South Korea's Import Source Diversification Policy (1978-1999)

Introduction

South Korea's (henceforth Korea in this case study) successful industrial transformation has been attributed to a suite of export-oriented industrialisation (EOI) policies first introduced by President Park Chung-Hee in 1962.[1] However, there is less attention on how this EOI policy-push was accompanied by a system of discretionary government controls over imports that supported Korea's ambitions to increase export share and manage the country's growing dependence on industrial inputs from a small number of supplier countries, most notably Japan.

These import controls, also known as the Import Source Diversification Policy (ISDP), incorporated elements of trade protectionism and economic activism alongside the country's other industrial policy measures.[2] Implemented from 1978 to 1999, ISDP aimed to address widening bilateral trade deficits and balance-of-payments pressures arising from increased dependence on imports of machinery, steel, chemicals, and other industrial inputs intensified by a major heavy and chemical industry (HCI) drive.[3]

This case study describes the main features of ISDP and the context in which it was introduced. It examines the policy's strategic objectives, legal and administrative mechanisms, implementation challenges, and evolution over time, and presents available evidence on its effects on import source diversification and domestic industry.

Background to ISDP: Park Chung-Hee's Export-Oriented Industrial Policy Push

Following the Korean War, Korea experienced a decade of limited economic growth and persistent instability under its first president, Syngman Rhee. Against this backdrop, in 1961 General Park Chung-Hee was able to seize power through a military coup d'état, marking a significant shift in the country's approach to industrial policymaking.[4]

Under President Park, Korea quickly adopted EOI policies that combined state-led planning with the promotion of private industry. Over consecutive Five-Year Plans (FYPs), Korea coordinated credit allocation, trade

[1] Edward M. Graham, *Korean Economic Development under Park Chung-Hee: The Miracle with a Dark Side* (Washington, DC: Peterson Institute for International Economics, 2003), https://coilink.org/20.500.12592/8fkn47.
[2] Eric Helleiner, "The Revival of Neomercantilism," *Phenomenal World*, accessed February 23, 2026, https://www.phenomenalworld.org/analysis/neomercantilism/
[3] Nathan Lane, "Manufacturing Revolutions: Industrial Policy and Industrialization in South Korea," *The Quarterly Journal of Economics* 140, no. 3 (2025): 1683–1741.
[4] Graham, *Korean Economic Development under Park Chung-Hee*.

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measures, and institutional reforms to expand its exports of labour-intensive goods such as textiles, apparel, and footwear. In addition, Korea established new economic agencies, including the Economic Planning Board (EPB) and specialised trade bodies (see Annex A), to implement this strategy.

Despite early success, concerns emerged about the long-term developmental limits of relying on low-wage, light manufacturing sectors. These included fears over reciprocal tariffs as major trade partners like the US looked to defend their own light industry sectors. The potential erosion of Korea's labour-related comparative advantages presented deeper, structural concerns. As a result, by 1972 Korea had committed to an ambitious HCI drive to diversify its export sector. This shift significantly increased demand for imported intermediate and capital goods.

Owing to geographical proximity and the establishment of strong intra-industry ties following their 'normalisation of trade relations' in 1965,[5] Japan quickly became the principal supplier of many of these industrial inputs; supporting Korea's HCI drive with its more advanced industrial base and system of complementary production networks.[6] This top-down push for heavy industry production, coupled with an overreliance on Japanese imports, saw Korea's trade deficit with Japan sharply widen, sextupling from $589 million in 1970 to over $3.4 billion by 1978.[7]

Korea's deepening participation in the emerging multilateral trading system presented a policy dilemma: how to manage a growing bilateral trade imbalance and dependence on Japanese industrial inputs without being seen by the international community (and key trading partners like the US and European countries) as engaging in illiberal trade practices? ISDP emerged as the Korean government's chosen response. Carefully framed as a policy designed to diversify Korea's concentrated import structure,[8] ISDP highlighted that an *overreliance* on Japanese imports, rather than imports at large, was the principal concern – potentially threatening Korea's own dynamic industrialisation ambitions and economic viability.

