food Aid in Dairy Products cost-effective?. European Review of Agricultural Economics, Vol 10, no. 2.

CLAY, E J & SINGER, H W (1983). Food as aid: food for thought. IDS Bulletin vol 14 No 2.

CLAY, E (ed) (1984). 'Food Aid' - Food Policy Special Number. Food Policy, Vol 9.

COCHRANE, W W (1981). The Development of American Agriculture: a historical analysis. Minnesota University Press.

COCHRANE, W W & RYAN, M E (1976). American Farm Policy. Minnesota University Press.

COCHRANE, W W (1959). Farm Technology, Foreign Surplus Disposal and Domestic Supply Control, Journal of Farm Economics, vol 41.

COLE, D C; LYMAN, P N (1971). Korean Development: the interplay of politics and Economics. Harvard University Press.

Commodity Policy Studies (1958). Uses of Agricultural Surpluses to Finance Economic Development in Underdeveloped Countries, Rome, No 6.

CONFUCIUS (479BC). The Sayings of Confucius, Mentor (1955).

COPALAN, C et al. (Round Table) (1973). The Future of Food Aid, Ceres, no. 33.

COSTA, E (1973). The World Food Programme and Employment: Ten Years of Multilateral Food Aid for Development. International Labour Review, Vol 107.

COURIER, (1976). European Community-Africa-Caribbean-Pacific, The World Food Problem, no 35.

COUTSOUMARIS, C et al. (1965). Analysis and assessment of the economic effects of the US PL 480 Programme in Greece. Centre of Planning and Economic Research, Special Studies, Series no 1, Athens.

Dag, Hammarskjold Report (1975). What Now? Development Dialogue, Sweden.

DALSAGER, P (1982). Why is the EEC being blamed for the plight of American Farmers. Europe (Sept).

DANDEKAR, V M (1969). Food Aid for Growth and Development. Proceedings of the 13th International Conference of Agricultural Economists, Sydney.

DANDEKAR, V M (1956). Use of Food surpluses for Economic Development. Gokhale Institute of Politics and Economics, Pub no. 33.

DANDEKAR, V M (1965). The Demand for Food and Conditions Governing Food Aid during Development. FAO, Rome, WFP Study no 1.

DANTWALA, M L, (1963). International Planning to Combat the Scourge of Hunger throughout the World. Annals of Collective Economy, Vol 34.

DANTWALA, M L (1967). Incentives and Disincentives in Indian Agriculture. Indian Journal of Agricultural Economics, Vol XXII, no 2.

DASGUPTA, A K (1976). A Theory of Wage Policy, Oxford University Press.

DATTA-CHAUDHURI, M K (1981). Industrialisation and Foreign Trade: The Development Experiences of South Korea and the Philippines. From Export-led Industrialisation, Eddy Lee (ed), ILO, Asian Employment Programme.

DAVENPORT, M (1969). The Allocation of Foreign Aid: a Cross-Sectional Study, Indian Economic Journal Vol 16.

DAVIS, J S (1960). Food for Peace. Food Research Institute Studies, Vol 1 no 2.

DAVIS, J H (1959). Agricultural Surpluses and Foreign Aid. American Economic Review, Vol 49.

DAWSON, A (1964). Food for Development: the world food programme. International Labour Review No 4.

DEANS, R H (1963). Tentative Doctorate Thesis Bibliography, prepared under the Economic Research Service, USDA, Washington.

DEANS, R H (1968). Potential Effects of US Commodity Grants to other countries. American Journal of Agricultural Economics, Vol 50(4).

DEATON, B J (1980). Public Law 480: the Critical Choices. American Journal of Agricultural Economics Vol 62.

DEATON, B J (1983). Review of John Cathie, The Political Economy of Food Aid. American Journal of Agricultural Economics. Vol 65.

DESTLER, I M (1980). Making Foreign Economic Policy. Brookings Institution, Washington.

DESSAU, J (1965). The Role of Multilateral Food Aid Programs, WFP Study, FAO, no 5, Rome.

Development Aid and Agriculture (1972). Annotated Bibliography No 12, Commonwealth Bureau of Agricultural Economics, Oxford.

DOBB, M (1928). Wages. Cambridge Economic Handbook. Cambridge University Press.

DOBB, M (1955). On Economic Theory and Socialism: Collected Papers. Routledge & Kegan Paul.

DOBB, M (1960). An Essay on Economic Growth. Routledge & Kegan Paul, London.

DOBB, M (1973). Theories of Value and Distribution. Cambridge University Press.

DOVRING, (1968). Aid by Dumping. International Development Review, September.

DRIEBERG, T (1974). India: The Lesson of the Drought, Ceres, March-April, FAO.

DUDLEY, L & SANDILANDS, R J (1975). The Side Effects of Foreign Aid: The Case of PL 480 Wheat in Colombia. Economic Development and Cultural Change, Vol 23.

DUMONT, R & ROSIER, B (1969). The Hungry Future, University Paperbacks.

The Economist, (1982). Determined to Win: A Survey of South Korea, August.

The Economist, (1984). Modern Times in Korea, Business Brief.

EDWARDS, C (1982). Growth in US Agricultural Capacity and Utilization. Agricultural Economics Studies, Vol 34, July, Washington.

EEC, (1963). L'Aide alimentaire de la CEE aux pays en voie de developpement, Seris agriculture 14, Brussels.

EEC, (1965). Food aid from the EEC to developing countries. Problems and Possibilities, Stud Agric Ser, EEC, no 14.

EEC, (1974). Memorandum on Food Aid Policy of the EEC, Con (74), 300 Final.

EICHER, C & WITT, L (1964). Agriculture in Economic Development, Ch. 21: Development through Food Grants and Concessional Sales, Oxford University Press.

ELTIS, W (1984). The Classical Theory of Economic Growth. MacMillan.

ENKE, S (1961). Food Constraints on Industrial Development in Poor Countries, Southern Economic Journal, Vol 27, No 4.

ENOS, J (1984). Government intervention in the transfer of technology: the case of South Korea. IDS Bulletin, vol 15, No 2, Sussex.

