HUNGARY AND SOUTH KOREA: A COMPARATIVE ANALYSIS OF THEIR EXPORT PERFORMANCES FROM A POLITICAL ECONOMY PERSPECTIVE, 1969-1980

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ABSTRACT

By comparing South Korea and Hungary, this study attempts to determine what effects power relations, economic structure and exogenous events have upon a country's ability to pursue an export-first strategy.

South Korea performed better than Hungary. The South Korean regime was able to use its authoritarian power more effectively than the Hungarian regime against its political opponents. This facilitated both the introduction and defence of its export-first policy.

In addition, South Korean entrepreneurs responded to governmental pressure and incentives to export, favourably. In Hungary, the branch ministries were the chief obstacles to the effective implementation of an export-first policy.

Finally, while both countries were subjected to protectionism, the degree of difference was not sufficient to explain the better performance of South Korea. This reinforces my thesis that the political and systemic variables carry the greatest explanatory power.

RESUME

Cette étude comparée de la Corée du Sud et de la Hongrie vise à déterminer les effets des relations de pouvoir, de la structure économique et d'autres facteurs exogènes sur la capacité d'un pays à poursuivre une stratégie de promotion des exportations.

D'après notre étude, la Corée du Sud a connu plus de succès que la Hongrie dans l'application d'une telle stratégie. Le régime sud-coréen a réussi à utiliser son autorité contre ses ennemis politiques de façon plus efficace que le régime hongrois. L'application et la défense de sa politique d'exportation rien a été que plus facile.

En outre, les hommes d'affaires sud-coréens ont répondu avec plus d'empressement aux pressions et encouragements de gouvernement. En Hongrie, les divers ministères en charge de l'économie se sont opposés avec succès à l'application d'une politique d'exportation.

Même si les deux pays faisaient face à des degrés différents de protectionisme dans la promotion de leurs exportations, la différence n'était pas assez grande pour expliquer le succès de la Corée du Sud. Cela supporte notre hypothèse que les variables politiques et systémiques ont la plus grande capacité d'explication.

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TABLE OF CONTENTS

Page

CHAPTER I

INTRODUCTION AND LITERATURE REVIEW

The economic viability of many developing and semi-industrialized countries depends to a large extent upon their economic efficiency and export effectiveness. This is especially true for the medium developed countries of Hungary and South Korea. The purpose of this essay is, therefore, to assess and explain the differences in export performance between the modified, centrally planned economy of Hungary and the mixed economy of South Korea, from a political economy perspective. The study covers the period stretching from 1969 to 1980.

These two countries have been selected for comparative study for a number of important reasons. First, each embarked upon an export promotion strategy in the 1960s. Secondly, each is short on natural resources and is consequently unable to base exports on the exploitation of natural endowments. Thirdly, the existence of a small internal market limits the feasibility of an inward development strategy. Fourthly, with exports constituting a fair share of gross national product in each country, they can justifiably be referred to as export sensitive countries. Finally, and most important of all, one is provided with an opportunity because of the above mentioned similarities, to assess the influence of political, systemic and exogenous variables, in determining the difference in export performances between these two countries.

In comparing the export performance of Hungary with that of South Korea, a certain amount of caution must be exercised. A look at Hungary's total export performance may be misleading and unimportant. It has been well established that the countries of Eastern Europe are loathe to run a trade surplus with each other, because, given the absence of currency convertibility, it amounts to an economic loss.[1]

P. Marer correctly points out that it is the total hard currency trade of Hungary, rather than its total trade, that is significant in any analysis of its export performance.[2] Hard currency, whatever its source, can be used to purchase Western technology, raw materials and components. It can also be used to service Hungary's considerable debt with the West.

One of the major objectives of the economic reforms introduced in 1968 was to enable Hungary to penetrate the markets of the Organization of Economic Cooperation and Development (O.E.C.D.). The latter accounts for about 90 percent of Hungary's total hard currency trade. The other 10 percent is accounted for in intra C.M.E.A. trade. However, enterprises that increase their hard currency exports to the C.M.E.A. are rewarded in the same way as if the increase had occurred on the O.E.C.D. market. The well known problems of currency inconvertibility, trade bilateralism, and the absence of market-type reforms in the other C.M.E.A. countries weigh heavily against any enlarging of Hungary's intra-C.M.E.A. hard currency trade.[3] References to Hungary, in the course of the study will, therefore, be made in regard to the O.E.C.D. market.

Finally, it must also be pointed out that no definitive conclusion can be made from the study, because with about 50 percent of its total exports going to the C.M.E.A. market, the ability of the Hungarian leadership to expand exports rapidly to the West is, to begin with, constrained; the production capacity that is used to satisfy C.M.E.A. demands cannot be used to boost exports to the West. While the effect of Hungary's membership in the C.M.E.A. is only discussed here in respect of how it reduces enterprise autonomy, this phenomenon must also be kept in mind as a background constraint.

After noting the limitations of the study, the following tables will now be used to facilitate the analysis of these two countries' export performances.

To begin our analysis of the export performances of South Korea and Hungary we focus, first, upon the average annual percentage change in the value of exports (see Tables I and II). For the entire period under consideration, South Korea's exports grew faster than those of Hungary. They increased at an average annual rate of 37 percent, while those for Hunga went up by 22 percent. An examination, too, on the basis of various time perio

TABLE I

HUNGARY'S HARD CURRENCY EXPORT PERFORMANCE, 1969 - 1980
(MILLION OF U.S. DOLLARS) MERCHANDISE TRADE

Year	Total Hard Currency Exports	Annual Percentage Change in Value	Annual Percentage Change in Volume	Annual Percentage Change in Price	Merchandise Trade Balance
	(1)	(2)	(3)	(4)	(5)
1969	647	26	17.7	N.A.	43
1970	776	20	8.4	N.A.	-80
1971	912	18	-0.6	1	-197
1972	1157	27	12.5	4	-2
1973	1774	53	17.9	13	176
1974	2227	26	3.1	19	-474
1975	2229	11	3.3	-6	-415
1976	2491	12	12.8	-6	-425
1977	2894	16	10.4	4	-620
1978	3072	6	1.6	-.1	-1149
1979	3881	26	15.6	.9	-340
1980	4946	27	2.1	4	-89

N.A. Not Available.

Sources: Paul Marer, "The Mechanism and Performance of Hungary's Foreign Trade, 1969-1979" in Hungary: A Decade of Economic Reform ed. P. Hare, H. Radice and N. Swain (London: Allen and Unwin, 1981), p. 180, for columns (1) and (5), 1969-1979; columns (1) and (5) for 1980 calculated from Data in The Economist Intelligent Unit, Ltd., Quarterly Economic Review of Hungary: Annual Supplement, 1982 (London: The Economist Intelligent Unit Ltd., 1982), p. 16; column (2) calculated from data in Paul Marer, op. cit., p. 180 and The Economist Intelligent Unit Ltd. op. cit., p. 16; column (3) from Adam Marton, "World Market and Hungarian Foreign Trade Prices, 1976-80," Soviet and Eastern European Foreign Trade 18(3) (1982): 86; column (4) for 1971 to 1976 calculated from data in Anita Tiraspolsky, "The Terms of Trade of the East European Countries from 1970 to 1977," Soviet and Eastern European Foreign Trade 15(1) (1979): 106, and for 1977 to 1980 from Patrick de Fontenay, et al., Hungary: An Economic Survey (Washington, D.C.: International Monetary Fund, 1982), p. 49.

TABLE II

SOUTH KOREA'S EXPORT PERFORMANCE, 1969 - 1980
(MILLION OF U.S. DOLLARS) MERCHANDISE TRADE

Year	Total Exports	Annual Percentage Change in Value	Annual Percentage Change in Volume	Annual Percentage Change in Price	Merchandise Trade Balance
	(1)	(2)	(3)	(4)	(5)
1969	623	37	46	-4	-1201
1970	835	34	26	3	-1149
1971	1068	28	33	0	-1326
1972	1624	52	50	0	-898
1973	3225	99	56	27	-1015
1974	4460	38	8	27	-2392
1975	5081	14	23	-7	-2193
1976	7715	52	36	12	-1059
1977	10047	30	19	9	-764
1978	12711	27	14	11	-2261
1979	15056	18	-1	19	-5283
1980	17505	16	11	5	-4737

Source: Columns (1) and (5) from United Nations Statistical Yearbook for Asia and the Pacific, various years; column (2) calculated from data, ibid., columns (3) and (4) calculated from data in United Nations: Yearbook of International Trade Statistics, 1980, p. 557.

also reveals that South Korea's export performance has been consistently better than Hungary's. From 1973 to 1980, exports in value terms rose by an average annual rate of 37 percent, as opposed to the 22 percent growth figure for Hungary. Finally, for the 1969-1973 period, South Korea experienced a 50 percent average annual increase in the value of goods exported. Hungary's increase in the value of good exported for the same period was 29 percent.

As increases in value of goods exported can be the result of either changes in volume or prices or both, it is essential for us to determine the causes of the movement in the value of exports. Another trend becomes clear. It is growth in volume that accounts for most of the changes in export value in both countries. In South Korea volume has generally risen faster than prices. It must also be pointed out, however, in respect of South Korea, that growth in prices also played an important role in boosting exports. In the 1973 to 1980 period, volume increased by 21 percent, while prices went up by the respectable figure of 13 percent.

Increases in volume and prices in South Korea in general have significantly risen faster than those in Hungary. For example, against the increases of 21 and 13 percent in volume and prices, respectively, for the 1973 to 1980 period in South Korea, the figures are only 7 and 5 percent, respectively, for Hungary.

While our primary concern is with the export side of these countries' trade regimes, a look at their trade balances throws some light on their export promotion strategy. These two countries have run large trade deficits, with the exception of Hungary in 1969 and 1973. The trade deficits are related not only to the substantial price increases that occurred on the world market in 1974 and after but more fundamentally to the fact that export promotion for resource poor countries is based importantly upon the importing and processing of raw materials and other inputs, which are then exported. It is not surprising, then, that as exports have increased, imports have generally gone up faster. For example, in the important period stretching from 1974 to 1979, exports increased by 30 percent in value in South Korea, while imports went up by

40 percent. For Hungary, in the same period, exports were raised by 16 percent, while imports increased by 20 percent. To pay for their huge import bills, both countries borrowed substantially from the West.[4]

This study, however, seeks to go beyond the changes in export values, volumes and prices in an attempt to locate the underlying causes for the better export performance of South Korea over that of Hungary. In the course of the study it will become clear that the above mentioned changes are related to the underlying causes or the political, systemic and exogenous variables. For example, the low prices of Hungarian products will be shown to be the product of the power relations in that society, to weaknesses in its economic structure and to the exporting of goods that are vulnerable to trade protectionism. In South Korea, in contrast, the important increases in volume and prices are the product of governmental pressure, entrepreneurial talent and the exporting of manufactured products that fetch relatively high prices.

Nevertheless, it is on the underlying causes that we will focus our attention. South Korea's ability to significantly raise exports faster than Hungary can be explained on the basis of political, systemic and exogenous variables. While these variables are separated for analytical purposes, it is recognized that a connection exists among them. After indicating the outline of the rest of this chapter, along with that of chapter two, the three variables, each of which will be examined in a separate chapter, are then defined.

To place the essay within the context of past research on this topic, the theoretical section of this chapter examines the strategies of import substitution and export promotion. It focuses on the critique of import substitution that is made by the proponents of export promotion, as well as considering the main features of the latter. References will also be made to particular countries' experiences with the two strategies of economic development. Consideration will also be given to some of the political difficulties involved in transferring from import substitution to export promotion.

Chapter two inquires into the economic and political factors that forced Hungary and South Korea to introduce economic reforms in the 1960s as a means of boosting their exports. The chapter also sets out the main features of these economic reforms that made important changes in these countries' export regimes.

The political variable is discussed in chapter three. It refers to the distribution and exercise of political power in these societies and the way in which it has positively or negatively affected their capability to pursue an export promotion strategy. In respect of power distribution, it concentrates on the intra-regime division in each country. The political variable also examines the relationship between each regime and key groups in its society.

While the political variable is concerned with power distribution, the systemic variable, which will be discussed in chapter four, focuses on the relation between economic structure and export promotion strategy in both countries. It is true that Hungary instituted certain market mechanisms in 1968 in an effort to improve its export performance. Nevertheless, these reforms still operated within the context of a centrally planned economy. The branch ministries still existed and were responsible for enterprise supervision. In addition, while modifications were made in the system of central planning, the latter was still the primary means of economic control.

In South Korea, on the other hand, the government intervened frequently in the market process. The public sector was not unimportant. The government affected business behaviour through a system of incentives and disincentives. Nevertheless, the main features of a market economy - private ownership, the right of private business to enter and leave the market, as well as to make its own production decisions - still existed. The purpose of the systemic variable is, therefore, to determine whether certain characteristics of each economic model hinder or facilitate the efforts of each of these countries to achieve economic growth on the basis of an outward strategy of development.

Finally, the exogenous variable is examined in chapter five. It refers to the protectionism and other forms of trade discrimination that the exports of these countries encountered on the O.E.C.D. market, and which, in the short-run, were beyond the control of the policy makers in each country. In addition, it assesses the policies adopted by the two countries to lessen or to escape protectionism, in terms of the long-run. The conclusion, the subject of chapter six, will assess, from a comparative perspective, the importance of the three variables in accounting for the better export performance of South Korea. The conclusion also examines the connections between the variables.

THEORETICAL REVIEW OF LITERATURE

Following World War II, the East European countries sought to further economic development and industrialization by pursuing a strategy of import substitution. In this respect their trade policy resembled that of many countries in Latin America and Southeast Asia.[5]

Against the background of falling prices for primary products and a shortage of manufactured goods due to World War II, Raul Prebisch published his famous 'manifesto' of 1949, which argued vigorously for the strategy of import substitution industrialization.[6]

Prebisch believed that international trade could not lead to industrialization for a number of important reasons. First, primary exports of Latin America and other developing countries were unlikely to expand because they were income inelastic. Secondly, developed countries were economising on inputs. Thirdly, agricultural products were being subjected to protectionist policies in the developed world. Manufactured goods were also unlikely to penetrate the markets of the capitalist countries, because, according to Prebisch, manufacturing industries in the developing countries operated with higher production costs than those in the developed world. Lastly, he concluded that this cost differential was due to the fact that advanced technology has been confined to the industrialized countries, with very little making its way to the developing countries.

Import substitution may be defined as the replacement of certain imports with domestically produced goods.[7] This strategy may be divided into an easy and a difficult phase. The easy phase is usually successful because it corresponds to the characteristics of the local economy. Invariably, consumer goods are the first to be barred from entering the country so as to create a market for local producers. Production of shoes and other consumer goods only requires a simple technology. Their production is labour intensive and the domestic costs of production do not differ greatly from those in foreign countries. Results, therefore, can be seen quickly. Also, because these goods were previously imported, it means that there is already an assured market for them.

The difficult phase of import substitution involves the construction of local industries to produce capital and intermediate goods that were previously imported. Both the industries involved in the easy and difficult phases are protected by high tariff walls, quotas and other import restrictive machinery, and in the case of communist countries, such as the Soviet Union, by licensing and outright prohibition.