Import Source Diversification Policy

ISDP was introduced in 1978 as part of Korea's Fourth FYP (1977-1981). While this FYP continued Korea's HCI drive – focusing on steel fabrication, shipbuilding and heavy machinery sectors in which significant capital had been invested and employment opportunities generated[9] – industrial efficiency, supply chain resilience and self-sufficiency emerged as new priorities. The Korean government aimed to achieve these ambitions by using ISDP to 'phase-out' non-essential imports from 'excess import countries', defined as those with which Korea had maintained its largest trade deficit in the last five years.[10]

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[5] Masaru Umemoto, "Development of Intra-Industry Trade between Korea and Japan: The Case of Automobile Parts Industry" (CITS Working Paper 2005-03, Center for International Trade Studies, Yokohama National University, March 2005).
[6] Ippei Yamazawa, "Assessing a Japan–Korea Free Trade Agreement," *The Developing Economies* 39, no. 1 (2001): 3–48, https://doi.org/10.1111/j.1746-1049.2001.tb00892.x.
[7] Toshio Watanabe, "An Analysis of Economic Interdependence Among the Asian NICs, the ASEAN Nations, and Japan," *The Developing Economies* 18, no. 4 (December 1980): 372–390, https://www.ide.go.jp/library/English/Publish/Periodicals/De/pdf/80_04_02.pdf.
[8] Kwan S. Kim, *The Korean Miracle (1962–1980) Revisited: Myths and Realities in Strategy and Development*, Working Paper no. 166 (Notre Dame, IN: Helen Kellogg Institute for International Studies, University of Notre Dame, November 1991), https://kellogg.nd.edu/sites/default/files/old_files/documents/166_0.pdf.
[9] Graham, *Korean Economic Development under Park Chung-Hee*.
[10] In-Soo Kang, *Economic Effects of Import Source Diversification Policy (ISDP)* (Seoul: Korea Institute for Economic Policy, 1993), 5.

Administered by the Ministry of Trade and Industry (MTI), ISDP operated as an ex ante import licensing system based on a series of ministerial "Public Notices" rather than a formal set of trade legislation. Under this system, MTI was able to impose adjustable controls on "excess import countries" by applying additional licensing and approval procedures to selected product categories. This design allowed the scope of controlled items and country coverage to change over time in response to macroeconomic conditions, domestic trade balances and Korea's evolving commitments to freer trade practices under the General Agreement on Tariffs and Trade (GATT).[11]

Functionally, this meant quantitatively restricting industrial inputs from Japan by imposing onerous licensing and approval procedures on the following product categories:

1. Petroleum Products
2. Iron & Steel
3. Coal Products
4. Tobacco
5. Primary Iron
6. Primary Nonferrous Metal
7. Chemical Products
8. Beverages
9. Printing and Publishing
10. Pulp and Paper
11. Food
12. General Machinery
13. Transportation Equipment
14. Electric and Electronic Equipment
15. Non-metallic Products
16. Textile Yarn
17. Precision Instruments
18. Rubber Products
19. Wooden Products
20. Metal Products
21. Other Manufactured Products

Initial Tensions from ISDP's Implementation

Due to its narrow focus on Japanese imports, ISDP was closely scrutinised by global trading partners like the US who in the 1970s were advocating for 'fairer' global trade practices. These concerns were further legitimised by the fact that Korea had presented itself as a committed free-trade partner, having become a signatory to the GATT framework – precursor to the World Trade Organisation – in 1967.[12]

[11] Eprime Eshag, "Successful Manipulation of Market Forces: Case of South Korea, 1961–78," *Economic and Political Weekly* 26, no. 11/12 (March 1991): 629–631, 633–635, 637, 639–641, 643–644, https://www.jstor.org/stable/4397419.
[12] Eun Sup Lee, "Regulation of Foreign Trade in Korea," *Georgia Journal of International and Comparative Law* 26 (1996): 135–162, https://digitalcommons.law.uga.edu/gjicl/vol26/iss1/19.