EVANS, D & ALIJADEH, P (1984). Trade, Industrialisation and the Visible Hand. Journal of Development Studies, Vol 20.

EZEKIEL, M (1955). Uses of Agricultural Surpluses to Finance Economic Development in Underdeveloped Countries. FAO Pilot Study in India, Commodity Policy Studies, No 6.

EZEKIEL, M (1954). Proposed New Directions in World Agricultural Policy. Journal of Farm Economics, Vol 36.

EZEKIEL, M (1958). Apparent Results in Using Surplus Food for Financing Economic Development. Journal of Farm Economics, Vol 40.

FALCON, W P (1963). The Real Effects of Foreign Surplus Disposal in Underdeveloped Economies: Further Comment. Quarterly Journal of Economics, Vol 77

FAO (1947). Report of the FAO Preparatory Commission on World Food Proposals, Washington, USA.

FAO (1954). Disposal of Agricultural Surpluses, Commodity Policy Studies no 5.

FAO (1964). Food Aid and Other Forms of Utilisation of Agricultural Surpluses: A Review of Programs, Principles and Consultations, Commodity Policy Study, Rome no 15.

FAO (1965). Food Aid and Education, WFP Study, Rome no 6.

FAO (1967). World Food Program - a Story of Multilateral Aid, Rome.

FAO (1970). Food Aid and Related Issues During the Second Development Decade, CCP 70/20.

FAO (1971). Food Aid and Employment, Rome.

FAO (1975). Ad Hoc Consultation on World Food Security, ESC: WFS 75/6 and ESC: WFS 75/5.

FARNSWORTH, H C (1961). The Problem Multiplying Effects of Special Wheat Programs. American Economic Review, Vol 51.

FEDER, E (1971). The Rape of the Peasantry, Anchor Books, New York.

FEI, J C H & RANIS, G (1964). Development of the Labour Surplus Economy: Theory and Policy. Richard D Irwin.

FEI, J C H & RANIS, G (1975). A Model of Growth and Employment in the Open Dualistic Economy: The Cases of Korea and Taiwan, in Frances Stewart (1975). Frank Cass.

FEIS, M (1964). Foreign Aid and Foreign Policy. St Martin's Press/MacMillan.

FISHER, F M (1962). A Proposal for the Distribution Abroad of the United States Food Surplus. Review of Economics and Statistics, Vol 44.

FISHER, F M (1963). A Theoretical Analysis of the Impact of Food Surplus Disposal on Agricultural Production in Recipient Countries. Journal of Farm Economics, Vol 45.

FITZGERALD, D A (1965). Operational and Administrative Problems of Food Aid, WFP Study, FAO, Rome no 4.

Food Aid Bulletin, (1972). A Quarterly Information Service, No 1 onwards.

Food for Peace, (1965). Annual Report on PL 480 1965-75/5, US Government.

FRANSMAN, M (1984). Explaining the Success of the Asian NICs: incentives and technology. IDS Bulletin, Vol 15 No 2.

Freedom from Hunger Campaign, (1962). Aspects of Economic Development: the background to freedom from hunger. United Nations.

Freedom from Hunger Campaign, (1962). Development through Food, no 2, Rome.

Freedom from Hunger Campaign, (1962). Nutrition and Working Efficiency, FAO, Rome.

Freedom from Hunger Campaign, (1963). Food and Productivity, no 5, Rome.

FREEMAN, D L (1967). Malthus, Marx and the North American Bread Basket. Foreign Affairs, vol 45, no 4, pp 578-93.

FROBEL, F; HEINRICHS, J; KREYE, O (1976). Tendency towards a New International Division of Labour. Economic and Political Weekly.

FROBEL, F; HEINRICHS, J; KREYE, O (1981). The New International Division of Labour, Cambridge University Press.

GARYEN, J M (1984). Food Aid as a tool of development. The Experience of PL 480, Title III Food Policy, August.

GAVAN, J D & CHANDRASEKARA, I S (1979). The Impact of Public Foodgrain distribution on Food Consumption and Welfare in Sri Lanka. Washington International Food Policy Research Institute.

GALBRAITH, J K (1954). Economic Preconceptions and the Farm Policy. American Economic Review, Vol 44.

GATT, (1955). Basic Instruments and Selected Documents. Geneva.

GEORGE, S (1977). How the other half dies. Penguin.

GEORGE, S & PAIGE, N (1982). Food for Beginners. Oxford University Press.

GINOR, F (1963). Uses of Agricultural Surpluses: Analysis and Assessemnt of the Economic Effect of the PL 480 Title I programme in Israel. Bank of Israel, Jerusalem.

GLANTZ, M H (ed), (1976). The Politics of Natural Disaster. Praeger.

GOERING, T D (1961). United States Agricultural Surplus Disposal in Columbia. Unpublished PhD dissertation, East Lansing, Michigan State University.

GOSECO, A D (1967). World Food Programm Assistance in Land Settlement Reform; In Land Reform Land Settlement Cooperation, Rome.

GREEN, D (1975). The Politics of Food, Gordon Gremonesi, London.

GRISSA, A (1973). Agricultural Policies and Employment: A case study of Tunisia. Employment Series no 9, OECD Development Centre, Paris.

GRIFFIN, K B (1973). An Assessment of Development in Taiwan. World Development, Vol 1, June.

GRIFFIN, K B (1974). The Political Economy of Agrarian Change, MacMillan.

GRIFFIN, K B & ENOS, J L (1970). Foreign Assistance: Objectives and Consequences, Economic Development and Cultural Change, Vol 18.

GRIFFIN, K B & GHOSE, A (1979). Growth and Impoverishment in the Rural Areas of Asia. World Development, Vol 7.

GRIFFIN, K B& KHAN, A R (1978). Poverty in the Third World, Ugly facts and fancy models. World Development, Vol 6.

GUTMAN, G O (1960). Agricultural Surpluses and Economic Development. Quarterly Review of Agricultural Economics, No 1.

HALL, L (1980). The Effects of PL 480 Wheat Imports on Latin American Countries. Cornell, Ithaca.