It is primarily against the difficult phase that the critics of import substitution direct their attack. Latin America's experience with the difficult phase also convinced Prebisch and the early advocates that economic independence and steady industrial growth had to take place on another basis.[8]

It has been found in respect of Latin America and India, for example, that rather than reducing their need for imports, import substitution actually increased it.[9] As the economy was sealed off to create a market for the production of consumer goods, the inputs, such as machinery and raw materials, had to be imported to keep the consumer factories running. The dependence upon these essential imports created a major problem for these countries. Latin American countries periodically experienced foreign exchange shortages, and often had no alternative but to restrict imports. Thus, according to D.M. Schydlowsky, "after import substitution a reduction of imports means unemployment and a lower rate of growth."[10]

Import substitution also led to economic inefficiency. Raul Prebisch surveyed its negative effects on the Latin American countries. He pointed out that the benefits that flow from international trade, and the subsequent economies that result from producing for a larger market were denied to these countries because the large number of industries spawned by import substitution were shielded from foreign competition, for example, by extremely high tariffs and other restrictive machinery. But Prebisch left no doubt that the greatest cause of this inefficiency was the total disregard for cost effectiveness in the establishment of these industries; "the criterion by which the choice was determined was based not on considerations of economic expediency, but on immediate feasibility, whatever the cost of production."[11]

In the Soviet Union and the East European countries, planners also ignored cost considerations. In fact, even if they had wished to take cost into consideration, such a task would have been impossible, due to the absence of a price system which registers opportunity costs. Industrial expansion depended upon the decisions of planners and the power relations that existed among the planning office, the branch ministries and the enterprises. In arguing for economic reform in the Soviet Union, Yersei Liberman noted that because of import substitution the country had suffered great economic inefficiency and sectoral imbalances.[12]

Lastly, countries that followed import substitution hardly exported. Despite the fact that the Latin American and Asian countries had excess manufacturing capacity, they did not actively engage in the exporting of manufactured goods. Several factors accounted for this. First, their industries would have faced difficulties competing internationally due to their high production costs, which resulted from operating in a protected and uncompetitive market. Secondly, the typically overvalued exchange rate, while making imports available to local producers below their real cost, also made exports more expensive vis-a-vis other producers on the world market. Finally, while the C.M.E.A. countries traded manufactured goods among themselves, the exporting of these goods to non-C.M.E.A. members was limited by the strict control of foreign trade by the state and the system of bilateralism that regulated trade within the C.M.E.A.[13]

However, other studies have shown that the power distribution in a society can greatly affect a country's ability to adopt and pursue a successful export drive.[14] In respect of Latin American countries, Hirschman argued that it was the lack of political influence on the part of the business class, rather than the economic inefficiency of the region's industries, that was primarily responsible for an export promotion strategy not being attempted. He attributed the absence of local entrepreneurial influence to the fact that they exported very little, were not members of the ruling elite and operated consumer rather than heavy industry. The latter was considered to be of crucial importance to the import substitution process. The need for business influence on government policy is related to the fact that export promotion is a costly and risky business. Entrepreneurs, therefore, need assurance that their investment will not only be protected but also will be viewed favourably by government. The distribution of political influence and its effects on export promotion strategy will be taken up in chapter three.

Apart from their critique of the import substitution process, the advocates of export promotion strategy also call for a decentralized decision-making process and the pursuit of international trade on the basis of comparative advantage. Due to the complexity of modern society and the numerous decisions that must be made and coordinated, it is argued that it is "better if these decisions can be made by those most closely concerned with the operation of particular industries."[15] It is irrelevant, according to certain authors, whether these industries are owned by the state or by private individuals. The key point is the existence of managerial autonomy and the basing of economic decisions not on administrative fiat but on cost benefit analysis. Furthermore, it is held that the various economic decisions should be coordinated by the price system rather than a state planning agency. The latter is held to have failed miserably in the past.

An export promotion strategy does not discriminate against production geared to either the domestic or the foreign market.[16] Similar and 'automatic' incentives are given to both import substituting and export oriented firms. In addition, while incentives are given to influence firm behaviour, resource allocation is made through the market mechanism. The existence of 'automatic' incentives is very important, for it allows firms to make long-term investments. Examples of incentives are subsidies, the free importation of inputs used in the production of goods for exporting and the provision of market information by the government.

To provide equal conditions for all industries and to facilitate international trade, export promotion advocates call for an end to quotas, export taxes and other impediments to free trade. They also call for the establishment of an equilibrium exchange rate, along with production for export based on international cost advantage.[17]

It must also be pointed out that export promotion strategy does not reject the need for industrialization in the developing world; neither does it call upon industrializing countries to specialize in the exporting of primary goods as was done previously.[18] Export promotion proponents point out that growth can be faster through the exporting of manufactured goods, because the world demand for the latter has constantly increased faster than that for primary goods. They go on to argue that since developing countries produce only a small fraction of the manufactured goods traded on the world market, that these countries can increase their output considerably, presumably without inviting protectionist measures from the developed countries. They also support their call for specialization in manufactured goods by pointing to a number of countries, including Taiwan and Singapore, that experienced high growth rates by specializing along these lines.

While Taiwan and Singapore both switched to an export promotion strategy in the first part of the 1960s following their experiences with the easy phase of import substitution, there, nevertheless, were important differences in their approaches.[19]

The small size of the economies of Taiwan and Singapore convinced their leaders that further import substitution would not lead to industrialization and would only create further inefficiencies in their economies. In Taiwan, many industries were operating well below full capacity, while in Singapore, economic growth had already slowed down due to the saturation of the economy. In Singapore, too, the authorities felt that their country could best connect itself to the international market by using multinational corporations (M.N.C.s) as intermediaries.[20]

Both countries offered similar conditions to their exporters. The latter were allowed to purchase their raw materials and other inputs either from the local or foreign market, without being subjected to a penalty. In addition, inputs as well as outputs were exempted from indirect taxation. Finally, domestic producers were given similar privileges to those of exporters, if their output was used to produce goods for export.[21]

However, unlike Taiwan in which the export promotion drive was based upon locally owned and directed manufacturing industry, in Singapore it was based predominantly upon M.N.Cs. In Singapore, between 1967 and 1970, Direct Foreign Investment (D.F.I.) increased by 46 percent annually. In 1980, it amounted to three billion, coming largely from the U.S.A. and Japan. In that same year, D.F.I. was slightly more than one-third of G.N.P. Taiwan also did not ignore the importance of M.N.Cs.; it established free trade zones to attract foreign investment and technology.[22]

The free trade regime established by the two countries along with generous incentives such as low cost loans had a powerful effect on their export growth and composition. Between 1973 and 1980, exports in value grew by 25 percent annually in Taiwan and by 33 percent in Singapore. Taiwan's export composition was dominated by primary products in the early 1950s. By 1978, however, 89 percent of total exports consisted of manufactured goods. M.N.Cs. accounted for 70 percent of the goods exported by Singapore as early as the beginning of the 1970s. These exports consisted of electronics and other manufactured goods. Lastly, both countries experienced rapid economic growth. For example, between 1969 and 1978, G.N.P. grew at an average rate of 9.1 and 10.1 percent, for Taiwan and Singapore respectively.[23]

In sum, it has been shown that import substitution as a strategy of economic development fell into disrepute because of the economic inefficiency, unemployment and other difficulties it generated. It was shown that the failure of many countries to abandon the import substitution process was due not only to the uncompetitiveness of industries in countries that followed this method of development but also, from a business point of view, to the unfavourable distribution of political power in these societies.

Proponents of export promotion favour free trade, enterprise decision-making and the removal of quotas and other obstacles to the free movement of goods based on cost differences. Importers and exporters are to be treated equally. Finally, export promotion advocates believe that a price system rather than a planning agency should be given primary responsibility for the coordination of decisions in a modern and complex society.

CHAPTER 2

ECONOMIC REFORMS IN SOUTH KOREA AND HUNGARY

Both South Korea and Hungary introduced major economic reforms in the 1960s in response to a number of pressing economic and political factors. These reforms in both countries affected the relationship between the government and enterprises as well as making important changes in their export regimes. In effect, the economic reforms shifted these economies from an import substitution path to an export-first strategy of economic development.

SOUTH KOREA: CAUSES OF ECONOMIC REFORMS

Several factors were responsible for the shift to an export-first policy in South Korea.[1] First, the government had reached the limits of its import substitution strategy that it commenced in 1955 following the Korean war. The government realized in 1960 that the easy phase of import substitution based on domestic production of consumer products and their capital inputs was at an end. It realized, too, that rapid economic growth could not be achieved by moving on to the more difficult phase of import substitution involving the production of capital goods, such as machinery, due to the small size of the economy. Production of these capital goods would require the existence of a large domestic market, so that the plants could operate at full capacity. This would enable them not only to spread the high cost of production involved in the difficult phase of import substitution over a large number of units, but would also enable them to reap economies of scale.

Secondly, policy makers in South Korea recognized that an export promotion strategy was probably the most feasible method of economic development as it would enable them to utilize their country's low labour costs for the production of products requiring relatively more labour than capital. Development proceeding on the exploitation of natural resources was ruled out because of the scant resource base. The existence of a large, disciplined, and educated work force that got wages well below those of the U.S.A. and Japan also played an important role in the decision to produce labour intensive manufactures, such as textiles and wigs for exporting.[2]

Thirdly, the student revolution of 1960, which removed the government of Sigman Rhee, was an important political factor facilitating the switch to an export-first policy.[3] The economic modernization of a separate South Korea was never seriously contemplated by the Rhee administration. The latter held that the two Koreas would eventually be reunited. This political belief formed the basis for Rhee's decision to retard the development of the heavy and electrical companies in the South, since these were already well developed in the North.

Politics had a further influence on the economic policies of the Rhee administration. Rhee had never forgiven the Japanese for the colonialization and cruel treatment of his country. He, therefore, imposed frequent embargoes on trade with Japan, which had a negative effect on the export performance of his country. Japan had a long history of important trade links with South Korea. In addition, Rhee refused and opposed all the diplomatic efforts of the U.S.A. to normalize relations between its two Asian allies. Normalization, as the Park regime would later prove, meant the provision of financial aid, and direct foreign investment. Japan also became South Korea's second largest export market.[4]

Fourthly, U.S.A. officials used Korea's economic dependence upon the U.S.A. to force it to make a number of economic reforms. Rhee and U.S. aid officials held conflicting views on what economic policy was best for South Korea. The basis of Rhee's economic policy was the extraction of the maximum amount of aid from the U.S.A. and the U.N. The South Korean leader pressed for an import substitution strategy based on the development of heavy industries which were protected from competition by restrictive machinery, such as tariffs. The Americans, on the other hand, favoured the development of light industries, greater use of market forces and international trade. The Rhee regime frequently charged that the Americans did not wish to see South Korea self sufficient, as they placed little emphasis on capital imports, relying instead upon the importation of consumer goods. U.S. aid officials responded to the charge by pointing out that the consumer products were needed to pull excess money out of the economy in order to reduce inflation.[5]

By 1957, despite the massive doses of foreign aid injected into the South Korean economy, its economic performance was poor and below that of North Korea. Rhee continued to resist the economic policies put forward by the U.S. aid officials. As a result of these two factors, the U.S. increased its pressure on South Korea for economic reform by cutting back its economic aid. At the start of 1957, then, the Rhee administration was forced, "to agree to a series of annual stabilization programs as a condition for continued aid."[6] However, the most bitter disagreement between the U.S. and South Korea over aid allocation occurred between 1963 and 1964. In this period, South Korea could not hope to resist U.S. pressure for economic reform. Not only was food in short supply, but this difficulty was compounded by increasing price levels. Purchase of food from abroad was foreclosed as South Korea suffered from a foreign exchange shortage. The U.S. insisted that further aid was dependent upon the adoption of stabilization measures and a drastic devaluation of the won. These measures were accepted by the Park regime, so as to obtain a sufficient supply of food. However, according to Mason et al., the Korean leaders opted for economic reforms and the establishment of new diplomatic relations in order to avoid "ever being trapped in such a compromising position again".[7]

Finally, the overthrow of the Rhee regime actually brought a government to power that was committed to economic growth and one that was not opposed to the use of coercive methods to ensure that its economic reforms were implemented. Like the students that overthrew the Rhee regime in 1960, the Park government resented Korea's dire need for economic assistance from America and the influence of its aid officials in South Korea's economic matters. Park argued, too, that the American strategy of economic development for South Korea was faulty since it "was extremely tight-fisted towards the productive facilities" that were clearly needed "and generous with regard to consumer goods which (South Korea) did not require".[8]

Park further pointed out that in order to achieve economic independence coercive methods could be used, since in his opinion, the people of South Korea and those of Asia dreaded "starvation and poverty more than the oppressive duties thrust upon them by totalitarianism".[9] To Park, the political and civil liberties that accompany democracy were unimportant to South Koreans because of their poor economic situation. As will be shown in a later chapter, Park did resort to coercive and questionable constitutional measures to ensure implementation and adherence to his export-first policy.

In sum, it has been shown that economic and political factors led to the adoption of an export-first policy in South Korea. Economic factors included the unbearable cost of going on to the difficult phase of import substitution, the opportunity to exploit the nation's comparative advantage in labour intensive goods and the infeasibility of pursuing a strategy based upon resource exploitation. Political factors included the removal of the Rhee regime which lacked a strategy of economic development, the coming to power of a government that favoured export-led industrialization and, finally, the pressure of the U.S. for economic reforms by reducing aid levels and making aid dependent upon economic reforms.

THE ECONOMIC REFORMS OF SOUTH KOREA

The adoption of an export-first strategy, as noted, began with the student revolution of 1960 that removed the Rhee regime which had pursued an import substitution strategy. By 1965, the transition to an export promotion strategy had been completed. The reforms were made largely in the areas of exchange rate policy, the import control system, and the export incentive system.

The switch to an export-first policy was attempted by the Chang government that replaced the Rhee regime. In the latter part of 1960, the newly elected government issued an economic statement which pointed out that it favoured production geared for the export market. This strategy was based upon the availability of a hard working and educated labour force. The statement also indicated that South Korea wished to follow the same path of export promotion pursued by Japan in its early phase of economic development. To facilitate this strategy, the Chang government wanted to put an end to the diplomatic impasse with Japan.[10]

In pursuit of the above objectives, the Chang government devalued its currency on January 1, 1961. The exchange rate was now 100 won to a dollar instead of the previous fiqure of 65 won. In January of the same year, a further devaluation occurred; one U.S. dollar was now equivalent to 130 won.

The devaluation was temporarily successful. Along with a 25 percent jump in exports, imports fell by 8 percent. The government also realised a 50 percent increase in its foreign exchange earnings. However, the effect of the devaluation was soon wiped out by the expansionary policies pursued by the multiple government that replaced the civilian one. In particular, a multiple exchange rate was, in effect, reintroduced as a result of increased import controls and the establishment of an export-import link system.[11]

Nevertheless, in May or 1964, the government made a determined effort to reestablish a realistic exchange by devaluing the won.[12] One U.S. dollar was now equivalent to 256 won. The government followed up the exchange rate reform by pursuing prudent monetary as well as fiscal policies and so managed to establish a uniform rate of exchange. By March of 1965, the government felt confident enough to float the foreign exchange rate.

The import control system also underwent important changes in the transitional period, passing through a period of liberalization in 1962, one of restriction in 1963 and, finally, being liberalized considerably in 1964 and onwards.[13] Two important changes were made in 1961, so that by the latter part of that year imports were divided into three groups. The first group consisted of those commodities that did not require governmental permission to be brought into the country. The second group consisted of those commodities that required an import license. Finally, the last group consisted of prohibited products.

These measures led to a considerable liberalization of imports in

1962, with the number of goods falling into the Automatic Approval (AA) category numbering 1,377 in the last six months of that year. In the first six months of 1961, AA goods numbered 1,015. This liberalization, however, was abruptly halted due to reduced American economic assistance, which made less foreign exchange available for the purchase of grain, due to the bad harvest. Thus, AA imports during the latter part of 1963 fell below 10 percent of the 1962 level. Also, approval had to be sought for an increasing number of goods. However, following the 1964 devaluation, the Park regime liberalized the import regime considerably. The number of items falling into the AA category, even by the first part of 1965, amounted to 1,447, surpassing the previous maximum of 1,377. Because of its increased foreign exchange earnings, the government was able to maintain and on certain occasions surpass the level of import liberalization effected in 1965.