Despite little explicit discussion by Korea in diplomatic forums regarding these perceived inconsistencies, the Korean government's administrative actions suggested that Korea had been genuinely committed to acting as a free-trade partner. Prior to ISDP's implementation, this had been demonstrated in two crucial ways:

1. Korea's willingness to 'normalise' diplomatic relations with Japan in 1965 to fulfil GATT criteria despite it being domestically contentious; and
2. Korea's commitment to legally enfranchising its increasingly liberal trade administration practices, having replaced the Foreign Trade Act of 1957 with the more 'modern' Trade Transaction Act of 1967 which itself was repeatedly amended.[13]

Therefore, these actions suggested that ISDP was not viewed by the Korean government as a protectionist measure reneging on its commitment to free trade, but a short-term stabilising instrument designed to tackle its persisting trade deficit with Japan – a country that was increasingly becoming its biggest industrial competitor.[14] In addition, at the time of ISDP's implementation, Korea was still recognised as a 'developing country', which meant that the Korean Trade Transaction Act of 1967's import licensing system was a justifiable discretionary measure to protect its balance of payments as per GATT's own article XVIII (b).[15]

Ultimately, this formal recognition of Korea's ability to levy a proportionately protectionist foreign trade policy instrument provided the Korean government with a legal precedent for ISDP; arguing that the country had to quantitatively limit Japanese imports on the grounds that Japan remained an 'excess import country',[16] and thus a persistent source of industrial instability.[17] This might be considered a defensible justification in retrospect, with the size of Korea's trade deficit with Japan having sextupled between 1970 and 1978.[18]

Core Tenets of ISDP and Policy Evolution

Under the Trade Transaction Act of 1967, MTI was responsible for governance and administration of Korea's import and export policies.[19] MTI positioned ISDP as an adjustable, ex ante import supervision system designed to manage Korean imports for two distinct reasons: Firstly, and most crucially, to tackle Korea's US$3.4 billion trade deficit with Japan[20] that was becoming a source of intra-industry vulnerability given the countries' increasingly similar industrial mix. Secondly, as a device for infant industry promotion given Korea's ambitions to further foment local industry and compete with Japan across capital-intensive sectors including processed and assembled machinery and select finished products.[21]

ISDP had three overt stylistic properties that suggested it was a provisional stabilisation policy focused on promoting heavy industry deepening, rather than a permanent trade protectionist measure. These were:

[13] Eun Sup Lee, "Regulation of International Trade in Korea under the WTO Mechanism," *Victoria University of Wellington Law Review* 28, no. 3 (1998): 513–526, https://doi.org/10.26686/vuwlr.v28i3.6064.
[14] Yamazawa, "Assessing a Japan–Korea Free Trade Agreement."
[15] Lee, "Regulation of International Trade in Korea under the WTO Mechanism."
[16] Kang, *Economic Effects of Import Source Diversification Policy (ISDP)*.
[17] Kang, *Economic Effects of Import Source Diversification Policy (ISDP)*.
[18] Watanabe, "An Analysis of Economic Interdependence."
[19] Lee, "Regulation of International Trade in Korea under the WTO Mechanism."
[20] Lee, "Regulation of International Trade in Korea under the WTO Mechanism."
[21] Yamazawa, "Assessing a Japan–Korea Free Trade Agreement."

1. Its recognition of a need to maintain compliance with GATT and respond to international scrutiny,[22] as demonstrated by:
    a. ISDP's continuously narrowing remit in response to criticisms levelled by the international trade community. This was most clearly demonstrated by Korea's willingness to actively modernise its governing legislation on foreign trade administration; initially replacing the Foreign Trade Act of 1957 with the Trade Transaction Act 1967 on which ISDP was first introduced. And, later repealing it to enact the Foreign Trade Act 1986 which retained an import and export licensing system, but greatly diminished ISDP's discretionary scope by removing periodical limitations on the quantitative restrictions placed on imports and requiring clear ex ante disclosure of qualification criteria.[23]
    b. ISDP's adoption of a "negative list" system, preferred by free-trade proponents, which both severely reduced the total number of excluded import items and required a transparent disclosure of qualification guidelines determining MTI's automatic approval processes.[24]
    c. ISDP's exclusive status as an import control against a broader push for trade liberalisation, supported by its limited mandate to only target products capable of inducing "injurious effects to domestic industries."[25]

2. Its use of a system of 'Public Notices' – initially fixed term and later non-limited[26] – to manage restricted items lists by maintaining a proactive outlook to import control that remained sensitive towards shifting economic circumstances and changing geopolitical conditions. This was evidenced by:
    a. Annual reviews on the total number of restricted items. At ISDP's inception in 1978, the number of restricted items on the list was 50,[27] increasing to as high as 924 in 1981 (Table 1),[28] before then reducing to 15 prior to its dismantling in 1999;[29] showing how the list of restricted items expanded as Korea sought greater leverage over dependency on Japanese inputs, then contracted as industrial capabilities deepened and liberalisation commitments tightened.