HALL, L (1980). Evaluating the Effects of PL 480 Wheat Imports on Brazil's Grain Sector. American Journal of Agricultural Economics, Vol 62.

HAMILTON, C (1984). Class, State and Industrialisation in South Korea. IDS Bulletin, Vol 15, no 2, Sussex.

HANNAH, J A (1970). New Directions in Foreign Aid for the 1970s. American Journal of Agricultural Economics, Vol 52(2).

HAROLDSEN, E O (ed) (1962). Food - One Tool in International Development. Centre for Agricultural & Economic Adjustment, Iowa State University Press.

HATTI, N (1973). On Assessing Economic Assistance to India 1951-61, Economics and History.

HATHAWAY, D E (1981). government and Agriculture Revisited - A Review of Two Decades of Change. American Journal of Agricultural Economics, Vol 63.

HAY, R W (1978). The Statistics of Hunger. Food Policy, Vol 3.

HAYTER, T (1981). The Creation of World Poverty: an Alternative View to the Brandt Report. Pluto.

HELLEINER, G K (1972). International Trade and Economic Development, Penguin.

HENDERSON, E (1964). Food Aid: A Selective Annotated Bibliography. Rome, FAO, 1964.

HENDERSON, P D (1983). Trade Policies: trends, issues and influences. Midland Bank Review (Winter).

HICKS, J R (1981). The Mainspring of Economic Growth. American Economic Review, Vol 71.

HIGHTOWER, J (1975). Eat Your Heart Out. Grown, New York.

HILLMAN, J S (1978). Non-tariff Agricultural Trade Barriers. University of Nebraska Press.

HILLMAN, J S & LOVEDAY, D (1964). Surplus Disposal and Supply Control. Journal of Farm Economics, Vol 45.

HOFHEINZ, R & CALDER, K (1982). The East Asia Edge. Basic Books.

HOFFMAN, M L (1968). The Scaffolding of Aid, Finance and Development. December, Vol 5(4).

HOPKINS, R F & PUCHALA, D J (1978). The Global Political Economy of Food. University of Wisconsin Press.

HOPKINS, R F (1983). Food Aid and Development: the evolution of the food aid regime. World Food Programme/Government of the Netherlands report on seminar on food aid.

HOUTHAKKER, H S (1957). An International Comparison of Household Expenditure Patterns, Commemorating the Centenary of Engel's Law. Econometrica, Vol 25.

HSIA, R (1981). Technological change, trade promotion and export-led industrialisation in Hong Kong and South Korea. From Export-led industrialisation. Eddy Lee (ed). ILO Asian Employment Programme.

HUDDLESTON, B (1983). The Case For Increasing Food Aid. IDS. Bulletin Vol 14, No 2, Sussex.

IBRD (1982). World Development Report. Washington.

IBRD (1982). Measurement of Deprivation and Poverty based on the Proportion Spent on Food: An Explanatory Exercise. World Bank Reprint, no 193.

Institute of Development Studies Library. Occasional Guide no 6. International Agency Aid and Technical Assistance Programmes, IDS Library, Sussex.

International Wheat Council, (1971). International Wheat Agreement and Rules of Procedure, London.

Iowa State University (1972). Growth and Development effects of food shipments under Public Law 480: Final Report 1972. Center for Agricultural and Rural Development, Iowa.

ISENMAN, P J & SINGER, H W (1976). Food Aid: Disincentive Effects and their Policy Implications. IDS, University of Sussex.

ISENMAN, PJ & SINGER, H W (1979). The Price-Disincentive Effect of Food Aid Revisited: A reply. Economic Development and Cultural Change, vol 27.

JACKSON, T (1983). A Triumph of Hope over Experience. An Assessment of the Recent Evaluation of the EEC Food Aid Programme. IDS Bulletin, Vol 14, No 2, Sussex.

JACKSON, T & EADE, D (1982). Against the Grain: The Dilemma of Project Food Aid. Oxford, OXFAM.

JACOBY, N H (1966). US Aid to Taiwan: A Study of Foreign Aid, Self-Help and Development. Praeger, New York.

JACOBSSON, S (1984). Industrial Policy for the machine tool industries of South Korea and Taiwan. IDS Bulletin, vol 15, no 2.

JAMES, P G (1971). Agricultural Policy in Wealthy Countries, Angus Robertson.

JOHNSON, G D (1975). World Agriculture, Commodity Policy and Price Variability. American Journal of Agriculture, pp 822-28.

JOHNSON, G D (1973). World Agriculture in Disarray, MacMillan, London.

JOHNSON, P (1968). Road, I have Awaited Thee all my Life. Ceres, Rome.

JOHNSTON, B F (1964). Review E O Haroldsen (ed). Food: One Tool in International Economic Development. Journal of Farm Economics, Vol 46.

JONES, D & TULLOCK (1974). Is Food Aid Good Aid? Overseas Development Institute Review, Vol 12.

JONES, L P (1975). Public Enterprise and Economic Development: The Korean Case. Korean Development Institute.

JORDAN Jr, A A (1962). Foreign Aid and the Defense of South East Asia. Praeger.

JOSLING, T (1983). US and EC Farm Policies and Eclectic Approach. European Association of Agricultural Economists, Sept. (Mimeo)

JOY, L (1974). Nutritional Planning. Journal of Agricultural Economics, Vol 25.

KALDOR, N (1960). Alternative Theories of Distribution: in Essays on Value and Distribution. Duckworth, London.

KALDOR, N (1967). Strategic Factors in Economic Development. Cornell University Press, Ithaca.

KALDOR, N (1978). Further Essays on Applied Economics, Duckworth.

KALDOR, N (1983). The Role of Commodity Prices in Economic Recovery. Lloyds Bank Review, No 149.

KALECKI, M (1976). Essays on Developing Economies. Harvester Press.

KENNEDY, G (1974). The Military in the Third World. Duckworth.

KERN, R C (1968). Looking a Gift Horse in the Mouth: The Economics of Food Aid Programmes. Political Science Quarterly, Vol 83, March.