The devaluation of the won in 1964 led to an improvement in the export performance of South Korea. This enabled the government as noted above, to liberalize its import regime. Nevertheless, imports continued to be subjected to the tariff rates introduced in 1951, apart from some minor changes. In addition, on top of the regular tariffs, imports were subjected to special tariffs introduced in 1961, to prevent importers of restricted goods from benefiting because of the difference between the domestic and landed prices. Over 700 items were subjected to quantitative regulation and divided into four categories, on the basis of non-essentiality and the difference between landed and domestic prices. Tariffs ranging from a high of 100 percent to a low of 10 percent were then applied to the respective categories.[14]

Finally, the transitional period involved the increased use of incentives.[15] Prior to 1964, the exchange rate acted as a disincentive to export. To counter this, direct subsidies were granted to enterprises producing for the export market. By 1963, the government strengthened the export regime by introducing an export-import link system. The latter enabled exporters to sell all their foreign exchange earnings in the domestic market or for the purchase of imports. Due to the establishment of a unified exchange rate in 1964, these two incentives were discontinued.

Thereafter, the government only used the export-import link system to provide incentives for the promotion of particular goods.

In addition, the following incentives were either maintained or introduced during the transition period. Raw materials were exempted from tariffs, if they were imported for the purpose of producing goods for export. Also, exporters were given preferential access to credit, and income generated from exporting activity was subjected to reduced levels of income taxation. Intermediate imports were also not subjected to indirect taxation if they were to be used for the production of exports. The incentives also covered local producers of intermediate products that were utilized for the export promotion drive, since they were exempted from taxes and tariffs.[16]

In sum, the switch to an export-first policy involved important changes in the export regime of South Korea. By making a number of devaluations, the exchange rate was unified in 1964 and subsequently allowed to float. The government also liberalized its import control system, by increasing the scope of the AA category of goods, considerably. Incentives for exporters were also increased significantly to ensure that Korean exporters could compete internationally.

HUNGARY: CAUSES OF ECONOMIC REFORM

The economic reforms introduced in Hungary in 1968 resulted from a number of pressing problems associated with the planning system of economic control, the isolation of domestic industry from foreign competition, an altered relationship with the Communist Party of the Soviet Union (C.P.S.U.) and the fact that Hungary had reached the limits of its extensive method of economic development.[17]

South Korea had pursued an import substitution strategy to the end of the easy phase and stopped. Hungary, on the other hand, had pushed it into the difficult phase by developing its economy on the basis of the extensive method of economic development, created and practiced by the Soviet Union two decades earlier. By the middle sixties, it was realized that Hungary could no longer continue with the extensive method of development. The latter may be defined as a developmental strategy whereby growth is generated by large infusions of labour and capital into the production process. This method of development was based upon the availability of a cheap and plentiful supply of labour, capital and raw materials, such as existed in the 1950s.[18]

The extensive method was designed to produce high growth rates and to transform the economy from an agricultural to an industrial one by concentrating on a small number of heavy industries, such as steel and metallurgy. This method of economic development ignored cost, innovation and efficiency in its pursuit of rapid industrialization.

However, by the early 1960s inputs needed to fuel the extensive method of development were becoming increasingly scarce and expensive. Hungary was now experiencing a labour shortage. The price of raw materials and fuel from the Soviet Union was going up regularly. It was realized that given the small size of the economy, import substitution as a means for further economic growth was infeasible. The Hungarians recognized that further growth could only occur by switching to an intensive method of development. The latter involved the generation of economic growth on the basis of increased productivity from the use of existing inputs.[19]

In addition, pressure for economic reform resulted from the difficulties and cost associated with a strict central planning system.[20] The planning authorities aggregated the input and output possibilities of the economy in deciding upon the economic objectives to be realized. Next, on the basis of a five year and a detailed annual plan, enterprises were instructed to achieve certain output targets. The enterprises were provided with a number of inputs the planners felt were sufficient for producing the assigned targets. At the theoretical level, a system of material balances was to be realized across the entire input-output sphere.

A major problem with the planning system was that it led to the development of a seller's rather than a buyer's market. Enterprises were given specific instructions in their annual plans, regarding the types of goods to be produced and the way in which they were to be produced.

Enterprises, therefore, concentrated their efforts on realizing and even surpassing the output targets assigned to them from the centre. Hardly any attempt was made to produce goods demanded by the Hungarian consumers. Because it relied upon quantity of output as the main criterion of success, the planning system could not ensure that "only that must be produced what is demanded by the users and in a quality demanded".[21]

In fact, because enterprises and workers were judged by quantity of output, they ignored cost of production and were not responsive to demand and supply forces in their production decisions. Consequently, many products were produced that were not demanded by society or were of such a poor quality that they soon became useless. In addition, because of the monopolistic position of Hungarian producers and the severe restrictions imposed on imports, consumers did not have a choice of goods and were forced to accept even inferior goods that were put on the market. Because of the existence of this seller's market, little service was made available to consumers. If a good could not be sold under the central planning system, then it was taken over by a stock piling company.[22]

Another important factor giving rise to the economic reforms was the fact that the Hungarian reformers wished to end the isolation of domestic industry from foreign competition, so as to stimulate new products that could compete on the world market and to enable Hungary to react faster to foreign economic crises and opportunities. As most of its trade was with the C.M.E.A. countries, Hungary had established a series of bilateral trading agreements with these countries to regulate trade. This led to the development of several and different exchange rates that made it impossible to calculate gains from trading with one country as opposed to another. In addition, local enterprises were cut off from their foreign counterparts as Foreign Trade Enterprises (FTEs) were responsible for all trading activities. Even the relationship between FTEs and local enterprises was quantifiably regulated by the annual plan. The absence of currency convertibility also strengthened the isolation of local industries.[23]

The reformers also wished to rationalize the price system which made it impossible for them to select enterprises or projects for development or to calculate Hungary's comparative advantage in the production and export of various products, since prices did not reflect opportunity costs.[24] There were several causes for the irrational price system. First, the central planning system regarded prices primarily as accounting units and did not attach any importance to them as 'signposts' since "a considerable part of products moved along a forced path according to the instructions from above".[25] Hungary as early as 1950, had opted for a command economy rather than a mixed one, such as in South Korea, where prices played an important allocative role. Secondly, in the planning system the price of a product reflected the amount of labour needed to produce it and the social priorities of the planners, not the interaction of market forces. The labour theory of value, therefore, ignored the cost of the land, along with the fixed and variable cost needed to produce the product.

However, according to Gy Peter, the greatest cause of the irrational price system was the wide spread use of subsidies given to different economic sectors, to different enterprises and to a wide range of products.[26] He pointed out that these subsidies resulted in prices losing their measurement value because they possessed different values in domestic as opposed to foreign trade and in the former, agricultural prices measured different values to those in industries.

The switch from an extensive to an intensive method of development created additional pressure for economic reforms designed to boost exports to the O.E.C.D. market. Like South Korea, Hungary possessed a small domestic market and few natural resources which ruled out further economic growth based upon import substitution. While Hungary could obtain small but additional amounts of fuel and other inputs by engaging more extensively in C.M.E.A. joint energy projects, this was not an attractive alternative to the reformers who feared that further C.M.E.A. integration would compromise the New Economic Mechanism (N.E.M.).

To implement its intensive method of development which was based upon the importation of advanced Western technology and some material inputs, it was clear that Hungary would have to export more to the O.E.C.D. market in order to obtain the necessary hard currency to pay for its imports. The quality of goods exported, therefore, had to be improved considerably.[27]

Finally, we have seen that in South Korea the pressure applied by the U.S.A. for economic reform was an important factor influencing the switch to an export-first policy. Even more important for Hungary was the destalinization process that occurred in the Soviet Union and the way in which it altered the relationship between the Communist Party of the Soviet Union (C.P.S.U.) and those in Hungary and the other People's Democracies of Eastern Europe.[28]

During Stalin's rule, economic reform and an attempt to establish a cooperative relationship between society and any local communist party on the basis of mutual trust were impossible. Matyas Rakosi, the first secretary of the Hungarian Workers' Party in Hungary, dutifully followed Stalin's practice of building heavy industry at all costs in Hungary. In addition, he used oppression to ensure that Hungarian society followed his dictates. He also followed Stalin in practicing the cult of personality.

The beginning of destalinization, which would give Hungary greater freedom to manoeuvre domestically, began in 1953 with the New Course. It was further developed at the 20th congress of the C.P.S.U. Apart from revealing the crimes of Stalin and denouncing the cult of personality, Khrushchev provided the ideological basis for more diversity in the bloc. He argued that apart from the requirement of the party maintaining its leading role, there were different ways in which socialism could be constructed in the People's Democracies. Furthermore, socialism in Hungary and the other bloc countries did not have to be identical to that in the Soviet Union; "alongside the Soviet form of reorganizing society on socialist foundations, we have the form of People's Democracies".[29]

After the invasion of Hungary in 1956, Janos Kadar was chosen by Khrushchev to head the Hungarian Workers' Socialist Party because he was anti-stalinist having been imprisoned and tortured by Rakosi and, furthermore, because he was not a "revisionist", such as Imry Nagy. It was not surprising then, that the cultural, as well as the political policies pursued by Khrushchev were closely followed by Kadar in Hungary. In fact, Khrushchev gave public approval to the reformist ideas of the Hungarian Party Chief, when he last visited Hungary in 1964. The workers were told by the Soviet leader that while revolution was still necessary, there was also another significant factor in life. "The important thing is that we should have more to eat - good gulash, schools, housing and ballet...".[30] Kadar also obtained the support of Brezhnev after he declared that it was impossible for any Hungarian or other communist to take a hostile attitude towards the Soviet Union.

In sum, pressing economic problems and a changed relationship between Hungary and the Soviet Union gave rise to the economic reforms of 1968. The Soviet Union in 1965 was also experimenting with economic reforms to increase its industrial productivity. Its reforms, however, rejected the reliance on market mechanisms that was so integral to the Hungarian reforms. While denouncing the Czechoslovakian reforms because they connected economics to politics, the Hungarian reforms were tolerated by Soviet leaders because Kadar made it clear that economic reform definitely did not imply a shift away from the Soviet model of Communist party dominance.

ECONOMIC REFORMS IN HUNGARY

Unlike the South Koreans who took four years to make the switch to an export-first policy, the Hungarians decided to introduce their economic reforms at one time and as a single and coordinated package.[31] The changes made by both countries in their foreign trade regimes affected exchange rate policy, the import control system as well as incentives offered. However, there were important differences effected by the two countries in the above mentioned areas.

The New Economic Mechanism (N.E.M.), in theory, was supposed to have altered the relationship between the central planners and the enterprises and subsequently the system of economic control, by shifting from commands to greater use of market forces. The N.E.M. abolished the detailed annual plan instructions that branch ministries had issued to enterprises. The plan objectives of the state, according to the N.E.M., were now to be realized indirectly through a combination of the socialist market and a form of indicative planning. Market forces were not allowed to function uncontrolled. Control of the enterprises was ultimately in the hands of the central planners through a system of administrative and economic regulators, along with the retention of arbitrary power, which permitted them to intervene in the affairs of any enterprise at their own choosing.

The enterprises, again in theory, within the limits of the economic and administrative environment built around it by the state, enjoyed considerable autonomy under the N.E.M. No longer subjected to a quantitative criterion of success, the enterprise manager was supposed to be motivated primarily by the need to maximize profits. As I. Friss pointed out, the enterprise manager alone was empowered to determine the assortment of goods to be produced as well as new ones to be introduced. Also, the enterprise manager was responsible for making the investment decisions of the enterprise, along with raising its credit.[32]

As noted earlier, the N.E.M. still envisaged central planning as playing an important role in the economic control system of Hungary.[33] The macro-economic objectives that the reformers hoped to accomplish in fifteen years were embodied in a long-term plan. The latter dealt with such matters as the living conditions and the utilization of labour along with the technical upgrading of the economy. But according to the reformers, the five-year plan was clearly the most important planning tool. In it, the central planners projected the macro-economic behaviour of the economy. Estimates were to be made of the growth, volume and composition of Hungary's exports to the C.M.E.A., O.E.C.D. and developing countries' markets. The five-year plan also enabled Hungary to fulfill its inter-state agreements with the C.M.E.A. countries. These agreements were included in the five-year plan to make certain that the economic regulators could be used to influence the enterprises to fulfill their interstate obligations.

The most important function of the five-year plan, however, as the N.E.M. envisaged it, was the inclusion of the government's policies for that planning period, in the form of economic regulators, which could be used to influence the enterprise into fulfilling the macro-economic objectives of the state. These economic regulators include the price, credit, income, foreign trade and budgetary policies of the state. The degree of autonomy granted to enterprise directors could drastically be reduced by manipulating the economic regulators. Finally, the short-term plan was used to monitor the behaviour of the five-year plan and to make appropriate changes in it if necessary. The short-term plan could be used to make changes in the economic regulators to steer the economy back on course, or to alter the macro objectives of the five-year plan. The short-term plan could last from three months to a year.

Changes in the price system of Hungary were also made by the N.E.M.[34] A multi-level price system was established. Some prices were fixed, others were subjected to a maximum height and finally, the rest were allowed to move within the boundaries of an upper and lower limit. In respect of consumer prices, 23 percent were freed and another 50 percent were either fixed or subject to a maximum height. The rest, consisting mainly of agricultural goods, were allowed to fluctuate within prescribed boundaries.

The state, nevertheless, continued to set the prices for energy and some raw materials. The prices of many producer goods were freed. Of industrial end products, 78 percent of them fell into the free category. Investment goods were greatly liberalized. The authorites were reluctant to free many consumer prices, because any sudden movement in the price level could have had serious political consequences. The Materials and Price Office retained a veto power over any price increases that fell into the free category. The Office only intended to veto disruptive price increases and those resulting from monopolistic situations.

Apart from changes in the price system and the relationship between enterprises and central planners, two major changes occurred in the foreign trade regime of Hungary. First, we saw that in South Korea, enterprises never had to go through an intermediary organization in their trade activities with enterprises in other countries. The reverse was true in

Hungary before the reform of 1968. The N.E.M. altered the relationship between enterprises producing for export and the Foreign Trade Enterprises (F.T.Es.). Permission to export directly to foreign countries was given to a number of local enterprises. In some instances, too, these enterprises were even allowed to bypass the F.T.Es. and import raw materials and other imports directly from their foreign counterparts. The other exporting enterprises were linked to external markets by establishing different business relations, such as joint ventures and commission contracts, with the F.T.Es.[35]

Secondly, the most important change resulted from the fact that the N.E.M., "bridged the abyss that formally separated inland producers and consumers from the foreign markets."[36] A major difficulty that both countries had to address in their economic reforms was the existence of an unrealistic exchange system. The South Koreans succeeded not only in unifying their exchange rate in 1964, but even allowed it to float. Hungary, on the other hand, was unable to establish a unitary exchange rate. It established a multiplier coefficient, by which foreign prices could be converted into Hungarian forints. Thus, according to I. Friss, Hungarian producers and consumers were no longer isolated from the external market since importers must actually pay the cost of their foreign goods expressed in Hungarian forints. He went on to maintain that exporters get the prices of their goods as determined in the external market. They are, nevertheless, converted into forints by means of the multiplier coefficient.

Different multiplier rates were established for the C.O.M.E.C.O.N. and O.E.C.D. markets. The multiplier was based upon the average, rather than on the marginal cost of acquiring a unit of foreign exchange from exporting. The multiplier rate was also influenced by the direction of trade. An exchange rate of 60 forints to a U.S. dollar was established for commodity trade with the O.E.C.D. countries. However, it was only 40 forints to a ruble for trade with the C.O.M.E.C.O.N. countries.