Table 1: Number of ISDP Items

year	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91
number of items	924	913	644	591	461	413	381	344	262	268	258

Source: In-Soo Kang, Economic Effects of Import Source Diversification Policy (ISDP) (Seoul: Korea Institute for Economic Policy, 1993), table I–1.

[22] William E. James, *Trade Relations of Korea and Japan: Moving from Conflict to Cooperation* (Honolulu: East-West Center Working Papers, 2001).
[23] Lee, "Regulation of Foreign Trade in Korea."
[24] Kim, *The Korean Miracle (1962–1980) Revisited*.
[25] Lee, "Regulation of International Trade in Korea under the WTO Mechanism," 515.
[26] Lee, "Regulation of Foreign Trade in Korea."
[27] James, *Trade Relations of Korea and Japan*.
[28] Kang, *Economic Effects of Import Source Diversification Policy (ISDP)*.
[29] Kang, *Economic Effects of Import Source Diversification Policy (ISDP)*.

While it is difficult to find a set of consistent, listed examples of specific items within this timeframe because available trade data on imported items was converted from the Customs Cooperation Council Nomenclature to a Harmonised Commodity Description and Coding System in 1988, In-Soo Kang's 1993 analysis of ISDP notes that there was a perceptible decline in the share of raw material imports targeted by ISDP, and a general increase in the share of capital goods targeted.[30]

Consequently, referring to analysis of intra-industry trade between Korea and Japan, the composition of items targeted by ISDP mirrored Korea's industrial transition between 1977-1999.[31] This would have meant a progressive removal of items from product categories such as primary energy commodities (coal, crude oil and natural gas), basic steel and iron products and non-ferrous metals as Korea's domestic capacity improved or import sources diversified; and, an increase in transport and production machinery, electronic goods and precision instruments newly critical to facilitating Korea's heavy industry transition.[32]

b. Nature of revisions made to the type of Public Notices disclosed. Following administrative transition from the Trade Transaction Act 1967 to the Foreign Trade Act 1986, Korea divided restrictions on imports into three groups:[33]
    i. *Public Notices* which outlined quantity restrictions for 'illiberalised' items, denoted classifications of automatically approved items and articulated procedural and confirmation requirements for the import of restricted-approval items;
    ii. *Integrated Public Notices* which integrated all necessary guidelines and procedures for the import of goods; and,
    iii. *Special Public Notices* which provided rules for the importation of goods traded outside of the coverage of the Foreign Trade Act.

3. Its approach to import management being strictly limited to the restriction of pre-selected items through administrative procedure, licensing and qualification regulation; rather than through tariffs or absolute import quotas that would have suggested a longer-term, structural hesitancy to commit to trade liberalisation.

   This made ISDP's mandate relatively transparent for the policy's trade partner of interest: Japan. The policy's utilisation of direct bilateral negotiations, and at times confrontations, strengthens this interpretation. The two countries repeatedly managed the issue of Korean discrimination towards Japanese imports without intervention from GATT or other intermediary parties, suggesting that neither country believed ISDP to be a rigid or unfounded policy measure.
    a. Following a period of negotiation on the validity and continued appropriateness of ISDP's intensified use in the mid- to late-1980s, Korea and Japan were able to independently negotiate a phasing out and end date for ISDP and its targeting of goods from Japan. This included Korea launching the "Concrete Plan to Correct the Imbalance in Japan-Korea Trade"

[30] Kang, *Economic Effects of Import Source Diversification Policy (ISDP)*.
[31] Umemoto, "Development of Intra-Industry Trade between Korea and Japan."
[32] Watanabe, "An Analysis of Economic Interdependence."
[33] Lee, "Regulation of Foreign Trade in Korea."

as a means to address Japanese demand-side constraints contributing to the Korean trade deficit;[34] and the Korean government subsequently committing in 1994 to phase out ISDP entirely by 1999 – further brought forward by six months in 1997 as part of Korea's bail-out agreement with the IMF following the Asian Financial Crisis.[35]

Perhaps most importantly, the Korean government made good on this commitment, abolishing ISDP in June 1999,[36] further reinforcing a historical reading of ISDP's utility as a transitional instrument adopted by Korea to dynamically manage structural fallouts associated with its rapid industrialisation following the country's rushed HCI drive in the early 1970s.