KEYNES, J M (1919). The Economic Consequences of the Peace. MacMillan. Collected Works JMK, Vol II.

KEYNES, J M (1938). The Policy of Government Storage in Food-Stuffs and Raw Materials. Economic Journal, Vol 48.

KEYNES, J M (1943). The Objectives of International Price Stability. Economic Journal, Vol 53.

KHATKHATE, D R (1962). Some Notes on the Real Effects of Foreign Surplus Disposal in Underdeveloped Economies. Quarterly Journal of Economics, Vol 76.

KHATKHATE, D R (1963). Money Supply, Impact of National Currency Counterpart of Foreign Aid: an Indian Case. Review of Economics and Statistics, Vol 45.

KHATKHATE, D R & BHAT, V V (1963). Effects of the United States Commodity Assistance to India on Money Supply. Reserve Bank of India, January.

KOH, H (1975). The Early History of US Economic Assistance to the Republic of Korea, 1955-63. Korean Development Institute, mimeo.

KOO, H (1981). Centre-Periphery Relations and Marginalisation - Empirical Analysis of the Dependancy Model of Inequality in Peripheral Nations. Economic Development and Cultural Change, Vol 29.

KORN, J (1970). Diarrhoea through Foreign Aid. Institute of Development Research, Copenhgen.

KORN, J (1972). The Vulnerable Groups; Tough Groups and Vulnerable Groups. Institute of Development Research, Copenhagen.

KRASSOWSKI, A (1968). The Aid Relationship. Overseas Development Institute, London.

KRAUSS, M B (1979). The New Protectionism. B Blackwell.

KROSTITZ, W (1970). Milk and Milk Products as Food Aid. Ceres.

KRUEGER, A O (1974). Political Economy of the Rent-seeking society. American Economic Review, Vol 64.

KRUEGER, A O (1979). The Developmental Role of the Foreign Sector and Aid in the South Korean Economy, 1945-75. Harvard University Press.

KUST, M J (1960). Economic Development and Agricultural Surpluses. Foreign Affairs, Vol 35.

KUZNETS, P W (1977). Economic Growth and Structure in the Republic of Korea. Yale University Press.

LACHMAN, A E (1968). The Local Currency Proceeds of Foreign Aid. Development Centre, OECD, Paris.

LAIDLAW, K (1975). The Party's Over - for the Rich World's Animals or the Poor World's People. World Development Movement.

LAL, D (1978). Estimates of Shadow Prices for Korea. Discussion Paper no 10. University College London.

LAL, D (1983). The Poverty of Development Economics. Institute of Economic Affairs, London.

LANE, L (1974). Food Aid Program Impacts on Low Income Consumers. American Journal of Agricultural Economics, Vol 56.

LAPPÉ, F M & COLLINS, J (1979). Food First: Beyond the Myth of Scarcity. Abacus.

LAPPÉ, F M & COLLINS, J (1981). Aid as an obstacle. Institute for Food and Development Policy, May.

LELE, U (1975). The Design of Rural Development: Lessons From Africa. Johns Hopkins for IBRD.

LELE, U; MELLOR, J W (1981). Technological Change, Distributive bias and labour transfer in a two-sector economy. Oxford Economic papers, Vol 33 (new series).

LEWIS, W A (1954). Economic Development with Unlimited Supplies of Labour. Manchester School of Economic and Social Studies, vol 22, no 2.

LEWIS, W A (1958). Unlimited Labour - further notes. Manchester School of Economic and Social Studies, vol 26, no 1.

LHUCH, C et al. (1977). Patterns in Household and Savings. IBRD, Oxford University Press.

LIST, F (1837). The Natural System of Political Economy. Frank Cass 1983 (translated W O Henderson).

LITTLE, I M D (1962). A Critical Examination of India's Third Five Year Plan. Oxford Economic Papers, Vol 14 (new series).

LITTLE, I M D (1979). The Experience and Causes of Rapid Labour - Intensive Development in Korea, Taiwan, Hong Kong and Singapore; and the possibilities of emulation. ILO, Working Paper.

LITTLE, I M D (1982). Economic Development: Theory Policy and International Relations. Basic Books.

LITTLE, I M D & MIRRLEES, J A (1974). Project Appraisal and Planning for Developing Countries. Heineman, London.

LIPTON, M (1977). Why Poor People Stay Poor: A Study of Urban Bias in Development. Temple Smith.

LUEDDE-NEURATH, R (1983). Import Controls and Export-Oriented Development: A Reexamination of the South Korean Case: 1962-1982. PhD thesis, Sussex University.

LUEDDE-NEURATH, R (1984). State Intervention and Foreign Direct Investment in South Korea. IDS Bulletin Vol 15, no 2. Sussex.

MAGDOFF, H (1969). The Age of Imperialism. Modern Reader Paperbacks, New York.

MANN, J S (1966). The Contribution of United States Public Law 480 to Indian Economic Development. PhD Thesis, University of Michigan.

MANN, J S (1967). The Impact of Public Law 480 Imports on Prices and Domestic Supply of Cereals in India. American Journal of Agricultural Economics, no 49.

MARTIN, E M (1971). Review of Development Assistance of OECD, Paris.

MASEFIELD, G E (1967). Food and Nutrition in Times of Disaster. FAO, Rome, Nutritional Study no 21.

MASON, E S (1966). Economic Development in India and Pakistan. Harvard University, Occasional Papers in International Affairs, no 13.

MASON, E S (1960). Money we Can't Spend. Atlantic Monthly.

Mason Report (1960). The Problem of Excess Accumulation of US-owned Local Currencies. Washington.

MATHUR, N (1965). Real Effects of Foreign Surplus Disposal in Underdeveloped Countries - a Comment. Indian Journal of Agricultural Economics, Vol XX.

MATHUR, N & EZEKIEL, M (1961). Marketable Surplus of Food and Price Fluctuation in a Developing Economy. Kyklos, Vol XIV.

MATZKE, D (1972). Food Aid in Practice, Agra Europe, Presse- und Informations-dienst 13 Bonn-Bad Godesberg.