The N.E.M. did not fundamentally affect the system of trade between Hungary and the C.O.M.E.C.O.N. countries.[37] Goods, prices and delivery dates of goods to be traded with the C.M.E.A. continued to be determined by interstate agreements. Hungarian enterprises, despite the autonomy provided to them by the N.E.M., were, nevertheless, excluded from the intergovernmental trade discussions and agreements. Technically, with the formal abolition of plan instructions, it was the responsibility of the state, not the enterprise, to ensure that Hungary's trade obligations were honoured. However, the branch ministries continued to order the enterprises to fulfill the state obligations. The N.E.M. stated that enterprises that were ordered to fill these trade obligations, when it was not in their financial interest to do so, were to be financially compensated. Finally, an important factor preventing any change in the C.M.E.A. trade system was the fact that the economic reforms carried out in the other bloc countries did not allow the enterprises to engage directly in foreign trade activities. Thus, the hope of the Hungarian reformers, that enterprise to enterprise contacts would develop and so enhance C.M.E.A. trade activities, was not realized.

While the N.E.M. made important changes in the foreign trade regime, it, nevertheless, left trading activities firmly under the control of the state. This control was maintained in part through the retention of a number of administrative regulators and the arbitrary right to intervene in enterprise activity at any time.

Foreign trade was tightly controlled by the Hungarian authorities. Therefore, before a company could engage in any trading activity it first had to obtain a license. The purpose of the latter was to make certain that Hungary's trade pattern developed in conformity with the central plan. Lastly, along with giving an enterprise permission to purchase the foreign exchange to effect its transactions, the license enabled Hungary to fulfill its interstate obligations, by deciding which enterprises would engage in trade transactions.[38]

In South Korea, the government levied regular tariffs on all imports, and resorted to special tariffs to prevent importers of restricted goods from benefitting as a result of the unified exchange rate. In Hungary, the government introduced a new three tiered tariff system in 1968, that in some cases was intended to accomplish different objectives from that of South Korea.[39]

The tariff was really a custom duty levied on the importation of a commodity. By manipulating it, either South Korea or Hungary could control the quantity, composition and value of imported goods. Also, the tariff could be used to shield local producers from foreign competition by driving up the cost of imported goods.

Apart from these basic uses of the tariff, other objectives were intended for its use by the Hungarians. As noted, a three tiered tariff system was introduced in 1968. First, the preferential tariff was used as a means of helping developing countries increase their share of Hungary's import market. Secondly, the M.F.N. tariff was used to obtain reductions in tariffs imposed on Hungary's exports going to the O.E.C.D. market. Finally, the autonomous tariff was applied to those nations not covered by the above.

Both Hungary and South Korea made use of import quotas as an administrative tool for the regulation of foreign trade. Import quotas were imposed on particular goods, especially those coming from the western market. An estimated 10 to 15 percent of Hungary's total imports, in 1968, were subjected to quota restrictions. Another important function of quotas in Hungary, while not in South Korea, was to ensure that the latter's enterprises purchase a certain amount of goods from the C.M.E.A., in order to fulfill its interstate obligations.[40]

The South Koreans had introduced a number of export incentives to ensure that their local industries would be able to compete on an international footing with foreign companies. In Hungary, the authorities recognized that the introduction of a uniform multiplier would make exporting activities uneconomical for some enterprises. Nevertheless, given the need for hard currency, these uneconomical industries had to be kept operating. The authorities, therefore, introduced an incentive system called the State Refund System. The latter provided subsidies to enterprises that were obliged to export even though it was uneconomical to do so. To force efficiency on enterprises, though, the refund system was set up for a fixed period of time, covered all exports, did not discriminate between foreign and domestic demand and was to be progressively phased out.[41]

In sum, Hungary and South Korea made major changes in their economic systems that were caused by a number of economic and political factors. The economic reforms occurred in the economic control system and the foreign regimes of the two countries. South Korea connected its industries to its foreign counterparts by establishing a unified and floating foreign exchange rate in 1964. Hungary established a uniform multiplier that was based on average cost and influence by the country's two main trade patterns. Finally, the two countries also made use of import quotas, tariffs and export subsidies to influence the development of their export industries.

CHAPTER 3

EXPORT PROMOTION STRATEGY AND ITS RELATIONSHIP TO SOCIETAL GROUPS

In order to assess the influence of the power relations in society on a country's ability to adopt or maintain an export promotion strategy, this chapter will consider the political variable. It will focus on the division within each of the ruling regimes in Hungary and South Korea and show how such intra-regime conflict affected economic and political policies. The political variable also considers the power relationship between regime and important societal groups, and attempts to determine its significance for each country's export performance. It will be argued that the power relations in South Korea were better suited for the institution and maintenance of a successful export promotion drive than in Hungary.

KADARISM

The policies of the Kadar regime, covering the period from 1956 and 1968, can be divided into three important phases.[1] The first phase was a period of oppression, designed to restore the leading role of the party by neutralizing the regime's opponents. The second phase was one of conciliation, intended to unite party and non-party personnel. The last phase was one of economic reform, which reinforced the alliance policy of the second phase.

By the time Kadar and his associates reentered Hungary, safeguarded by the Soviet army, in November 1956, the leading role of the local communist party was seriously compromised. Most of Hungary's production capacity lay idle and factories were under the control of workers' councils. Occasional fighting still occurred after the Soviet army had gained effective control of the country. Supporters of the revolution battled on bravely against overwhelming odds.[2]

Apparently after attempting to restore the leading role of the communist party, now renamed the Hungarian Workers Socialist Party (H.W.S.P.), (formerly the Hungarian Workers Party) and to impose his view of law and order by the use of persuasion, Kadar recognized the futility of his efforts. By December 1956, there was still widespread opposition to the Soviet army amidst calls for its removal. Kadar was unable to appease the population by removing the Soviet army, not only because the survival of his regime depended upon it but also because it was beyond his control. He therefore resorted to oppressive measures to secure his regime.[3]

The Kadar regime denounced the revolution as a counter-revolution which was caused by the mistakes of the Rakosi regime, the work of revisionists and counter-revolutionaries, along with external forces. On January 5, 1957, Kadar announced plans for the consolidation of his regime. At the forefront of the plans was the reestablishment of the leading role of the communist party and its monopolization of political and economic activities. Workers' councils were disbanded, their political parties outlawed and Imry Nagy, the former Prime Minister, denounced as a traitor.

Repressive measures were used against the "counter-revolutionaries". Special courts were set up on January 5 of that year to deal with "enemies" of the regime. These courts were empowered to summarily pass death sentences or issue five year prison sentences. Confessions were forcibly obtained by the use of torture, intimidation and other coercive means. Over 20,000 people were arrested, including intellectuals and artists. Executions amounted to an estimated 2,000 persons. The law profession, too, came under attack. 720 lawyers, out of a total of 1,600, were prohibited from practicing. Overseeing this reign of terror was the security police. Professors and students were thrown out of universities (who were regarded as class enemies). Judges were ordered to pass sentences in the name of the class struggle.[4]

The Prime Minister Imry Nagy was also harshly treated. After being given assurances of safe conduct out of the country, he left the Yugoslav embassy where he had sought protection from the Soviet army. Nevertheless, he was immediately arrested and taken to Romania. In 1958, after a worsening of relations between the Soviet Union and Yugoslavia, Nagy was taken back to Hungary, where he and two of his advisers were secretly tried and executed in June of the same year. These executions marked the end of the period of oppression. The communist party was once again the undisputed leading force in Hungarian society. The reversal in policy to follow was symbolized by Kadar's slogan, "he who is not against us is with us".[5] It marked the launching of the alliance policy.

THE ALLIANCE POLICY

The alliance policy was based upon a pragmatic assessment of Hungarian politics, which led Kadar to publicly reject the Rakosi model of economic and political control. Kadar admitted freely that the Rakoski model of using coercive methods to ensure compliance with party policy and the rigid control of the economy were counter-productive, and had led to the alienation of the Hungarian people from the party. The Hungarian economy, too, was on the brink of near economic collapse as a result of the rigid and irrational economic policies of the Rakosi regime.[6]

The alliance policy, then, sought to unite rather than terrorize the Hungarian people, without, at the same time, relinquishing the leading role of the party, although that role was now interpreted more liberally. The cooptation and cooperation of large numbers of Hungarians were objectives of Kadar's alliance policy. According to a June 1957 resolution of the party, the use of incentives and persuasion were to become the modus operandi of the party. In addition, the alliance policy held that any Hungarian who was prepared to cooperate and work with the party and government in realizing their economic objectives was welcomed. The party would overlook socioeconomic background, past history and religious background of such a good Hungarian.[7]

In fact the alliance policy went further. It stated that any cooperating Hungarian was to be judged primarily by objective rather than ideological criteria; "the rewards for such cooperation are to be commensurate with both the loyalty demonstrated and the quality and quantity of work performed."[8] Furthermore, preference given to members of the communist party in the acquisition of jobs, other than party posts, was to cease. Except for party posts, then, a member of the communist party had to compete on an equal footing with a non-party member; qualification was now the determining criterion.

Kadar took concrete steps to convince the Hungarian people that the alliance policy was not another propaganda move on the part of the H.W.S.P.[9] In accordance with the principle that people must be judged by their 'competence', admittance to university was now made on the basis of merit rather than class origin. Kadar also sought to improve the role of the private plot in the economy. Several stalinists were thrown out of the party and amnesty was granted to political prisoners. Greater freedom was allowed in the social sciences, signalled by the reemergence and functioning of the Writers' Association. Authors were encouraged to publish and those imprisoned were freed.

By 1965, the alliance phase was completed and the regime began preparatory work for the N.E.M. While the N.E.M. and the alliance policy represented different policy phases, they were, nevertheless, mutually reinforcing. The objectives of the alliance policy rested upon a well functioning and reformed economy, which could meet consumer demands. However, with the inefficiencies of the central planning system and the economic hardships which it had imposed upon the Hungarian people, their full cooperation could not be obtained under a rigid system of planning. It stifled initiative and did not provide enough material incentives and decision-making authority to non-party members. On the other hand, the N.E.M. could not function without the alliance policy which created a stable and predictable political environment. By throwing open the party ranks to the technocrats, the N.E.M. was provided with the necessary expertise and manpower, which the party itself could not provide.[10]

In sum, following a period of oppression, the Kadar regime introduced the alliance policy, which established a working relationship between the party and society. The alliance policy implied that the regime would only resort to the use of force to secure its power. The working relationship led to economic reforms, geared towards improving the economy. The Hungarian people recognized that economic reforms did not imply dramatic political change, due to the Soviet constraint.

OPPOSITION TO THE ALLIANCE POLICY AND THE N.E.M.

Opposition to the alliance policy and the temporary abandonment of the N.E.M. from 1972 to 1978 was significantly related to the ideological division within the H.W.S.P.[11] The party may be divided into a reformist and anti-reformist group. The first group favoured reducing party control over economic matters by decentralizing economic decision making and allowing greater use of market forces to influence prices, nature of products and quantity of output. The anti-reformist group, also known as the dogmatists, preferred the Soviet type of strict central planning of the economy. Also included in this group were some stalinists who threw their support with Kadar following the 1956 revolution. The dogmatists were suspicious of initiatives from below. They were opposed to decentralizing economic power, not wanting to share their influence with the technocrats. Unlike the dogmatists, the reformist group was very supportive of both the alliance policy and the N.E.M.

The dogmatists raised several ideologically based arguments against the alliance policy.[12] Their primary objection was that it threatened the leading role of the H.W.S.P. by decentralizing economic power. They claimed that by allowing non-party members to hold positions of power, the proletarian character of the party was being diluted. They regarded the technocrats and intelligentsia as being members of an alien group. Furthermore, they stressed that the party undermined the credibility of the claim to be the champion of workers' interests by extending membership to people with a different social background from that of the workers. This last factor they viewed with alarm, since people of a working class background already constituted a mihority in the party.

The dogmatists brought considerable pressure to bear on the Kadar regime not to implement the alliance policy. As early as 1959, they had thrown numerous obstacles in the path of Kadar's agrarian policy. They were also responsible for many of the excesses surrounding the creation of agricultural collectives. In 1964, the dogmatists used the poor economic conditions in Hungary, and their negative effect on consumers and workers, along with the fall of Khrushchev in the Soviet Union, to call for an end to the alliance policy. A defeat of the main tenets of the alliance policy would have meant that the N.E.M. could not have been introduced. To obtain passage of the N.E.M., which was fiercely debated in the Central Committee, the reformers had to make important concessions to the dogmatists.

The latter were given the right to accept or reject any important appointment.[13]

As early as 1969, the dogmatists shifted their attack from the alliance policy to the N.E.M. They skillfully capitalized on parts of the N.E.M. which might raise objections from the industrial workers. The Hungarian regime had to pay particular attention to the conditions of the industrial workers, even though they were prevented from striking and were not effectively represented by their unions. The opposition of the industrial workers was based upon their perception of the N.E.M. as possibly leading to the erosion of the social compact. Alex Pravda pointed out that workers' acquiescence to the leading role of the Hungarian communist party was based upon the regime providing a relatively egalitarian distribution of income, an acceptable living condition and job security. The Hungarian government, then, while it effectively controlled the workers, nevertheless, had to make certain that its policy actions did not violate this understanding or social compact between party and workers.

The dogmatists were successful in weakening many of the important tenets of the N.E.M., designed to improve efficiency in the economy and to boost exports.[15] One such effort on the part of the reformers was to tie wages and bonuses to earned profits. The latter was calculated by subtracting total costs from earned revenue. Profit was divided into a sharing and a capital fund. The former was to be used for either making wage or bonus increases. Its distribution was under the control of the managers, who were supposed to work closely with the trade unions in distributing it. Bonuses were to be awarded with the following differentials, expressed as a percentage of their respective salaries: the stated formula allowed managers to obtain 80 percent, while giving 50 percent to middle managers and only 15 percent to the workers.

The distribution formula produced a conflict of interest between the workers and their managers. The latter used the sharing fund to make bonus instead of wage increases. Apart from increasing their income as a result of this move, they avoided the difficulty of a wage increase. It required the approval of branch officials, who were reluctant to increase wages.[16]

The N.E.M. too, sought to increase Hungarian industrial productivity, which was considerably below that of the O.E.C.D. countries, by advocating closure of unprofitable enterprises as well as reducing the excess labour that enterprises hoarded.[17] Labour unions and local party officials vigorously protested any attempt to either close down enterprises or to transfer workers. Considerable pressure was brought to bear on enterprises to retain redundant labour. These protestations were so successful that not even one enterprise went out of operation in 1969. In addition, the authorities moved very cautiously thereafter in closing down any enterprise.

Granick argued that the inability of the reformers to close down plants or transfer workers was due to the full employment constraint. In a socialist state, he pointed out, the level of unemployment that can be accepted, for political and ideological reasons, was far below that in a market economy. Most Hungarian enterprises were large, employing several thousand people. The closure of several of these plants and the resulting unemployment, according to Granick, would have raised doubts about the viability of socialism, "in the minds both of the population of Hungary and of leaders in the other C.M.E.A. countries".[18] Furthermore, in a socialist country, which guarantees full employment, a worker can only be dismissed for disciplinary reasons or for blatant incompetence. Hence, Granick concluded that efficiency must be abandoned whenever it threatened full employment.