Outcomes of ISDP

Due to a lack of consistent and comparable data, it is difficult to establish a causal relationship between ISDP, the reduction in reliance of targeted imports from Japan, and improvements to the domestic competitiveness of firms producing import-substituting industrial inputs.[37] However, In Soo-Kang's "Economic Effects of Import Source Diversification Policy" divides available trade data for 2000 ISDP-designated items across two subperiods (1981-1987 and 1988-1990) to offer a comparative analysis of the aggregate impacts of the policy measure. His analysis offers the following conclusions on ISDP's relative effectiveness.[38]

Import Source Diversification Effects

ISDP's source diversification effects are most clearly demonstrated by the percentage reduction in Japan's share of Korean imports that took place post implementation. Kang's findings show that, across both the 1981-1987 and 1988-1990 subperiods, the total proportion of Japanese imports of items placed under ISDP decreased by 8.1% and 16.6%, respectively.

Given that the Korean economy experienced a significant structural break in its trade and liberalisation regime in 1988 (as demonstrated by the sharp reduction in tariffs, enactment of the Foreign Trade Act and opening to global capital markets between 1987 and 1988),[39] the heightened reduction observed in the second subperiod can be feasibly attributed to the fact that ISDP was most effective when leveraged as a complementary policy measure. Essentially, domestic firms were seemingly more capable (or willing) to respond to import restrictions placed by ISDP if they also had additional incentives to procure imports from alternative sources. It is also worth noting that this analysis does not directly calculate the import source diversification effect as it only shows that ISDP-listed Japanese items decreased, not that imports from other sources increased.

[34] James, *Trade Relations of Korea and Japan*.
[35] Yamazawa, "Assessing a Japan–Korea Free Trade Agreement."
[36] Yamazawa, "Assessing a Japan–Korea Free Trade Agreement."
[37] Kang, *Economic Effects of Import Source Diversification Policy (ISDP)*.
[38] Kang, *Economic Effects of Import Source Diversification Policy (ISDP)*.
[39] "Economic Liberalization," *K-Developedia*. Accessed February 18, 2026. https://www.kdevelopedia.org/Development-Overview/all/economic-liberalization--44.do.

However, alternative sources suggest that Korea-Japan export-import ratios declined with bilateral trade and investment volumes also falling between 1980 and 1998.[40] The proportion of Korean imports from Japan decreased from approximately 30% in 1980 to 20% in 1998, suggesting Korea was building export-import relations with other trade partners (Annex A).

Domestic Competitiveness Effects

Kang evaluates ISDP's success in promoting domestic competitiveness in two ways, both of which he characterises as limited in their capacity to assess qualitative aspects of firm competition.[41] The first analysed changes to Korea's annual trade specialisation index, calculated as the difference between imports and exports within a specific industry, as a proxy for firm competitiveness, in both the 1981-1987 and 1988-1990 periods. Results indicated that competition deteriorated in the initial period, and remained constant in the latter period. In addition, as Kang highlights, the index does not consider cross-sectoral linkages and instead relies on consideration of more general structural changes to a country's economy, making it difficult to confidently assess whether ISDP had any impact (negligible or otherwise) on domestic competitiveness.[42]

Kang's second approach looked at the percentage changes in export (or import) price levels derived from dividing export (or import) values by the quantities exported (or imported). Similarly, this analysis suggested marginal declines in competitiveness compared to scenarios where Korea liberalised restrictions. Together, these two proxies for domestic competitiveness at worst suggest ISDP inhibited domestic capacity to compete with Japanese (and other international) competition, and at best had no significant impact. This indicates that ISDP was a 'stick' instrument rather than a 'carrot'. While it succeeded in reducing intra-industry dependencies with Japan,[43] there is a lack of evidence to suggest ISDP improved domestic competitiveness and catalysed domestic firm expansion.

Conclusion

This case study examined the historical, economic, and institutional rationales for Korea's ISDP and its operation between 1978 and 1999. ISDP was distinctive in three respects: it was implemented through ministerial Public Notices rather than stand-alone trade legislation; it functioned as a discretionary rather than compulsory instrument; and although framed as a mechanism to manage trade balances with "excess import countries," it was in practice primarily applied to imports from Japan.