MAXWELL, S J & SINGER, H W (1979). Food Aid to Developing Countries; a Survey. World Development, vol 7.

MAYER, L V (1972). Estimated Net Cost of PL 480 Food Aid with Three Alternative US Farm Programs. American Journal of Agricultural Economics, Vol 54.

MELLOR, J W (1968). The Economics of Agricultural Development. Cornell University Press.

MELLOR, J W (1980). Food Aid and Nutrition. American Journal of Agricultural Economics, vol 62.

MELLOR, J W (1983). The Contribution of Food Aid to Equitable Growth. Report of World Food Programme and government of The Netherlands, Rome.

MELLOR, J W & JOHNSTON, B F (1984). The World Food Equation, Interrlations Among Development, Employment and Food Consumption. International Food Policy Research Institute, Washington.

MENZIE, E L et al. (1962). A Policy for United States Agricultural Export Surplus Disposal. University of Arizona Technical Bulletin, 150.

MENZIE, E & CROUCH, R G (1964). Political Interests in Agricultural Export Surplus Disposal through PL 480. University of Arizona Technical Bulletin, No 151.

METTRICK, H (1969). Food Aid and Britain. Overseas Development Institute, London.

MIKESELL, R F (1968). The Economics of Foreign Aid. Weidenfeld and Nicolson, London.

Milk Products as Food Aid, (1969). Monthly Bulletin of Economic Statistics, Rome Vol 18.

MICHELL, T (1984). Administrative Traditions and Economic Decision-making South Korea. IDS Bulletin, vol 15, no 2. Sussex.

Ministry of Overseas Development, (1975). The Changing Emphasis in British Aid Policies. Cmnd 6270.

MOORE, M (1984). Agriculture in Taiwan and South Korea: the minimalist state. IDS Bulletin, vol 15, no 2.

MORAWETZ, D (1977). Twenty-five Years of Economic Development 1950-1975. IBRD, Washington.

MORGAN, D (1979). The Merchants of Grain. Weidenfeld and Nicolson.

MORGAN, D (1975). Impact of US Food Heavy on South Korea. Washington Post, Wednesday, 12 March.

MORGAN, D (1977). The Rice Connection. Washington Post, 7 August.

MORRIS R & SHEETS, H (1974). Disaster in the Desert: Failures of International Relief in the West African Drought. Humanitarian Policy Studies, Washington.

MYRDAL, G (1973). Against the Stream, Critical Essays on Economics. Vintage Books Edition, New York.

McCLELLAN, D S (1964). Public Law 480: the metamorphosis of a law. Eagleton Institute.

McDAIRMID, O J (1977). Unskilled Labour for Development; its Economic Cost. IBRD, Johns Hopkins University Press.

McLAREN, D S (1974). The Great Protein Fiasco. The Lancet, July 13.

NELSON, G O (1982). Improving the Effectiveness of Food Aid. A Seminar Report. Agricultural Development Council, Washington.

NURKSE, R (1953). Problems of Capital Formation in Underdeveloped Countries. Basil Blackwell, Oxford.

OECD, (1962). Food Aid: Its role in economic development. Paris.

OECD, (1976). Food and Agriculture in Developing Countries, 12, 13. 2 Vols.

OECD, (1974). Food Aid, Paris.

OECD, (1976). Bibliography on Food Aid.

OECD, (1982). Problems of Agricultural Trade. Paris.

OJALA, E M (1952). Agriculture and Economic Progress. Oxford University Press.

O'HAGEN, J P & LEHTI, T (1969). Some Economic and Policy Problems of Food Aid. Monthly Bulletin of Economics & Statistics, Rome Vol 17, 2.

OLSON, R D (1960). Discussion: Impact and Implications of Foreign Surplus Disposal on Underdeveloped Economies. Journal of Farm Economics, Vol 42.

ORR-BOYD, J (1965). As I Recall, Autobiography. London.

PAK, KI MYUK & HAU, KEE CHUN, (1969).. An Analysis of Food consumption in the Republic of Korea. Seoul, Yonsil University.

PAPANEK, G (1972). The effect of aid and other resources transfers on savings and growth in less-developed countries. Economic Journal, vol 82.

PARVERZ, H (1979). Korea: Problems and Issues in a rapidly growing economy. IBRD, Washington.

PARK, S S (1977). Growth and Development - A Physical Output Strategy. Martin Robertson.

PARK, Y C (1981). Export-led Development: The Korean Experience 1960-1978. From Export-led Industrialisation, Eddy Lee (ed). ILO, Asian Employment Programme.

PAYER, C (1975). Pushed into the Debt Trap: South Korea's Export Miracle. Journal of Contemporary Asia, Vol 5, no 2.

PAYER, C (1975). Commodity Trade of the Third World. MacMillan, London.

PAYER, C (1982). The World Bank, a Critical Appraisal. Monthly Review Press.

PEARSON, L (1969). Partners in Development. Pall Mall Press, London.

PINCUS, J A (1964). Aid, Trade and Economic Development: What Policy for Commodities? Foreign Affairs, Vol 39.

POLEMAN, T T (1982). World Hunger: Extent, Causes and Cures. Mimeo, Minneapolis.

POPPER, K (1968). The Logic of Scientific Discovery. Hutchinson, London.

PRAKASH, S (1970). Is PL 480 Inflationary? Arthanite, Vol 11(1-2).

RAO, D C (1978). Economic Growth and Equity in the Republic of Korea. World Development, Vol 6.

RASHID, S (1980). The Policy of Laissez-faire during Scarcities. Economic Journal, Vol 90.

RATH, N & PATVARDHAN, V S (1967). Impact of Assistance under PL 480 on Indian Economy. Gokhale Institute of Politics and Economics, Asia Publishing House.

RECCA, L (1974). Argentina: Country Case Study of Agricultural Prices, Taxes and Subsidies. Staff Paper no 386. IBRD.

RDD/USOM, (1966). Upland Development in Korea. Washington National Agricultural Library.

RICARDO, D (1817). On the Principles of Political Economy and Taxation. P Sraffa (ed). Vol I. The Works and Correspondence of David Ricardo, Cambridge University Press.