The Hungarian reformers recognized that one of the major problems affecting the economy was the existence of a price system that did not reflect the real cost of producing a product. This problem could be overcome by raising consumer prices, to reflect opportunity costs. However, consumer prices could not be raised quickly in Hungary because this was a politically sensitive and explosive issue. Sudden jumps in the price level were well known by Hungarian political authorities to have caused riots in Poland and other East European countries, often leading to a change in leadership. The dread of even small price increases by Hungarian and other East European workers was rooted in the hyper-inflationary rate that ravaged their standard of living following World War I and World War II. The first part of the 1950s also saw high inflationary rates which reinforced the fear of inflation. From the middle of the 1950s up to 1966, price stability was maintained throughout Eastern Europe. The reformers, therefore, decided to raise prices slowly. The price increases were announced several months in advance and discussed openly, so as to prepare the public.[19]

Alex Pravda pointed out that the difficulty in raising prices was related to the perception of the workers that an inverse relationship existed between the standard of living and the price level.[20] The contention of the reformers that wages would be raised so as to compensate for price increases failed to convince the workers. The reformers had often stated that wage increases depended upon productivity increases. The workers, however, feared that productivity increases would only lead to a raising of production norms, which in the final analysis, meant that for similar wages more effort would have to be expended. It was not surprising then, that the government severed the link between productivity increases and those in wages in 1976.

The dogmatists severely criticised the N.E.M. on the ground that it had caused the standard of living of the workers to fall behind that of other social groups. In 1970, they pointed out that the peasants had gotten a 42 percent increase in their income for the period stretching from 1966 to 1970. For the same period, the workers had only realized a 31 percent increase in income. The dogmatists also claimed that the party was refusing to treat the workers more favourably than other social groups.[21]

The government's contention that errors in economic management had been made, and that the problem would be resolved with time, did not lessen the dissatisfaction of the workers. The dogmatists pressed forward with their criticisms. Kadar retreated, stating that remedial action would be forthcoming. It was not until 1972 that efforts to improve the conditions of the workers were actually implemented. It came not from the reformers but from the dogmatists. In that year, Kadar announced his intention of possibly withdrawing from politics. This led to "a major struggle in the Politburo...the hardline faction (dogmatists) emerged far stronger than had been anticipated." Even though Kadar decided to stay in active politics, the dogmatists ended up temporarily in effective control of economic policy and "successfully halted the reforms"[22] under the guidance of Karoly Nemeth, the Politburo member responsible for economic matters. The dogmatists were further able to strengthen their position by ousting Rezso Nyers, the father of the N.E.M., from the Politburo in 1975.

In November of 1972, following the victory of the dogmatists at the Party Plenum of that year, 1,300,000 workers, located mainly in the industrial sector of the economy, got a wage increase. The 1972 Party Plenum, therefore, was able to reduce a source of conflict that had been skillfully exploited by the dogmatists. At the 1973 Party Plenum, to compensate mainly state workers whose income had fallen behind other groups, a wage increase was implemented for those workers who did not receive one in 1972. The intervention by the government to award two wage increases conflicted with the goal of the N.E.M. which had placed wage increases under the control of managers to be awarded strictly in accordance with productivity increases.[23]

Despite the fact that the N.E.M. was weakened from 1972 until 1978, and a period of recentralization of policies ensued, the Hungarian authorities were careful to keep the reforms alive in speeches and other symbolic acts.[24] The Party Congress of 1975 strenuously claimed that the party still supported the reforms that were started in 1968. It was important for the Hungarians to continue to support the N.E.M., symbolically. The various loans made to Hungary by western banks and governments ultimately rested upon the assumption that the N.E.M. would make the economy sufficiently viable so as to enable repayment of the loans. Any official action admitting abandonment of the reforms would have endangered the supply of western credit. The need to appear to the western financial community as more pragmatic than ideological also explained why the Hungarian authorities described their recentralization effort as a response to the oil crisis of 1973. In fact, the cost imposed on the Hungarian economy by rising fuel and material prices was used by the dogmatists as an excuse for further weakening the N.E.M.

Maintaining the N.E.M. alive in speeches and symbols also served another important function. It meant that the door to further economic reform was not permanently closed. By the beginning of 1979, the cost of isolating the Hungarian economy from the competitive effect of world prices, with declining terms of trade, convinced the Hungarian authorities that further reform would be needed. According to Racz, changes in economic policy in Hungary tend to produce changes in the leadership personnel. It was not surprising then, that the decision to reconnect the Hungarian economy to the world economy led to the removal of Karoly Nemeth, the architect of the recentralization drive, from his position of economic responsibility. Rezso Nyers was subsequently reinstated as a Politburo member. These changes symbolized the shift in economic policy. Hungary was now ready to respond to the second "price explosion" in 1979, not with a policy of recentralization but with one of further economic reform.

In sum, despite the impression gathered from Hungarian speeches and writings that the N.E.M. was alive throughout the 1970s, the fact remained that after the Party Plenum of 1972, the N.E.M. was not enforced. The power struggle in the party saw the dogmatists gaining control of economic policy. Their effort to weaken the N.E.M. was strengthened considerably by the economic crisis Hungary faced in the mid 1970s. The dogmatists used these economic difficulties as a pretext for recentralizing the economy. The economic troubles of 1978 led to the removal of the dogmatists from power. The reformers were back in power: the economic reforms of 1979 subsequently followed.

SOUTH KOREA

The military government that came to power in South Korea as a result of a coup d'etat in 1961 immediately ran into a diplomatic constraint, soon developed a leadership conflict over the nature of economic and political policies, and later faced a storm of protest that blew up around the normalization treaty with Japan. The regime's response to these problems exerted a powerful influence on the implementation and later on the very defence of its export-first policy.

The United States government made it clear to General Park, the coup leader, that further financial assistance depended upon the restoration of democracy and the freeing of political prisoners. It was impossible for the Park regime not to take these conditions seriously; the U.S.A. provided slightly over 50 and 70 percent, respectively, of the military and budgetary expenditures of the government. Park stated his willingness to comply with the American conditions, setting an election date for the middle of 1963.[25]

The military regime quickly took steps to neutralize the power of its political opponents. It introduced the Political Activities Purification Act in March of 1962 which prohibited 4,374 politicians from engaging in political activities for six years. The act covered all the major parties and their leaders. Students, journalists, and others deemed a threat to the government were prohibited from seeking public office and campaigning. Although most of the politicians were subsequently allowed to resume their political activities, the spokesmen for the main opposition parties were not.

The military regime also outlawed all political organizations as well as dissolving the nation's House of Assembly. It also moved against the labour unions. Organizational changes were made in the latter which permitted the regime to literally determine their leaders.[26]

However, the Korean Central Intelligence Agency (K.C.I.A.) was undoubtedly the chief weapon the regime used against the opposition. The Agency enjoyed extensive powers, including surveillance and coercion of the regime's opponents. Its powers even included actual coordination and implementation of bureaucratic and economic measures. The importance of the Agency can be gleaned from the fact that its membership increased to 370,000 in the three years following its creation. In all facets of Korean society, members of the Agency could be found.[27]

These measures were intended to produce the same effect as those employed by the Kadar regime in 1956 against its opponents; they succeeded in removing the old economic and political elites from power and allowing the regime to consolidate its power.

While the consolidation of political power was unquestionably important for the later adoption of an export-first policy, Cole and Lyman pointed out that also significant in this regard was the change in the distribution of political power within the military regime that occurred in the three years after 1961, which "greatly affected the manner in which the new post war ideas in South Korea were finally carried into Korean political and economic life".[28] As in Hungary, a division also existed within the ruling regime in South Korea, regarding what economic policy the country should pursue as well as the nature of the political process.

The military regime was divided into a colonels' and a generals' faction, each corresponding to the military ranks of the coup leaders. While General Park was the official head of the military council, effective economic and political power was in the hands of the colonels' faction headed by Kim Chong-pil. The colonels' faction was very nationalistic. Its economic policy was geared towards self sufficiency. It stressed import substitution and the development of agriculture. Little emphasis was placed upon either the production or the availability of consumer goods and services. The colonels' faction also wanted to limit imports drastically. Exports were to be encouraged by the provision of subsidies. While the colonels' faction eschewed nationalization, it favoured the creation of government-owned industries to spearhead the import substitution drive. According to one analyst, the colonels' economic program was essentially a socialistic one.[29]

With the 1963 scheduled elections approaching, the division became focused on the creation and control of the government's party, the Democratic Republican Party (D.R.P.). The latter was created by the regime to complement the activities of the K.C.I.A: The latter's job was to oppress the opposition. The D.R.P.'s role was to obtain support for the regime in the intended general election.

The generals' faction, headed by Park Chung Hee, favoured a managerial rather than a revolutionary approach to the control of the economy. Some generals demanded that the regime should honour its pledge of returning the country to democratic rule. These generals feared that the colonels' hierarchically organized D.R.P. would not only prevent a return to democracy but would also lead to the establishment of a corrupt government because of the party's need for campaign funds. This fear of the colonels' faction was strengthened when the latter demanded an extension of the military government so that it could cement its political strength by delivering a final blow to some of the 'old politicians' who were preparing to contest the election. The generals' faction called upon Park not to listen to the colonels' faction. The dispute within the newly created D.R.P. was so intense that each group began arming itself for conflict.[30]

Another important factor causing the change in the power balance was the fact that the economy was not responding to the import-substitution policy of the colonels. Park and the other generals felt that the economic stagnation could only be overcome if South Korea was to follow the Japanese export promotion strategy, in which the state played a directional role. Park and his colleagues, who had exposure to Japanese military training and society, also felt that the cultural similarities between South Korea and Japan, would make it that much easier to follow the economic model of the larger Asian country.[31]

While the colonels, then, were busily organizing the D.R.P. with Park's encouragement, the latter strengthened the power of the executive. The newly created D.R.P. was weak relative to the executive which now included a large number of technocrats whom Park felt were capable of carrying out an outward strategy of development. The colonels' faction was further weakened when the membership of the D.R.P. was increased considerably. Park, at the head of a powerful executive, which included many of the generals who participated in the 1961 coup, felt confident enough to ignore the party whenever its economic policies were considered unworkable.[32]

It must be pointed out that while Park made the conscious decision to remove the colonels from positions of economic management, a temperamental factor was also at work. The colonels, possessing revolutionary fervour, went to organize the D.R.P., because they believed its hierarchical structure would enable them to wield considerable political power after the transition to civilian rule in 1963. The generals, favouring a managerial approach to economic matters, went into the executive, attracted by its board-room atmosphere.

In sum, it has been shown that the coup leaders used coercion and authoritarian measures like the 1956 Kadar regime to emasculate the power of the opposition forces. While in Hungary the dogmatists were able to extract important concessions from the supporters of export promotion in the Politburo, in South Korea the colonels were unable to do so. In fact, by 1963, they had lost power over economic and political matters to the supporters of export promotion.

REGIME AND SOCIAL RELATIONS: THE JAPANESE SETTLEMENT

Lacking political legitimacy, the civilian government of Park Chung Hee decided to obtain the support of the people on the basis of economic growth. It was, therefore, of the utmost importance for it to end the diplomatic dispute with Japan. The Park regime needed financial assistance to make its five-year plan effective. Attempts to raise these substantial sums in Europe had failed. Aid from the U.S.A. was being progressively phased out. Japan, which had indicated its willingness to provide South Korea with $U.S. 200 million for the latter's property claim, in respect of the Japanese occupation period, also held out the prospect of providing larger amounts of economic assistance. In addition, Japan was a source of capital investment.[33]

In both Hungary and South Korea efforts to pave the way for the introduction of an export-first policy involved these regimes taking action that had a profound effect upon their societies but in different ways. The Kadar regime in Hungary had introduced the alliance policy which established a cooperative relationship with society. Efforts were taken to assure the public that coercion would no longer be used to ensure compliance with government policy.

The situation was different in South Korea. The regime recognized that bringing about a normal relationship with Japan would produce further division rather than cooperation between the government and society, because of the emotions tied up in the issue. Nevertheless, it felt that normalization was so important to its export-first policy that it was justified in using authoritarian measures to accomplish it.

The controversy surrounding the normalization treaty with Japan was not really based upon a fear of that country or upon a hatred for the brutal way colonial Japan had treated South Korea. Most South Koreans actually wanted to establish peaceful relations with Japan. The South Korean people feared that the finances that would be obtained as an integral part of the treaty process would be used by the government to strengthen its domestic political power. This reliance upon external finance to sustain internal control would lead, the opposition maintained, to eventual Japanese control of the South Korean economy.[34]

The Park regime was forced to retreat on the normalization issue in the face of widespread protest from students, journalists and other groups after they learned that a tentative agreement had been reached with Japan. The regime was supported by business.

It was soon recognized by Park that a confrontation with the opponents of normalization was now unavoidable. The political uncertainty caused by the frequent student demonstrations was considered detrimental to the construction of a good business environment. In addition, Park suspected the opposition politicians of obstructing the treaty process for the specific purpose of eventually dislodging his regime. In view of the above, Park decided to confront the opposition. In May of 1964, his government announced its intention of establishing normal relations with Japan within one year.[35]

The students reacted angrily to the government's announcement. Fifteen thousand of them called upon the government to resign. They also attempted to occupy the presidential palace and other important government buildings. The police were unable to contain the demonstrations so combat troops were called in to put them down. Martial law was soon declared and efforts of the press was restricted by the imposition of draconian censorship rules. The schools were also closed early and several arrests made of student leaders and critical journalists.[36]

By 1965, the regime felt confident that it was better positioned to handle the students demonstrations. Part of this optimism was based on the government's assessment that the public's interest in the treaty negotiations had declined. The government knew, too, that if the legislative process was blocked by opposition efforts, it could rely upon the use of military power to maintain control. It, therefore, decided to go on the attack especially against the students "in a calculated show of force that seemed to risk revolt but which actually brought an end to the demonstrations."[37] In the National Assembly, efforts by the opposition to block the bill failed. The regime passed the bill despite the fact that the opposition had walked out of the National Assembly.

In sum, in South Korea the Park regime facilitated the normalization of relations with Japan by relying upon its authoritarian power to control the students' demonstrations, to silence critical journalists and to force the bill through the National Assembly in a highly questionable constitutional move.

EXPORT PROMOTION AND GROUP OPPOSITION

Even after their introduction, the export-first policies of Hungary and South Korea faced considerable opposition from various groups in their respective societies. The export performance of each country was importantly influenced by the differing capabilities of each country to address these challenges to its policy.

Hungary as well as South Korea regarded the role of labour as a crucial part of its export-first policy. Because of a labour shortage that had presented itself by 1968 and the rising cost of fuel and material inputs from the Soviet Union, the Hungarian reformers knew that economic improvement would depend primarily upon increases in labour productivity. They, therefore, introduced various measures, such as tying wage increases to those in productivity, in order to improve Hungary's competitiveness vis-a-vis the O.E.C.D. market. These measures, however, were quickly abandoned due to opposition from the dogmatists and workers.

In South Korea, the situation was different. The Park regime knew from the beginning that its very survival depended upon the vigorous control of labour so as to maintain South Korea's competitive advantage in the exporting of labour intensive products. In 1968, wages began to go up in response to an acute need for skilled personnel. The Park regime, however, had taken steps to ensure that labour would remain organizationally and politically weak, thereby preventing it from demanding wage increases commensurate with those in productivity.[38]

Like their Hungarian counterparts, labour unions in South Korea were weak and poorly organized. Not having a labour union tradition also reinforced this weakness. In South Korea, as one analyst pointed out, "trade unions have been instruments of government control rather than organizations concerned with the economic welfare of their members."[39] Trade union membership has been small, and even at the beginning of the 1980s constituted, as a percentage of the working population, a mere 25 percent. The Park regime also used coercive methods to prevent the expansion of unions. In addition, the regime refused to enforce any health and labour regulations that would raise the cost of production for business.