Together, these features allowed Korea to proactively manage import flows while remaining within the formal constraints of GATT commitments. And, while the policy's procedural ambiguities do make it difficult to identify precise causal impacts, available empirical evidence also suggests ISDP was effective in helping Korea diversify its import base by reducing the share of Japanese imports; allowing the country to establish a more sustainable bilateral trade relationship with Japan. As a result, although existing research is less definitive on the extent to which ISDP incentivised domestic competitiveness, the policy can be said to have played an

[40] Yamazawa, "Assessing a Japan–Korea Free Trade Agreement."
[41] Kang, *Economic Effects of Import Source Diversification Policy (ISDP)*.
[42] Kang, *Economic Effects of Import Source Diversification Policy (ISDP)*.
[43] Watanabe, "An Analysis of Economic Interdependence."

effective stabilising role – helping Korea navigate a series of macroeconomic challenges in its bid to intensify manufacturing capabilities.

ISDP was gradually scaled back and ultimately abolished in 1999; however, its trajectory illustrated how other emerging industrial economies can use a temporary system of timebound import controls to address concerns about external vulnerability, and concentrated sourcing of industrial inputs, while maintaining an overall export-oriented and liberalised trade regime. As such, ISDP provides a basis for examining the role of narrowly targeted import controls within broader strategies of EOI, trade integration and economic development.

Annex A

Korea's First Three Five-Year Plans (1962-1977): A Pathway to Intervention

1. *First Five-Year Plan (1962-1966)*

The First FYP was a period of institutional maturation, focused on helping Korea establish a regional presence in the manufacturing and export of light industries such as textiles, apparel and footwear. This included the establishment of various trade- and industry-related institutions such as KOTRA, KTA and FKI.[44] In addition, this First FYP concentrated on building diplomatic relations. Korea negotiated several bilateral trade agreements, including a 'normalisation' of trade relations with Japan which aimed to increase market reach and promote knowledge and innovation spillovers. The First FYP also included a suite of credit policies, such as government subsidy programmes and loan guarantees, that were designed to scale operations, enable economies of scale and maintain price competitiveness with more established, international counterparts.[45]

2. *Second Five-Year Plan (1967-1971)*

The Second FYP saw Korea prepare to diversify its export base to address diminishing labour market advantages and curtail foreign protectionist measures targeting light industries – including the USA's 1964 Short-Term Agreement on Cotton Textiles. To transition to heavier industry, the Economic Planning Board introduced a series of laws which included the Industrial Machinery Promotion Act (1967), the Shipbuilding Promotion Act (1967), the Electrical Industry Promotion (1969) and the Petrochemical Industry Promotion Act (1970). In addition, the Second FYP incorporated tariffs, exchange rate programmes and discretionary import controls, suggesting the Korean government was experimenting with ex ante trade controls prior to ISDP's adoption.

3. *Third Five-Year Plan (1972-1976)*

The Third FYP coincided with a significant authoritarian consolidation under President Park Chung-Hee who declared martial law in 1972. This compromised the EPB's autonomy and capacity to shape industrial policy, resulting in a premature commitment to heavy industries such as construction, steel fabrication, shipbuilding and automobile manufacturing – announced by President Park as the Heavy and Chemical Industry (HCI) drive. While HCI successfully established a competitive heavy industry sector in Korea, it also resulted in sizeable wage hikes and exacerbated preexisting structural weaknesses including the worsening of bilateral terms of trade and intensifying capital demands. The HCI drive's heavy reliance on intermediate inputs[46] was of particular concern, ballooning Korea's trade deficit with Japan which sextupled from $589 million in 1970 to over $3.4 billion by 1978.[47] Table 2 shows that, between 1962 and 1979, Korea's imports as a percentage of GDP remained high even as exports rose.

[44] Korea Trade Promotion Agency (KOTRA) was a governmental agency charged with finding export business opportunities; Korean Traders Association (KTA) was a private-sector group that worked with KOTRA to realise overseas market opportunities; Federation of Korean Industries (FKI) was formed by a group of Korean entrepreneurs who had been branded as corrupt by President Park in 1962 and subsequently pledged their fortunes to the development of Korea, and it was as a vehicle by the Park Administration to control industrialists. All definitions from Edward M. Graham, *Korean Economic Development under Park Chung-Hee: The Miracle with a Dark Side* (Washington, DC: Peterson Institute for International Economics, 2003), https://coilink.org/20.500.12592/8fkn47.