RICHER, J (1968). On Multilateral Food Aid, World Agriculture. Washington.

RICHTER, T H (1956). Agricultural Surpluses for Economic Development. Journal of Political Economy, vol 64.

ROBBINS, C & ANSARI, J (1976). The Profits of Doom War on Want, London.

ROBINSON, J (1979). Aspects of Development and Underdevelopment. Cambridge University Press.

ROGERS, C D (1973). International Commodity Agreements. Lloyds Bank Review, No 108.

ROGERS, K D (1971). Theory and Application of Food aid in Economic Development. PhD Thesis, Iowa State University.

ROGERS, K D; MAYER, V J & HEADY, E O (1972). Utilisation of US Farm Surpluses for Welfare and Development Programs at Home and Abroad. Ames, USA CARD Report, Iowa State University No 41.

ROGERS, K D; SRIVASTAVA, U K & HEADY, E O (1973). Modified Price, Production and Income Impacts of Food Aid under Market Differentiated Distribution. American Journal of Agricultural Economics, Vol 55.

ROJKO, A S (1975). The Economics of Food Reserve Systems. American Journal of Agricultural Economics, Vol 57.

ROTHSCHILD, E (1976). Food Politics. Foreign Affairs, Vol 49 No 1.

ROWE, J W F (1965). Primary Commodities in International Trade. Cambridge University Press.

SAID, E L N (1963). Foreign Aid to United Arab Republic. Institute of National Planning, Cairo.

SARRIS, A H; ABBOTT, P C & TAYLOR, L (1977). Grain Reserves, Emergency Relief and Food Aid. Washington DC. Overseas Development Council.

SCANDIYZO, P L & COLIN BRUCE (1975). Methodologies for Measuring Agricultural Price Intervention Effects. Staff Paper no 394, IBRD.

SCHERTZ, L P (1974). World Food: Prices and the Poor. Foreign Affairs, Vol 52, no 3.

SCHMITZ, H (1984). Industrialisation Strategies in less developed Countries: Some Lessons of Historical Experience. Journal of Development Studies Vol 20.

SCHNEIDER, H (1978). Food Aid for Development: Development Centre of the Organisation for Economic Cooperation and Development. Paris.

SCHULTZ, T W (1960). Value of US Farm Surplus to Underdeveloped Countries. Journal of Farm Economics, Vol 42.

SCHULTZ, T W (1965). Economic Crisis in World Agriculture. Ann Arbour, University of Michigan.

SCHULTZ, T W (1980). The Economics of Being Poor. Journal of Political Economy, vol 88, no 4.

SCHULTZ, T W (1981). Effects of the International Donor Community on Farm People. American Journal of Agricultural Economics Vol 63.

SCHULTZ, T W (1982). Investing in People: The Economics of Population Quality. University of California Press.

SCHUTJER, W A (1964). The Relationship between PL 480 Title I imports and domestic agricultural production in six receiving nations. PhD Thesis, Michigan State University.

SCHUTJER, W A & WEIGEL, D (1969). The Contribution of Foreign Assistance to Agricultural Development. American Journal of Agricultural Economics, Vol 51(4).

SEEVERS, G L (1968). An Evaluation of the Disincentive Effect caused by PL 480 Shipments. American Journal of Agricultural Economics, Vol 50.

SEEVERS, G L (1968). Resource Benefits and Costs of Food Aid: an Analysis of Indian Shipments. PhD Thesis, Michigan State University.

SEN, A K (1968). Choice of Technique. Basil Blackwell, Oxford.

SEN, A K (1981(a)). Poverty and Famines: An Essay on Entitlement and Deprivation. Oxford, Clarendon Press.

SEN, A K (1981(b)). Public Action and the Quality of Life in Developing Countries. Oxford Bulletin of Economics and Statistics, vol 43, no 4.

SEN, A K (1983). Food Entitlement and Food Aid Programmes. Report of World Food Programmes and government of The Netherlands, Seminar on Food Aid, Rome.

SEN, S R (1960). Impact and Implications of Foreign Surplus Disposal on Underdeveloped Economies - the Indian Perspective. Journal of Farm Economics, Vol 42.

SEN, S R (1965). Implications of the UNCTAD and Argentine Proposals for the Modification of the World Food Programme. WFP/IGC8/15.

SEN, S R (1971). Whither Aid? American Journal of Agricultural Economics, Vol 53.

SEN, S R (1973). A Richer Harvest. New York.

SHALABY, F M (1972). An Evaluation of the Contribution of United States Public Law 480 to the Food Grain Trade, Consumption and Production of the Less Developed Countries. PhD. Thesis, Oklahoma State University.

SHARP, R (1975). The World Food Council: More than a Garnish? Food Policy No 1, Oxfam, London.

SHAW, J (1970). The Mechanism and Distribution of Food Aid. Journal of World Trade Law, vol 4, 2.

SHEFRIN, F (1965). The World Food Program - an International Experiment in the Use of Food Aid to Developing Countries. Economic Annalist, Ottawa, Vol 34, 5/6.

SHEFRIN, F (1970). Children, Schools and the World Food Program. Canadian Farm Economics, Ottawa.

SHEFRIN, F (1971). The World Food Program for Development. Canadian Farm Economics, Ottawa.

SHEFRIN, F (1973). Multilateral Food Aid Development - a decade of WFP operations. Agricultural Board, Ottawa, Canada 28(2).

SHEFRIN, F (1983). Food Aid as a target: the critic's choice. Ceres, March-April.

SHENDY, B R (1972). Aid to India under Public Law 480. Indian Journal of Economics, Vol 52.

SHENDY, B R (1974). PL 480 Aid and India's Food Problem. Economics Research Centre, New Delhi.

SHONFIELD, A (1965). Modern Capitalism. Oxford University Press.

SINGER, H W (1965). Project or Plan Aid? Economic Journal. Vol 75.

SINGER, H W (1975). The Strategy of International Development: Essays in the Economics of Backwardness. A Cairncross & M Puri (eds). MacMillan.