The introduction of the Yuskin constitution in 1971 further strengthened the power of the state over labour. It outlawed strikes in foreign owned industries or in those that the regime considered crucial for the functioning of the economy. The regime also refused, until 1978, to even consider the introduction of a minimum wage, alleging that it would create unemployment.[40]

The Park regime also applied pressure on business not to award sizeable wage increases. As a general rule, the wage level in South Korea was kept below that of the other Asian nations. The wage level, too, was typically 20 percent and 16 percent of that in Japan and the U.S.A., respectively. These two countries were South Korea's largest export markets.

Contributing significantly to the low wage level was the extensive utilization of female workers who obtained about one half the wage rate of men. Female workers were concentrated predominantly in the export industries such as textiles. They were especially conspicuous in the free trade area located in the city of Masan. In 1976, for example, out of a total work force of 24,500 people, 76 percent were female. Attempts by the workers in this area to obtain better working conditions were forcefully terminated by the K.C.I.A.[41]

By 1979, however, the various strands of opposition to the Park regime, which had successfully been kept apart throughout most of the 1970s, began coming together in an effort to force the regime to increase the scope of political participation and to pay attention to the rights of workers. The 1978 recession had led to the closure of many businesses.[42] Long accustomed to a period of prosperity, the sudden drop in the living standard ignited the workers. One of the plants closed as a result of the recession was the Y.H. Industrial Company. Two hundred of its female workers, in an attempt to dramatize their unemployment situation, took over the New Democratic Party's main office. The latter was the main opposition party. Workers' management was put forward by the demonstrators as a means of re-opening the company. The Park regime responded to the refusal of the 200 workers to leave the building by sending several hundred heavily armed policemen to remove them. Chaos resulted. Along with killing one worker, the police also wounded several other people, which included some members of the opposition.[43]

The harsh treatment meted out to the female demonstrators provided a platform for the political opposition and students to call for the removal of the government. Kim Young Sam, the leader of the New Democratic Party, following the Y.H. incident, launched an all encompassing attack on the Park regime. Kim pointed out that the people had rejected the authoritarian rule and export promotion strategy of the Park regime at the elections in 1978. He demanded the direct and free election of the President. Kim also charged that the Park regime had used hoodlums against the female workers and members of the N.D.P. Finally, he claimed that the regime's "suppressing of human rights had become an international disgrace."[44]

The regime responded harshly to Kim's open defiance. Kim lost his National Assembly seat after he stated that the U.S.A. no longer could stay on the sidelines but had to choose between South Koreans who were struggling for democracy and the dictatorship of Park Chung Hee.

The students were inflamed by the regime's cruel treatment of the female workers and the N.D.P. members. Coming from several universities, they conducted rallies in protest of the government's actions within the bounds of their particular universities. Riot policemen sent to drag the rallies to a halt at Seoul National University on the 11th of September 1979 encountered fierce student resistance. The student protestations picked up momentum in October, to such an extent that martial law was declared to bring the riots in Pusan to an end. However, on the 20th of October, students and policemen clashed in fierce demonstrations and riots in Mason. To cope with the student resistance, the army assumed control for the enforcing of law and order in the city. Eventually Park was assassinated. While the motive for the murder was not clear, there was general agreement that it grew out of a dispute between Park and his assassin, the head of the K.C.I.A., regarding what action should be taken to handle the students' riots. The new leader, General Chun, made wage concession to the workers following several riots by the latter.[45]

In sum, it has been shown that a country's export performance can be affected by the power relations that exist in its society. In Hungary, after the dogmatists gained political ascendency in the Politburo they recentralized the economy, and did not enforce the N.E.M. Unlike Hungary, the supporters of import-substitution in South Korea lost political power to Park and the other proponents of export promotion. While the reformers in Hungary made important concessions to labour and the dogmatists, the South Korean government, until 1979, maintained a low-wage policy and offered few concessions to labour.

CHAPTER 4

SOUTH KOREA AND HUNGARY: ECONOMIC SYSTEMS AND EXPORT PROMOTION STRATEGY

In order to facilitate our understanding of the difference in export performances between South Korea and Hungary, this chapter considers the influence that the systemic variable exerts on the export promotion strategy of economic development pursued by these countries. It will be recalled that the systemic variable looks at the way basic characteristics of the mixed and modified centrally planned economies of South Korea and Hungary, respectively, affect the capabilities of these countries to switch to and then maintain an export-first policy. Attention will be focused on the role of the private sector in the case of South Korea and on the role of the branch ministries in Hungary.

GOVERNMENT AND THE PRIVATE SECTOR: SOUTH KOREA

The Park regime, upon coming to power in 1961, took firm steps to change the nature of the relationship between government and business from that which existed in the Rhee period. These steps led to the development of a "close relationship between government and business...in the 1960s and 1970s and was a large contributor to economic growth"[1] that was spearheaded by the exportation of manufactured commodities.

Under Rhee, South Korean businesses had no incentive to engage in productive activity or to take steps to increase their already low level of exports. Huge businesses were built up in the reconstruction period, following the end of the Korean war in 1953, by extensive reliance upon such non-productive activity as price fixing and more importantly upon corrupt political relations with the ruling elite in order to obtain economic advantages.[2]

Possessing some capital, entrepreneurs realized that given the strategy of import substitution with its multiple exchange rates, the greatest opportunity for economic gain lay in obtaining foreign aid funds. Credit and foreign exchange were controlled and allocated by the government. Businesses realized that their success depended upon access to these funds. Hence, those who acquired such a privilege, "frequently through contact with corrupt officials",[3] reaped huge profits by expending no more effort than was necessary to fill the necessary papers for the importation of goods that were restricted by the government. These businesses compensated the political elites by providing them with campaign funds.

Upon coming to power, the Park regime recognized that its survival and eventual legitimacy rested upon obtaining business support for its export-led strategy of economic development.[4] It, therefore, moved quickly to restructure the business and government relationship and to establish itself as senior partner. The unification of the exchange rate of 1964 meant that business no longer could reap huge profits from import substitution activity that was structured on the existence of multiple exchange rates, corrupt political ties and involving essentially paper work on their part. Businesses now had to seek profit by engaging in export activity.

The Park regime made a more direct attack upon the corrupt businessmen. Its stated objectives in 1961 were the development of a self-sufficient economy and the eradication of political corruption. Steps were, therefore, taken to bring businessmen, politicians and senior civil servants to justice, on the grounds that they had used their positions and corrupt political ties to acquire illicit wealth. Prominent Korean businessmen, who had gained so much under the Rhee administration, were quickly incarcerated. The government announced that it would execute them along with confiscating their properties.[5]

However, there were important political and economic factors that compelled the government to arrive at a compromise with the accused businessmen.[6] First, the viability of the government's economic program depended upon the cooperation of these corrupt but leading businessmen. The latter possessed the necessary organizational and entrepreneurial resources needed to put the government's five-year economic program into action. In addition, considerable pressure was brought to bear on the Park military council not to punish these businessmen too harshly. This pressure came largely from senior bureaucrats and the "old politicians" that Park had derided but, nevertheless, he had brought into his government in order to "legitimize" the military coup.

These old politicians and bureaucrats were also implicated in the illicit wealth scandal of the pre-Park period.

Eventually a compromise was worked out by the Park regime and South Korea's leading businessmen.[7] The criminal charges levied against them were dropped, and, except for their commercial bank shares, their other assets remained unconfiscated. However, the businessmen were ordered to pay their fines by constructing basic industries. As part of the compromise, the government was supposed to own these industries. Nevertheless, only a small number were built and their owners paid fines rather than relinquishing them.

The Park regime was not primarily interested in punishing the businessmen but wanted to direct them into productive activity. It recognized that entrepreneurial talent was scarce and what existed had to be utilized for developmental purposes. A cooperative relationship in which government played the senior role was established.[8] This relationship also enabled the government to provide the leading businessmen with considerable financial assistance. The latter responded by expanding and creating new manufacturing and exporting industries.

SOUTH KOREA: GOVERNMENT AS THE MAIN DIRECTOR OF ECONOMIC ACTIVITY

After forcing Korean enterprises out of non-productive activity with the unification of the exchange rate in 1964, the Park regime then used a 'carrot and stick approach' to ensure compliance with its export-first policy.[9] Businesses responded enthusiastically to this approach for it not only substantially contributed to their rapid expansion but also allowed them to make the major production decisions in the South Korean economy.

South Korean businesses did not have any alternative but to follow the government's export-first policy. The Park regime quickly established a monopoly upon credit allocation. Businessmen, too, could only borrow from abroad with governmental permission. In 1961, all the private banks in South Korea were confiscated. Apart from gaining control over finance, the government wanted to punish the illicit wealth participants. Even though some bank shares were later sold to private persons, the government still retained its control over credit allocation because a 1961 law prohibited anyone from casting a significant number of total bank shares. The revision in 1962 of the South Korean bank law strengthened the executive, because monetary policy was placed solely within its jurisdiction. The Park regime was also responsible for the appointing of bank managers and personnel. The above circumstances enabled the government "to effect domestic credit allocations at all levels from monetary policy to final bank decisions on individual end-users."[10]

Credit was critically important for South Korean businessmen that were operating with high debt to equity ratios, especially in the high growth period stretching from 1963 to 1974. In this period, new equity amounted to 14 percent, while borrowing accounted for 66 percent of liquid assets. Access to underpriced credit enabled business to expand rapidly, while having to raise little cash. However, "with massive debt shares, firms were totally dependent upon credit, not only for expansion, but for survival."[11]

Government, then, was in a position to use the dependence of business upon it to ensure compliance with its export-first policy. A business that did not follow the government's lead was denied credit or the government might refuse to renew its matured loans or might subject its tax returns to a careful scrutiny. In addition, the Ministry of Commerce and Industry provided an import licence to a producer only if he agreed to export a certain amount of goods as determined by the government. More than political pressure was involved here, for as Kuznets pointed out, businesses knew that a boosting of exports would result in the provision of more favourable credit outlays and other advantages so necessary for their successful operation.[12]

The Park regime adopted a pragmatic and non-ideological approach to economic development and in its relationship with business; if a method was deemed to be effective in realizing its export promotion goals, the Park regime would unhesitantly adopt it.[13] For example, it relied on market as well as non-market methods to maintain its export drive. Its export targeting system was perhaps the best known non-market device used to keep the pressure on exporting industries. Beginning in 1962, the government began announcing export targets that were to be applied to particular exporters, countries and commodities. These quarterly targets were to be achieved by close collaboration between business and government. From the "export situation room" the government monitored the announced targets, while maintaining "almost daily contact with major exporters"[14] through a large and well qualified staff that quickly spotted potential shortfalls. In such a situation, the responsible minister was quick to provide easier credit terms, more export information and whatever was necessary to improve the situation.

The export targets were determined by the government, after close consultation with the exporters' organizations. At times, to secure compliance with these indicative targets, subsidies had to be offered to the exporters. Not only were the latter regularly able to surpass the targets, but even did so when they were frequently raised. The government, then, kept track of South Korea's export performance through the target system. This enabled it to make "timely changes...in incentives, often including selective ad hoc assistance to individual exporters."[15]

The export promotion meeting, which was regularly attended by President Park, also played an important role in maintaining South Korea's export drive. This monthly meeting enabled government ministers, the leading exporters and bankers to review the trade situation, to keep track of the export targets, to exchange information, and to resolve differences regarding export strategies. In addition, merit awards were given to the most successful exporters annually by the government. The competition for these awards was so keen that some exporters even engaged in questionable practices in order to win them.

Nevertheless, despite the government's frequent intervention in the affairs of enterprises "economic growth...in South Korea...has been a government-directed development in which the principal engine has been private enterprise."[16] The wealth of entrepreneurial talent in South Korea was clearly shown by the fact that the overwhelming contribution to value added in manufacturing came as the result of old firms expanding and not from the entry of new firms into the economy. In an important study covering the 1962-1974 period, it was found that old firms grew in size, on the average, by 72 percent and new firms only by 3 percent. Jones and Sakong concluded that the rapid expansion of old firms was firm evidence of considerable entrepreneurial talent in South Korea. It was the quality rather than the quantity of entrepreneurial talent that was so well cultivated by the Park regime, that fueled South Korea's export drive of manufactured commodities.[17]

South Korean businesses also responded vigorously to the 'automatic' and non-discriminatory free trade regime established by the government, and the latter's decision to allow businesses to make their own production decisions. This can be well illustrated by the wig situation. Businesses decided to export wigs made from human hair to the U.S.A. and other countries because of the obvious demand. The exporters had realized that wig production was labour intensive and so corresponded to South Korea's comparative advantage. However, the supply of human hair soon proved inadequate so the exporters quickly switched to synthetic hair. Wigs became the second leading export item up to the early 1970s. According to Balassa, the wig situation clearly showed the importance of allowing entrepreneurs to make their own decisions once a free trade regime had been established. He held that it was doubtful whether planning authorities "would have chosen wigs as a potential major export or that they would have effected the switch from human to synthetic hair in making them."[18] Balassa also pointed out that South Korea's decision to provide a uniform set of incentives to its exporters, with the absence of discriminatory action against exports, has resulted in entrepreneurial action being in line with Korea's national interest.

South Korea's export drive was spearheaded by a number of large enterprises called Caebols.[19] A Caebol consisted of a number of firms typically owned by a single family and one in which power was concentrated in the trading branch. This concentration of power facilitated communication between the government and the leading Caebols, such as Hyundai and Samsung.

Government policy was instrumental in promoting the growth of these large manufacturing enterprises.[20] They were provided with cheap credit, relaxed tax surveillance, selected for major industrial projects and given several other advantages because of their successful export record and the government's decision that these were the most capable firms to implement its high growth and export oriented policy of economic development.

In sum, the South Korean government was well placed to influence the direction of economic policy. It possessed a monopoly on domestic credit and access to foreign borrowing. Because they possessed so little capital and given that credit is the life blood of business, South Korean entrepreneurs had to implement the government's economic program. It was also in the interest of these entrepreneurs to follow the government's lead. This resulted in such advantages as underpriced credit and selection for major industrial projects.

The Park regime was pragmatic and non-ideological. It used market devices such as exposing domestic industry to foreign competition. In addition, it also made use of non-market devices such as the target system and the monthly promotion meeting to boost exports of manufactured goods.

CENTRAL PLANNERS AND THE RETENTION OF THE INSTITUTIONAL SYSTEM

Both South Korea and Hungary had recognized, prior to their reforms, that the relationship between government and enterprises had to be altered in order for their export performances to improve. South Korea unified its exchange rate and so chased its producers out of non-productive activities. It also prosecuted its leading businessmen for acquiring illicit wealth. Primarily for economic, and only secondarily for political reasons, it arrived at a compromise with its leading entrepreneurs that oriented them towards exporting activity. The government was clearly the dominant partner in the cooperative relationship established with business.

Hungarian authorities, on the other hand, were unable to fundamentally alter the relationship between the centre and the enterprises, because of their failure to change the institutional system of the economy.[21] Political and ideological factors, which were largely unimportant as constraints on the Korean government, neverthelss proved responsible for the old relationships being retained in Hungary. Branch ministries and large enterprises remained common features of the economic landscape.

The reformers recognized that the retention of the branch ministries would place a severe limit on the effectiveness of their economic reforms. However, they recognized that they had to be retained for political reasons, for their elimination "would open up the sensitive questions of ownership and control."[22] This would be so, for according to Marxist-Leninist theory, the state was not only the sole owner of productive enterprises but also the unquestioned administrator of the economy. This issue of ownership and control was so politically explosive, due to the political power of the ministry officials and Soviet intolerance of any reform that threatened the leading role of the party, that it had to be excluded from the open discussion that characterized the introduction of the new economic mechanism.