[45] Eshag, "Successful Manipulation of Market Forces."

[46] Lane, "Manufacturing Revolutions."

[47] Watanabe, "An Analysis of Economic Interdependence."

Table 2: Exports, Imports and Trade Balance as a Percentage of GDP in Korea (1962-1979)

Year	Exports as percent of GDP	Imports as percent of GDP	Trade balance as percent of GDP
1962	2.4	–18.3	–15.9
1963	3.3	–20.7	–17.4
1964	4.1	–13.8	–9.7
1965	6.0	–15.3	–9.3
1966	6.8	–19.5	–12.7
1967	7.4	–23.3	–15.9
1968	8.8	–28.1	–19.3
1969	9.4	–27.6	–18.2
1970	9.9	–24.4	–14.5
1971	11.6	–25.5	–13.9
1972	15.0	–23.6	–8.6
1973	23.7	–31.4	–7.7
1974	23.9	–36.4	–12.5
1975	24.4	–34.8	–10.4
1976	26.8	–30.6	–3.8
1977	27.2	–29.4	–2.2
1978	24.7	–29.1	–4.4
1979	24.6	–33.1	–8.5

Source: Edward M. Graham, Korean Economic Development under Park Chung-Hee: The Miracle with a Dark Side (Washington, DC: Peterson Institute for International Economics, 2003), table 2.4.

By the end of the Third FYP in 1977, while Korea had become a regional industrial hub, it was also starting to face the fallouts associated with rapid industrialisation (Table 3). This included intensifying inflationary pressure brought about by liberal credit policies and rising wages,[48] as well as a non-sustainable spike in demand for manufacturing factor inputs[49] used by the HCI. Left unchecked, the Korean government recognised that these macroeconomic imbalances would likely worsen, threatening to lock Korea into a cycle of static industrialisation comprising of lower-quality production functions.[50]

Korea-Japan intra-industry dependencies were quickly identified as a source of this bilateral trade imbalance. Hence, over the course of the Third FYP, President Park and his economic advisors deemed these unequal terms of trade as a crucial bottleneck to resolve.[51] The government identified a need for a stabilisation programme capable of diversifying the country's import sources[52] and reducing the nascent heavy industry's reliance on cheaper, higher-quality inputs from Japan's more robust industrial value chains.[53]

[48] Kim, *The Korean Miracle (1962–1980) Revisited*.
[49] Lane, "Manufacturing Revolutions."
[50] Umemoto, "Development of Intra-Industry Trade between Korea and Japan."
[51] Umemoto, "Development of Intra-Industry Trade between Korea and Japan."
[52] Kim, *The Korean Miracle (1962–1980) Revisited*.
[53] Yamazawa, "Assessing a Japan–Korea Free Trade Agreement."

Table 3: Sectoral Origins of Korea's Gross National Product

	Agriculture, Forestry, Fishery	Manufacture, Mining	Utilities, Construction	Services
1954-56	44.6	12.0	3.2	40.2
1957-61	39.1	15.0	4.2	41.5
1962-66	40.0	18.1	4.4	37.5
1967-71	28.0	21.8	6.3	43.9
1972-76	24.5	26.7	5.8	43.0
1977-81	18.3	30.0	9.2	42.6
1982-86	13.5	30.2	10.9	45.4

Source: Kwan S. Kim, The Korean Miracle (1962–1980) Revisited: Myths and Realities in Strategy and Development, Working Paper no. 166 (Notre Dame, IN: Helen Kellogg Institute for International Studies, University of Notre Dame, November 1991), table 2-1.

Annex B

Overall Import Source Diversification Effect

1. 1981 - 1987

(unit : million dollars, %)

Group	Number of Items	Total Import Value		Import Value from Japan		Japan's share in import			Growth Rate of Import*	
		1981	1987	1981	1987	1981	1987	change	Total	Import from Japan
RD	137	666.0	1,613.4	384.4	669.1	57.7	41.5	-16.2	15.9	9.7
DD	72	431.2	1,099.4	227.0	559.7	52.7	50.9	-1.7	16.9	16.2
DL	180	287.7	801.6	124.9	314.4	43.4	39.2	-4.2	18.6	16.6
LD	45	233.1	524.5	104.3	229.8	44.7	43.8	-0.9	14.5	14.1
Sub	434	1,617.9	4,039.0	840.5	1,773.0	52.0	43.9	-8.1	16.5	13.2
Total	...	2,613.1	41,019.8	6,373.6	13,656.6	24.4	33.3	8.9	7.8	13.5