SINGER, H W (1978). Food Aid Policies and Programmes: A Survey of Studies of Food Aid. WFP/CFA 5/5-C, March, Rome.

SINGER, H W (1982). Review of the Political Economy of Food Aid. J Cathie, Third World Planning Review.

SINGER, H W (1983). Development Through Food: Twenty years' Experience. Report of the World Food Programme/Government of The Netherlands, Rome 1983.

SINGH, A (1980). Industrialisation in the Third World, deindustrialisation in advanced countries and the structure of the world economy. Mimeo, Cambridge.

SINGH, T (1983). Food, Food Aid and Development. Report of the World Food Programme/Government of the Netherlands.

SINHA, R P (1976). World Food Security. Journal of Agricultural Economics Vol 27.

SIROL, J (1942). Le role de l'agriculture dans le fluctuations economiques. (Sirey).

SMETHURST, R G (1968/9). Direct Commodity Aid: a Multilateral Experiment. Journal of Development Studies, Vol 5.

SMITH, A (1776). Wealth of Nations. Penguin (1972).

SMITH, O (1972). Lend-Lease to Great Britain 1941-45. Southern Quarterly, Vol 10, no 2.

SOUTH, (1982). Close-up on Korea. October.

SOUTHWORTH, H M & JOHNSTON, B F (1967). Agricultural Development and Economic growth, Ithaca.

SQUIRE, L (1981). Employment Policy in Developing Countries: A Survey of Issues and Evidence. IBRD/Oxford University Press.

SRAFFA, P (1960). Production of Commodities by Means of Commodities. Cambridge University Press.

STAM J M (1964). The Effects of PL 480 on Canadian Wheat Exports. Journal of Farm Economics, Vol 46.

STANLEY, R G (1973). Food for Peace. Hope and Reality of US Food Aid. Gordon & Breach, London.

STERN, R M (1958). World Food Exports and US Agricultural Policies: A study of the development of world trade in food with special reference to United States food surplus disposal and foreign aid. PhD Dissertation, Columbia University, New York.

STEVENS, C (1983). Legal? Decent? Honest? A Review of Against the Grain: the dilemma of project food aid. IDS Bulletin, Vol 14, No 2, Sussex.

STEWART, F (ed) (1975). Employment, Income Distribution and Development. Frank Cass.

STIGLER, G S (1945). The Cost of Subsistence. Journal of Political Economy Vol 53.

STREETEN, P (1972). The Frontiers of Developments Studies. MacMillan.

STREETEN, P (1982). A Cool Look at 'Outward-Looking' Strategies for Development. World Economy, Vol 5, No 2.

STRIVASTAVA, V (1969). PL 480 Counterpart Funds and Inflation: Myth and Reality. Asian Economic Review, Vol 11(20).

STRIVASTAVA, U K: HEADY, E O: ROGERS, K D: MAYER, L V (1975). Food Aid and International Economic Growth. Iowa University Press.

STRIVASTAVA, U K (1972). Impact of PL 480 on India's Money Supply and External Debt Service Obligations: A Look Ahead. Ames, USA, CARD Report, Iowa State University, no 44.

SRINIVASAN, T N (1981). Malnutrition: Some Measurement and Policy Issues. Journal of Development Studies, vol 8.

STRONG, T H (1969). Economic Appraisal of Project United Arab Republic 535. WFP/IGC 15/13 add. 12, Rome.

SUH, Suk Tai (1975). Import Substitution and Economic Development in Korea. Seoul, Korea Development Institute Press.

SUH, Suk Tai (1975). Foreign Assistance in Modernization of Korea. Seoul, Korea Development Institute Press.

SUH, Suk Tai (1976). Statistical Report on Foreign Assistance and Loans to Korea (1945-75). Monograph 7602. Seoul, Korea Development Institute Press.

SURFACE, F M & BLAND, R L (1981). American Food Aid in the World War and Reconstruction Period. Stanford University Press.

SVEDBERG, P (1978/79). The Price-Disincentive Effect of Food Aid Revisited: A Comment. Economic Development and Cultural Change, vol 27.

SYLOS-LABINI, P (1969). Oligopoly and Technical Progress. Harvard.

TAE, WAN-SON (1981). Development of Korean Economy: Past, Present and Future. Samhwa Publishing Company, Seoul, Korea.

TALBOT, R (1981). Review of Food for War - Food for Peace. G M Wallerstein. Food Policy, Vol 7.

TARLING, R & WILKINSON F (1982). The Movement of Real Wages and the Development of Collective Bargaining in the UK 1855-1920. Contributions to Political Economy. Gower.

TANGERMANN, S (1983). What is Different about European Agricultural Protectionism. World Economy, Vol 6.

TAYLOR L & SARRIS, A (1976). Cereal States, Food Aid and Food Security for the Poor. World Development Vol (4).

TENDLER, J (1975). Inside Foreign Aid. Johns Hopkins University Press.

THORP, W L (1970). Foreign Aid: Report on the Reports. Foreign Affairs, Vol 48(3).

Time, (Magazine) (1978). The New US Farmer, November.

Times, The (1980). BATTION, M. Industrialisation with a Difference.

TIMS, W (1983). Keynote Address to Seminar on Food Aid. World Food Programme/Government of The Netherlands, Rome.

TINBERGEN, J (1952). On the Theory of Economic Policy. North Holland.

TONTZ, R (1966). Part II, Trade Programs: Including Food for Peace Shipments. Ames, Iowa State University Press.

TURNER, H A (1966). Wage Trends, Wage Policies and Collective Bargaining: the Problems of Underdeveloped Countries. Cambridge University Press.

TWEETEN, L G (1966). A Proposed Allocative Mechanism for US Food Aid. Journal of Farm Economics, Vol 48.

United Nations Economic and Social Council, (1967). Multilateral Food Aid Progress Report by the Secretary-General, E/4352.

United Nations Conference on Trade And Development, (1964). Food Aid and other Forms of Utilisation of Agricultural Surpluses: A Review of Programs, Principles and Consultations, E/Conf 46/47.