The Hungarians knew that, in effect, their reforms meant a redistribution of political and economic power in their society from the centre to the enterprises.[23] Yet it was essential, they believed, to pass this change of power off as a 'technical adjustment' to the way the economy was being managed in order for it to be accepted by other communist governments and the supporters of central planning in Hungary. The reformers recognized that the strict control exercised over enterprises by the branch ministries stifled innovation, reduced enterprise responses to economic crises and opportunities, and finally was a prime source of inefficiency. Therefore, the branch ministries had to lose much of their clout.

It was this intended reduction in the power of the branch ministries that connected economics to politics and so dictated caution.[24] Ministry officials, who were responsible for supervising and directing enterprises within their particular branches, were normally members of the Hungarian Socialist Workers Party or appointees that were, nevertheless, answerable to the ruling communist party. The "socialist entrepreneur" that the N.E.M. envisaged as making independent decisions in response to the profit motive and market forces was far different from the party functionary. If the N.E.M. were to fulfill the expectations of the reformers, then the socialist entrepreneur could be expected to build his career by responding to the needs of local and foreign consumers rather than following the traditional path of "obeying the instructions of powerful party officials at the top of the hierarchy."[25] Effective reforms then would mean a reduction of the party's control over economic and political matters.

There was another important reason for maintaining the institutional structure and the high industrial concentration in the economy. Central planners were unfamiliar with managing an economy involving extensive use of market forces. They, therefore, felt that a stable organizational structure was necessary for the transitional period. There was also a powerful political motive for not trying to break up the large enterprises into smaller and more viable units, as the reformers clearly wanted. In Hungary, the large enterprises occupied a strategic position in the economy, because they were often monopolies and employed a large number of people. These factors translate into political power to the extent that large enterprises can extract numerous concessions from the central planners. Breaking them up into smaller units may have led to unemployment or temporary misallocation in the economy. The managers and workers would clearly have protested. Given the fact that the dogmatists were waging a fierce battle against the new economic mechanism, the two forces coming together would have created an unacceptable amount of political uncertainty for the reformers.[26]

Finally, there was an important external constraint upon any radical reorganization of the institutional structure. The invasion of Czechoslovakia by the Soviet Union in 1968 signalled to Hungary and other bloc countries experimenting with economic reforms, that the Kremlin would not tolerate any changes that threatened the leading role of the local communist party. This was a very sensitive matter, since in Marxist theory, economics is inevitably linked to politics. Changes in economic relations, Marxist theory holds, lead to changes in politics. The Soviet restrictions applied not so much to the actual nature of the economic reforms but rather to their isolation from any attempts or calls for political reforms.

The invasion of Czechoslovakia was prompted by the Soviets' fear that the leading role of the Czechoslovak Communist Party was being undermined and that the party was being transformed into a body that might pursue contradictory policies to those of the Communist Party of the Soviet Union. The Czechoslovakian leaders held that the Soviets' fear was unfounded. However, certain steps taken by the party did undermine its monopoly on political and economic matters. The decision making process was no longer monolithic as old political parties were allowed to function and the party even allowed the establishment of new political groups. Party reforms also strengthened the power of parliament vis-a-vis the local communist party. The ending of press censorship also meant an end to the party's monopoly on information. Finally, the Czechoslovakian reforms were welcomed by students in Poland and by some intellectuals in the Ukraine and Russia. The fear that these reforms would lead to similar demands being made in other Eastern bloc countries including the Soviet Union, weighed heavily in the Soviets' decision to invade and the reforms being vehemently condemned in Poland and East Germany.[27]

The Soviets had good reason to be sceptical of economic reforms not leading to calls for political reforms, based on Czechoslovakian experience there, some critics were maintaining that the two were inseparable. One critic suggested that the source of inefficiency in the Czechoslovakian economy was due not only to the extensive method of development but also to the bureaucratic and hierarchical relations made necessary by a system of one party rule. In Hungary, a similar line of reasoning was being followed by György Lukacs, a leading Marxist philosopher, who held that the reforms could only be effective if they led to the establishment of proletarian democracy. The latter was defined by Lukacs as the voluntary cooperation between the people and the party for the expressed purpose of destroying the bureaucracy.[28]

Finally, as was shown in an earlier chapter, the reforms met with fierce resistance from the supporters of central planning in the H.W.S.P.[29] They viewed the reforms as a threat to the leading role of the party in economic and political matters, since they allocated important decision making powers to non-party members. Their resistance was so strong that the party, acting through Jenö Fock, a member of the ruling Politburo, confirmed that it would safeguard "its leading role"[30] during the period when N.E.M. would be implemented. Abolition of the branch ministries and splitting up of large pivotal enterprises would have cast doubt on the party's commitment to remain the dominant force in Hungarian society.

In South Korea, political and ideological factors did not inhibit the government from restructuring its relationship with business. In Hungary, on the other hand, they insured that the institutional structure would remain intact, for the reformers could not risk being viewed as taking action that would lead to the dismantling of the leading role of the Hungarian Socialist Workers Party.

HUNGARY: THE BRANCH MINISTRIES AND THE ABSENCE OF ENTERPRISE AUTONOMY AND INITIATIVE

In South Korea, economic power was essentially distributed between the government and business. The former was assisted by a modernized and growth oriented bureaucracy that knew its success depended upon implementing the government's export-first policy. Given its dependence on government credit and the various benefits that flowed from following the government's lead, it was also in the interest of business to export as much as possible. The end result was that the government, business and the bureaucracy all had vested interests in ensuring the success of manufactured exports.

In Hungary, however, this congruity of interests did not exist among the three tiers of political power.[31] At the highest level, represented by the Politburo, Kadar and the other reformers favoured greater enterprise autonomy, some use of market forces and a determined drive to boost exports, especially to the O.E.C.D. countries. However, this was not a monolithic tier for it also included the dogmatists who favoured strict central planning and who had little interest in the O.E.C.D. market. The second tier consisted of the functional and branch ministries. The latter viewed the objectives of decentralization of decision making and enterprise autonomy as a threat to their bureaucratic power, and so took various steps to undermine the objectives of the new economic mechanism. At the lowest tier were the enterprises. Some were largely uninterested in exporting to the O.E.C.D. market and favoured close collaboration with the branch ministries, even though this meant a severe reduction in their autonomy as the ministries frequently intervened in their daily operations. In the final analysis, the branch ministries and those enterprises that did not favour exporting to the O.E.C.D. market were in alliance against the objectives of the N.E.M. In fact, the dogmatists used the 1973 oil crisis as an excuse to force those enterprises that wanted to compete on the O.E.C.D. to conform to strict central planning methods of operation.

The N.E.M. did not fundamentally alter the relationship between the branch ministries and enterprises and this placed the former in a position to severely limit enterprise autonomy and initiative.[32] While plan instructions to enterprises were abolished, branch ministries still retained responsibility for the establishment of any new enterprise. In addition, the activities an enterprise could engage in could only be legally determined by ministry officials. Further leverage over an enterprise sprang from the fact that branch officials, alone, could appoint and discharge managers as well as determine their salaries. Also, branch ministries could shut down any enterprise if the latter was held to be economically unviable, if another enterprise could do the job more effectively, or if the economic activity of the enterprise was felt not to be crucial to the national interest. Finally, they could reorganize enterprises or merge several if such action was determined to be in the national interest.

The South Koreans, too, were in a position to exercise some of the above mentioned sweeping powers over its firms or enterprises. It could force the collapse of an enterprise by denying credit. However, the Park regime did not exercise any influence on the internal management of its large private enterprises. It knew that entrepreneurial talent was scarce and so strengthened the existing pool by allowing the latter to determine its own line of economic activity. South Korean businesses, if they proved to be poorly managed, knew that unlike Hungary, they could not count upon the government to rescue them by way of reorganization or an arranged merger.

In Hungary, a conflict of interest existed between a branch ministry and the enterprises that fell within its jurisdiction.[33] A branch ministry was judged by its ability to satisfy domestic and C.M.E.A. demands, along with raising output as much as possible. The success of a branch ministry, then, was not dependent upon profit earned by its enterprises. Branch officials, therefore, undermined the profit maximization principle of the N.E.M. by appointing enterprise directors who favoured output, rather than profit, as a criterion of success.

This was far different from the position faced by the Korean bureaucracy. The latter had a vested interest in boosting, especially the profits of the Caebol companies, because the latter were spearheading the government's export drive. The success of these companies also reflected favourably on the bureaucracy which was judged primarily by its ability to assist in raising exports. The South Korean bureaucrats also differed from their Hungarian counterparts in that they strongly favoured an outward looking development policy and extensive use of market forces to realize their country's economic policies.

In South Korea, while the government provided information to businesses by utilizing its embassies and other information gathering agencies, trading decisions were largely made by the private sector. The situation was considerably different in Hungary, where the existence of the old institutional system meant that a considerable part of Hungary's foreign trade with C.M.E.A. continued to be determined at intergovernmental meetings.[34]

Bilateral trade within C.M.E.A. in which the goods to be traded were measured in physical units was still prevalent after the N.E.M. Countries were concerned with ensuring that there was equality in physical units exchanged. Price considerations were unimportant as prices were only determined after the bilateral agreements were signed. Prices served only as accounting units. Even more detrimental to an enterprise interested in maximizing profit and making its own production decisions was the fact that it was excluded from the early parts of the bilateral trade negotiations. Only later would it "receive direct orders from the ministries to execute the agreed plan targets."[35] The N.E.M., therefore, had little influence on enterprises exporting to the C.M.E.A. market, since quantities, and later prices, were not determined by enterprises, "but directly by agreement between the branch ministries of the different socialist countries."[36]

A further limitation on enterprise autonomy resulted from the fact that Hungary conducted over 50 percent of its trade with C.M.E.A. Branch ministries, naturally out to resist any diminution of their bureaucratic power, and still in favour of administrative control of enterprises, argued forcefully that Hungary's various bilateral agreements with C.M.E.A. countries, especially the Soviet Union, justified continued administrative control of enterprises. They claimed that these controls were necessary to ensure that Hungary fulfilled its export obligations. The hope of the Hungarian reformers that economic reforms in other C.M.E.A. countries would lead to enterprise contacts across borders, thereby reducing the need for administrative controls, proved unfounded.[37]

The N.E.M. also created a split among Hungarian enterprises, leading to the situation in which some enterprise directors welcomed the intrusion of the branch ministries into their daily operations, while others deplored it.[38] Some enterprises, especially those that were responsible for supplying key products to the domestic market, were strictly regulated by the state. Because they lacked autonomy, they could not improve their positions by creating and selling better products. Unlike those enterprises that enjoyed a measure of autonomy, they could count upon the state rescuing them from any of their economic difficulties with the provision of credit, favourable prices and tax exemptions. Other enterprises, because of their economic inefficiency, would have possibly collapsed if the state had abandoned its protective role. The state frequently transferred resources from the efficient to the inefficient firms. It was not surprising that these two types of enterprises saw the branch ministries as their allies.

There were other reasons why some enterprises backed the intrusion of the branch ministries into their affairs, even though the abolition of plan instructions by the N.E.M. was supposed to put an end to the practice. A mutual understanding, based upon years of working together and the fact that many branch officials were once enterprise managers, existed between enterprise and branch personnel. There was also a commonalty of interests between the two groups. Each was interested in ensuring that only those tasks were allocated to an enterprise that could be easily accomplished.

These two groups were equally interested in obtaining as much credit, subsidies, investment and other means from the centre to ensure the completion of assigned branch obligations. Enterprise managers knew that their efforts to assist the branch ministry in realizing the developmental targets assigned by the planning office would not go unrewarded. They were confident that the branch ministry would reciprocate by providing "help, mediation, and a share from the resources allocated"[39] by the centre, if an enterprise requested help.

The more technologically advanced and efficient Hungarian enterprises, which were well prepared for market competition,used the autonomy provided by the N.E.M. to increase their exports to the West. These enterprises also resisted the efforts of the branch ministries to reestablish the old links of dependency.[40]

Finally, the branch ministries reduced the ability of Hungarian enterprises to compete on the O.E.C.D. market by severely limiting the autonomy granted to them in the area of investment. The N.E.M. reformers knew that enterprises needed more funds for research and product improvement so as to compete on the O.E.C.D. market. It, therefore, divided up responsibility for investments between central planners and enterprise managers. However, even that investment which was supposed to have fallen within the jurisdiction of the enterprises did not. This was due to the fact that most investments initiated by the enterprise needed central subsidies and credits to become viable.

This dependency upon the central organs placed the branch ministries in a powerful position to influence enterprise decisions. Before credit was given to an enterprise, the opinion of the relevant branch ministry was always obtained by the centre. In addition, branch officials could influence enterprise requests for subsidies, since they were also members of the commission that was responsible for giving or denying subsidies. As Hare and Wanless pointed out, ministries were in a position "to reward or penalize enterprises depending upon their compliance with central wishes or plans."[41] Many enterprises, therefore, joined with the branch ministries to obtain as much investment as possible from the centre as an easy way of fulfilling their production quotas.

In sum, it has been shown that the systemic variable exerted a positive influence on South Korea's export promotion strategy but a negative influence on that of Hungary's. South Korea, in part because of its different institutional structure, was able to establish a new and cooperative relationship with its private sector that clearly left the government in the dominant position.

The Park regime was careful to ensure, however, that its pressure to export did not compromise the autonomy of the private sector. The latter responded to this pressure to export and the attractive incentives offered by dramatically expanding manufacturing output for the export market, by taking the considerable investment risks involved and by reacting quickly to overseas market opportunities and finally by adjusting to economic crises, well.

In Hungary, on the other hand, the systemic variable exerted a negative influence on its export performance. The branch ministries as basic features of the institutional system had to be retained primarily for political reasons. These ministries because of their supervisory responsibilities for enterprise operations were well positioned to weaken the autonomy that the economic reforms had entailed for the enterprises.

In 1968, branch ministries had argued for the maintenance of strict central control over enterprises that exported to the C.M.E.A. Their victory meant that those enterprises responsible for roughly half of total exports were unaffected by the economic reforms. In addition, branch ministries skilfully exploited the temporary defeat of the reformers to reintroduce, although not in name, strict central controls over even those enterprises that had used their autonomy between 1968 and 1971 to increase their exports to the O.E.C.D. market. After the reformers regained control over economic policy in 1978, the new reforms implemented gave some autonomy back to the enterprises. Nevertheless, for most of the period under study, production decisions in South Korea were essentially made by the private sector, while those in Hungary were primarily made by the central planners.

CHAPTER 5

EXPORT STRUCTURE, TECHNOLOGICAL DEVELOPMENT AND TRADE DISCRIMINATION

Many developing and semi-industrialized countries have had their export performances seriously affected by the protectionist measures imposed against their exports by the Western industrialized countries. Part of the problem has been due to the fact that these countries export goods that compete with industries in the developed world. The exports, too, of these semi-industrialized countries, for example, are also not highly processed and so are vulnerable to a wider range of trade discrimination.

To overcome this O.E.C.D. protectionism, many semi-industrialized countries are pursuing the strategy of importing advanced technology for the specific purpose of upgrading their production structure, so as to export goods that are highly processed and so less vulnerable to protectionism. The exogenous variable, therefore, examines the trade discrimination the exports of Hungary and South Korea encountered on the O.E.C.D. market, the political and economic factors behind this protectionism and the efforts of these countries to overcome it. It will be argued that South Korea was better able to cope with this discrimination and to take steps to reduce it, than was Hungary.

HUNGARY'S TRADE DIRECTION AND COMPOSITION 1968-1980

While it has reduced its dependence on the C.M.E.A., Hungary did not significantly increase its percentage of total goods exported to the O.E.C.D. market. The C.M.E.A. remained Hungary's largest market. Its share of total exports moved from a high of 70 percent in 1968 to 51 percent in 1980. In regard to the O.E.C.D. market, its share rose above the 1968 figure of 25 percent to 34 percent of total exports in 1980. The percentage share of the developing countries in Hungary's total exports doubled between 1968 and 1980. It went from 5 percent in 1968 to 11 percent of total exports in 1980.[1]

Table III will be used to facilitate our analysis of Hungary's export composition with the O.E.C.D. countries, as the latter constituted the main target of Hungary's export promotion strategy.