2. 1988 - 1990

(unit : million dollars, %)

Group	Number of Items	Total Import Value		Import Value from Japan		Japan's share in import			Growth Rate of Import*	
		1981	1987	1981	1987	1981	1987	change	Total	Import from Japan
RD	3	1.6	3.8	0.9	1.1	55.2	29.8	-25.38	55.7	14.5
DD	200	2,934.9	4,333.1	1,619.2	1,539.5	55.2	35.5	-19.64	21.5	-2.5
DL	76	744.6	1,135.0	333.2	422.7	44.8	37.3	-7.51	23.5	12.6
LD	6	38.5	189.9	17.1	96.7	44.4	51.0	6.55	122.2	138.0
Sub	285	3,719.5	5,661.8	1,970.4	2,060.1	53.0	36.4	-16.59	23.4	2.3
Total	...	51,810.6	69,843.7	15,928.8	18,573.9	30.7	26.6	-4.15	16.1	8.0

Note : 1. R: import restriction, D: ISDP designation, L: liberalization(exclusion from ISDP).
2. * denotes the annual growth rates(%).

Source: In-Soo Kang, Economic Effects of Import Source Diversification Policy (ISDP) (Seoul: Korea Institute for Economic Policy, 1993), table II–1.

Annex C

Tariff Rates and the Ratio of Import-Controlled Items

TARIFF RATES AND THE RATIO OF IMPORT-CONTROLLED ITEMS

(%)

	Weighted Average Tariff Rates (A)	Actual Tariff Rates (B)	Ratio of Import-Controlled Items		
			(C)	(D)	(E)=(C)+(D)
1961	36.0	13.5	95.9	—	95.9
1962	49.6	12.4	94.4	—	94.4
1963	49.5	8.7	99.6	—	99.6
1964	51.0	8.0	98.0	—	98.0
1965	52.7	10.0	94.0	—	94.0
1966	52.3	9.1	90.7	—	90.7
1967	52.6	9.3	39.6	8.0	47.6
1968	58.9	9.2	42.4	7.5	49.9
1969	58.3	8.1	44.9	8.0	52.9
1970	58.5	8.1	45.7	8.0	53.7
1971	57.9	6.3	45.0	8.0	53.0
1972	57.5	6.0	49.1	7.5	56.6
1973	48.2	4.9	47.9	7.4	55.3
1974	48.1	4.6	49.3	6.9	56.2
1975	48.1	5.1	50.9	7.5	58.4
1976	48.1	6.5	49.0	6.9	55.9
1977	41.3	7.4	50.1	9.1	59.2
1978	41.3	8.9	38.7	9.1	47.8
1979	34.4	7.4	32.4	11.4	43.8
1980	34.4	5.7	30.9	11.7	42.6
1981	34.4	5.0	25.6	13.7	39.3
1982	34.4	5.7	23.4	14.1	37.5
1983	34.4	7.2	19.6	13.8	33.4
1984	26.7	6.5	15.2	9.8	25.0
1985	26.4	5.8	12.3	9.5	21.8
1986	24.7	7.0	8.5	9.5	18.0
1987	23.9	8.0	6.4	9.6	16.0

Sources: (A), (C), and (D) calculated from Tables 2 and 5 of Kim [7]. For (B), National Statistical Office, *Major Statistics of Korean Economy* (Seoul, each year).

Notes:
1. (A) is the average rate of total legal tariffs which includes regular tariff, foreign exchange tax, and special tariff rate on import, weighted by the value of 1975 production.
2. (B) is the ratio of total tariff revenue to imports.
3. (C) is the ratio of the number of import-prohibited and import-restricted items in Semiannual Trade Program to the number of total items in SITC before 1977 and CCCN after then.
4. (D) is the ratio of the number of import-controlled items under special laws to the number of total items in note 3.

Source: Hyuntai Kwak, "Changing Trade Policy and Its Impact on TFP in the Republic of Korea," The Developing Economies 32, no. 4 (December 1994): table I, https://www.ide.go.jp/library/English/Publish/Periodicals/De/pdf/94_04_03.pdf.