United Nations Conference on Trade and Development, (1974). An Integrated Programme for Commodities, TD/B/C.1./166 + Supp 3.

UN/FAO World Food Programme, (1973). Ten Years of World Food Programme Development Aid, 1963-72, Rome.

UNIDO, (1972). Guidelines for Project Evaluation. United Nations, New York.

US Department of Agriculture, (1974). US Agricultural Exports under Public Law 480. Economic Research Service, Washington.

US/Agency for International Development, (1982). Cooley Loans. Washington.

USAID/FAS (Foreign Agricultural Service). Report no 142, (1977). PL 480 Concessional Sales.

US Congress HCIR, (1977). Uses of US Food Resources for Diplomatic Purposes: an examination of the issues. Report prepared by the Congressional Research Service. Library of Congress.

USDA/ERS, (1968). ERS-Foreign 202. 12 years of Achievement under Public Law 480. Washington.

USDA, (1970). PL 480 Concessional Sales. Foreign Agricultural Economics Report no 65, Washington.

USDA, (1979). Structure Issues of American Agriculture. Agricultural Economics Report 438. Washington.

USDA, (1980). Title I, Public Law 480: Total Amounts Shipped through, December 31, 1979, by country and commodity.

USDA, (1983). An Initial Assessment of the Payment-in-Kind Programme. Washington.

VAN DUIJN J J (1983). The Long Wave in Economic Life. Allen and Unwin.

VAN MEERHAEGHE, M A G (1971). International Economic Institutions. (2nd ed), Longmans.

VINER, J (1961). Economic Foreign Policy on the New Frontier. Foreign Affairs, Vol 39.

VON BRAUN, J (1982). Effects of Food Aid in Recipient Countries: A Comparative Study. Economics, vol 26, Tubingen.

WALL, D (1973). The Charity of Nations: The Political Economy of Foreign Aid. The Political Economy of International Relations Series, Basic Books, New York.

WALLERSTEIN, M (1980). Food For War - Food For Peace. MIT Press.

WARD, B (1962). The Rich Nations and the Poor Nations. Norton & Co, New York.

WARD, B & BAUER, P T (1966). Two Views on Aid to Developing Countries. IEA Occasional Paper. Institute of Economic Affairs.

WATANABE, S (1972). Exports and Employment: the case of the Republic of Korea. International Labour Review, Vol 9, Geneva, December.

WESSEL, J (1983). Trading the Future. Institute for Food and Development Policy, California.

WESTPHAL, L E & KIM, K S (1977). Industrial Policy and Development in Korea. World Bank Staff Working Paper no 263, Washington.

WHIGHTMAN, V F (1966). US Food for Freedom Legislation. Agriculture Abroad, Ottawa 21, 2.

WHITE, F: TWEETEN, L: PINSTRUP-ANDERSEN, P (1974). Allocation of Agricultural Production Capacity among Commercial Markets, Food Aid and Production Control. Southern Journal of Agricultural Economics, Vol 6(2).

WHITE, G & WADE, R (1984). Developmental States in East Asia: Capital and Socialist. IDS Bulletin, April, Vol 15, No 2.

WICKWAR, H (1964). Distribution is Social: Some Aspects of International Food Programs. Social Service Review, Vol 38, No 1.

WIGHTMAN, D R (1968). Food Aid and Economic Development (International Conciliation). Carnegie Endowment for International Peace, No 567.

WILBRANDT, H (1966). On Food for 6,000 Million. World Agriculture, Washington.

WILLIAMS, P (1962). Uses of World Food Surpluses. World Today, Vol 18.

WILSON, H (1951). The War on World Poverty. Gollancz.

WITT, L W (1960). Discussion, Impact and Implications of Foreign Surplus Disposal on Underdeveloped Countries. Journal of Farm Economics, Vol 42.

WITT, L W (1966). A Program of Research on Food for Peace. Vols 1-3, Michigan.

WOLF, C J R (1960). Foreign Aid: Theory and Practice in Southern Asia. Princeton, Princeton University Press, 1960.

World Bank Operations, (1972). Sectoral Programs and Policies. JohnsHopkins University Press.

WFP, (1963). Annual Statement of the Executive Director on the Development of the Programme from 1963 onwards.

WFP, (1964). A Synopsis of World Food Program Policies. December, Rome.

WFP, (1965). Report on the WFP by the Executive Director. Rome, FAO. Also Reports 1063-75.

WFP, (1966). Report on the Jamaica Mission (Study on the Feasibility of Multilateral Food Aid for National Development Programms. WFP/IGC, 9/18.

WFP, (1966). Report on the Tenth Session of the UN/FAO Intergovernmental Committee. Rome, FAO.

WFP, (1966). The Role of the WFP in Land Reform. FAO, Rome.

WFP, (1967). Role of the WFP in Supporting Animal Husbandry Schemes. WFP/IGC, 12/12.

WFP, (1970). World Food Programme News.

WFP, (1972). Human Resource Development Projects. WFP/IGC, 22/12-A.

WFP, (1973). Report on WFP Assistance for Livestock Development through Animal Feeding Projects. WFP/IGC, 24/10, add 2.

WFP, (1973). Special 10th Anniversary Issue, Statistical Appendix. WFP/IGC, 23/5, add 1.

WFP, (1973). Canadian Proposal for Special Measures in Favouring Least-Developed Countries. WFP/IGC, 24/12.

WFP, (1974). The World Food Crisis and the WFP's Role in Helping to Solve it. Rome.

WFP, (1974-5). Approach to Evaluation. WFP/IGC, 25/12, add 1-5. WFP/IGC, 27/SR.5 Final.

WFP, (1975). The Evolution of International Food Aid Policy. Rome.

WFP/Government of the Netherlands (1983). Report of the World Food Programme. Government of the Netherlands Seminar on Food Aid, World Food Programme, Rome.

YOUNG, A (1928). Increasing Returns and Economic Progress. Economic Journal, Vol 38.

ZIMMERMAN, C C (1932). Ernst Engel's Law of Expenditures for Food. Quarterly Journal of Economics, Vol (47)(1).