TABLE III

HUNGARY'S TRADE COMPOSITION WITH O.E.C.D. COUNTRIES
(IN % OF TOTAL O.E.C.D. EXPORTS)

Year	SITC 0	SITC 1	SITC 2	SITC 3	SITC 4	SITC 5	SITC 6	SITC 7	SITC 8	SITC 9	Primary Products	Manufactured Products
1968	32.2	2.0	11.8	4.4	1.6	6.4	22.2	6.9	12.4	0.1	52.8	48.0
1973	36.2	1.2	9.8	2.6	1.3	7.2	24.1	6.8	10.8	0.0	51.1	48.9
1977	23.8	0.9	9.7	8.1	1.3	11.5	21.7	11.5	11.6	0.0	43.8	56.3
1980	21.9	1.5	9.4	5.7	1.6	12.8	19.3	13.1	12.9	1.7	40.1	59.8

SITC: Standard International Trade Classification. For a description of the individual categories, see Appendix, p. A-1.

Source: Calculated on basis of United Nations Commodity Trade Statistics: Various Years. Figures may not add up to 100 percent because of rounding.

The technological level of Hungary was an important factor accounting for the difference in its trade composition between the O.E.C.D. and the C.M.E.A. markets. According to B. Balassa, Hungary's trade structure with the O.E.C.D. countries is similar to that of a developing nation. Its trade structure with the C.M.E.A. countries and those of the developing world, on the other hand, is similar to that of a developed capitalist country.[2]

Hungary's technological level is well below that of the O.E.C.D. countries. As Table III shows, it, therefore, exports a high percentage of primary and basic manufactured goods to the West. In 1968, 48 percent of Hungary's export to the developed capitalist countries consisted of manufactured goods, while the remaining 52 percent were made of primary products. Its export composition was dominated by the food and live animals category

(SITC 0), which constituted 32.2 percent of total exports, followed by basic manufactured goods (SITC 6) amounting to 22.2 percent. These goods required a simple production structure to be produced as they involved a low level of processing.

Some change did occur in Hungary's composition of goods exported to the West. By 1977, the majority of goods exported to the West consisted of manufactured products, the latter amounting to 59.8 percent of total exports, in 1980. Change also occurred in the manufacturing category. Chemicals doubled their source of total exports between 1968 and 1980, going from 6.4 percent to 12.8 percent of total exports. Machinery and transport equipment showed a similar pattern in the same period, going from 6.9 percent to 13.1 percent of total exports. Finally, after 1973, due to E.E.C. trade discrimination, the food and animal category, while still significant, fell to 21.9 percent of total exports in 1980.

Most of Hungary's imports from the O.E.C.D. market consisted of manufactured goods, reflecting in part the low technical level of the C.M.E.A., and the desire of the reformers to obtain advanced western technology to implement their intensive strategy of economic development. In 1977, machinery and transport equipment led the way with 33 percent of total imports. Hungary also imported a fair amount of components, semi-processed goods and chemicals from the O.E.C.D. market. Finally, Hungary imported its raw materials and fuels predominantly from the Soviet Union, because of the steady supply and favourable prices offered by the latter.[3]

HUNGARY: OUTMODED PRODUCTION STRUCTURE AND EAST-WEST INDUSTRIAL COOPERATION

Hungary's strategy of pursuing industrial cooperation with the West was closely related to its switch from an extensive to an intensive method of economic development.[4] A comparative study of socialist industry had revealed the appalling technological backwardness of C.M.E.A. and Hungarian industry by 1965. Enterprises that produced machinery were representative of the difficulties the reformers had to face. In Hungary 86 percent of their products were considered either obsolete or partially so, while, "only 14 percent measured up to world technological standards".[5] Hungary did not have the option of turning to the C.M.E.A. for technology as the study also found its technological level to be quite low.

The reformers had recognized as early as the 1960s that Hungary's inability to compete effectively on the O.E.C.D. market was due in part to its outdated production structure that offered low-quality and inaccurately priced goods for sale on the constantly changing and demanding O.E.C.D. market. Industrial cooperation was seen as a means of procuring the necessary up-to-date technology to change the production structure as well as the means of securing access of Hungarian manufactured products to the O.E.C.D. market. Industrial cooperation may be defined as an agreement between an Hungarian and a western firm, to work together in order to accomplish a mutually beneficial goal. The Hungarian enterprise would be provided with products that were made with the transferred technology. The Western Company would then assume responsibility for marketing the product on the O.E.C.D. market. These agreements usually lasted for several years.

This section, therefore, examines the factors that prevented Hungary from updating its production and trade structure. First, Hungary's outdated production structure was a consequence of the Stalinist or extensive method of economic development that was imposed upon a technologically weak economy after the war, along with its altered trade relationship, in favour of the U.S.S.R. In our earlier discussion of the extensive method of economic development, we noted that it was based upon the availability of a plentiful supply of labour, capital and raw materials. Therefore, in the 1950s there was not any need for advanced technology to reduce the considerable amount of inefficiency in this method of development. The enterprise had little incentive to engage in technological development. It was secured in the economy by its monopolistic position, along with being severed from the competitive pressure of the world economy. The existence of an irrational price system, which made assessment of different technologies impossible, as well as a seller's market, meant that planners were not under pressure to technologically upgrade the economy. In fact, according to I. Berend, the quantitative criterion of success and the security of the enterprise created a situation in which, "it was more advantageous to produce traditional goods in the traditional way."[7]

Secondly, central planning further impeded the development of Hungary's production and trade structures. As a result of the hierarchical nature of the Stalinist model of economic control, technological research and technology were cut off from the production process. Research was under the control of the central planners. It was financed by the state and proceeded in accordance with the preferences of the branch ministries. Research was not conducted with enterprise priorities or problems in mind. Enterprises hardly conducted any research.[8]

Finally, the establishment of trade links with the Soviet Union and the C.M.E.A. also negatively affected Hungary's technological level.[9] Hungary was cut off from capitalist competition and up-to-date technology for most of the period leading up to the introduction of the N.E.M. in 1968. What little advanced technological know-how Hungary obtained was acquired through a careful reading of western scientific journals. No purchases of western technology and licences were made; Hungary was cut off from suppliers of advanced technology. Nationalization of foreign enterprises did not provide much in the way of technological capability as research was centered in the parent company not in its Hungarian subsidiary. Hungarian enterprises almost had to start their technological research from a zero base. The low level of Soviet technology further reduced any incentive to innovate, since Hungary could easily sell its low quality goods in the huge and stable Soviet market.

According to Jan Vanous, Hungary's strategy under the N.E.M., of importing western technology in an attempt to upgrade its production and export structures, proved unsuccessful.[10] It was due to the fact that the amount and quality of machinery are not necessarily the most important determinants of productivity. It is the political, and socio-economic environment that conditions technological usefulness. Hence, Vanous pointed out that the low level of managerial ability, workers' discipline, and market incentives seriously contributed to the poor performance of western technology in Hungary. Hungarian enterprises were unable to use this western technology to reduce their costs, so as to acquire competitiveness with O.E.C.D. producers. Also, the implanting of relatively advanced western technology onto Hungary's outdated production structure, stressed Jan Vanous, also severely limited the usefulness of technological transfer.

A further difficulty developed with the use of imported technology. Planners soon found that the hard currency used to purchase the technology was merely the first financial outlay involved. More hard currency was needed in the first two years after purchase of the machinery to provide additional amounts of material inputs, components and semi-finished goods required to operate the machinery effectively. Already strapped for hard currency, Hungary found it increasingly difficult to make these purchases.

Finally, industrial cooperation never significantly affected Hungary's trade performance, as it accounted for only 4 percent of its western exports.[11] The turbulence on the world market in the mid-seventies saw many of the industrial cooperation agreements being allowed to lapse. The two leading western firms went under in the face of world economic difficulties. Other western companies withdrew from industrial cooperation when western labour unions began complaining about jobs being exported abroad. Interest was also lost in industrial cooperation when the western firms were unable to market their Hungarian manufactured goods due to the recession in the mid-seventies. Hungarian enterprises turned away from industrial cooperation after being stuck with contracted payments for the raw material imports, which were used to produce the exports involved in industrial cooperation. The prices of these material imports were raised considerably in the mid-seventies due to western inflation.

In conclusion, it has been shown that Hungary's strategy for upgrading its production and export structures was unsuccessful. Due to the outdated production structure, and the different sociopolitical context in which western technology had to function, the latter did not live up to the reformers' expectations. Industrial cooperation did not succeed either, in opening up western markets to Hungarian exports, as the economic difficulties of the mid-seventies saw many of these agreements being cancelled.

HUNGARY AND O.E.C.D. TRADE DISCRIMINATION

Hungary's export performance was negatively affected by its virtual exclusion from the United States market until 1978, and the protectionist policies imposed against its exports by the European Economic Community (E.E.C.). This section, therefore, looks at the nature of the protectionist policies that were levied against Hungarian exports throughout the seventies, and the political factors that gave rise to them.

Hungarian and American trade prospects were always a function of the attitude of the prevailing American government towards communism.[12] Thus, in 1951 during the onset of the cold war, the U.S.A. withdrew normal trading arrangements or most-favoured nation status (M.F.N.) from Hungary and the other communist regimes of Eastern Europe, when it had decided to use trade as a political weapon to weaken communism. While the main object of American anger after 1948 was the Soviet Union, which it regarded as hegemonic and potentially expansionist, the U.S. government, nevertheless, drew no distinction between the Soviet Union and her East European allies; "an economic embargo and boycott was established which treated the Soviet Union and Eastern Europe as equivalent."[13] Two lines of reasoning supported the American attitude. First, the Soviet Union and Eastern Europe were viewed as a monolithic body, therefore, help to any component of that body, in effect, meant help to the entire bloc. Secondly, the regimes that ruled Eastern Europe were viewed as illegitimate, oppressive and temporary, therefore, U.S. help to them was deemed to indirectly contribute to the oppression of the East European people.

After it was recognized by the U.S. in the early 1960s that communism was not a monolithic body, and that its trade embargo and boycott had not succeeded in weakening communism or in providing advantages to the West, a changed American attitude to trade with communist countries emerged. President Johnson proposed the construction of trade and cultural bridges to the Soviet Union's allies. This policy of trade cooperation was held to be economically advantageous to the West. Some believed it would reduce the possibility of military conflict in Central Europe, as well as provide Eastern Europe with more autonomy vis-a-vis the Soviet Union. President Johnson cut back the number of trade items requiring export permits to Eastern Europe. President Nixon continued the trade liberalization process.[14]

By 1974, with the passage of the Trade Act, a new American attitude towards trade with Hungary and other communist regimes emerged. The Act can be viewed as an economic tool designed to induce East European regimes to make political concessions favourable to the U.S. government in their domestic policies. The Act barred, "MFN Status, credits and commercial agreements to any 'non-market economy'"[15] that the U.S. President and Congress held was preventing its citizens from emigrating legally or by the imposition of heavy taxes. The Act could be waived by the President for any East European country that he felt would allow its citizens to emigrate freely in the future.

Most favoured nation status was given to Hungary in 1978, after it agreed "to maintain immigration practices that are acceptable to the United States."[16] The Hungarian authorities wished to gain access to the largest market in the world for manufactured goods, along with the credits made available by the U.S. Export and Import Bank to U.S. trade partners. Hungarian acceptance of the terms of the Act came as a surprise to the Carter administration. The latter felt that Hungary might have followed the hard line of the Soviet Union in denouncing the Act as a violation of its sovereignty.

As a centrally planned economy (C.P.E.), Hungary trades on the O.E.C.D. market with an inherent disadvantage not faced by any country that possesses a market oriented economy. The more severe restrictions on communist exports, by means of quotas and the denial of M.F.N. status, have been justified on the grounds that since the state in a C.P.E. has a monopoly on foreign trade, this control provides the C.P.E. with a 'predatory' advantage over a market oriented economy in international trade. It is alleged that C.P.Es. can ignore cost considerations in the sale of their goods, so as to penetrate a market; market economies presumably cannot ignore these factors.[17]

The above assumptions make communist exports very vulnerable to anti-dumping measures.[18] Dumping is the situation where a good is sold in a foreign market at a price lower than in the home market. It has also been defined by the U.S.A., and later accepted by the E.E.C., to be a situation in which a good is sold abroad at a price lower than its production cost in the home country. Because the prices of communist exports are difficult to determine, charges brought against the C.P.E. for dumping are settled by comparing the cost of the allegedly dumped article to a similar one manufactured by a country that possesses a non-centrally planned production process. This procedure meant that Hungary could never be considered the most efficient producer in any line of activity.

In 1977, Hungarian trade officials vehemently denied charges of unfair trade practices, such as dumping. They pointed out that Hungary, as a member of GATT, had given M.F.N. status to all GATT signatories. They pointed out, too, that the U.S.A. and the E.E.C. had violated the principles of GATT by denying Hungary M.F.N. status and bringing dumping charges against it. They contended that unless this trade discrimination was discontinued-Hungary might have to withdraw from GATT. Indeed, Taylor and Lamp (1979) stated that there was no evidence to support the charge that C.P.Es. behave in a predatory way, or that they can react faster to changes in economic conditions than market economies.[19]

Both primary and manufactured exports from Hungary ran into protectionist obstacles on the O.E.C.D. market.[20] The level of discrimination imposed against manufactured exports depends upon whether they are treated as import sensitive or not. Import sensitivity refers to the attempts of Western importers, namely by way of import restraint petitions, to limit the importation of goods they also produce, on the grounds that the foreign exports are causing them domestic economic difficulties. These companies usually charge that the exporting countries are engaging in dumping or some other unfair trade practice.

There are two groups of import sensitive goods for the O.E.C.D. market. Footwear, steel, textiles and clothing fall into the highly sensitive group. The other group is termed moderately sensitive and consists of such goods as transport equipment, textile fibers, chemical products and manufactured fertilizers. In the 1973-77 period, the study done on the sensitivity of communist exports to the West by Taylor and Lamp found that 28 percent of Hungary's exports were subjected to import restrictions because they fell into the highly sensitive category. Clothing was the most sensitive product. In 1977, Hungary, under pressure from the E.E.C. trade officials, voluntarily agreed to limit the exports of its textiles to the E.E.C. market; E.E.C. officials were threatening to impose drastic cutbacks on textiles if Hungary did not act quickly.

The high proportion of food and live animals, which constituted 32 percent of Hungary's total exports to the West in 1973, also made it vulnerable to the protectionist Common Agricultural Policy of the E.E.C. The latter prohibited the entry of Hungarian cattle in 1974, due to the over supply of beef from E.E.C. producers. Because of the drought in Western Europe in that year, E.E.C. producers slaughtered many of their cattle. The ban was very costly for Hungary. A Radio Free Europe Report estimated the cost of the ban to be U.S. 100 million dollars. The ban also affected food and agricultural exports significantly. They fell from 37.4 percent to 25.1 percent in 1976. Agricultural and food products were Hungary's main hard currency earners on the E.E.C. market, going mainly to West Germany and Italy.[21]

Finally, the E.E.C. discriminated against Hungarian exports in another way. It awarded preferential access to many developing countries, including South Korea. This access was denied to all the communist countries of Eastern Europe including Hungary, and given to all the other countries in Europe.[22]

In sum, the examination of Hungary's export structure with the O.E.C.D. market showed that it consisted of a high percentage of primary and sensitive products. This outmoded production and export structure was due to Hungary's central planning system that stifled technological innovation; Hungary was therefore unable to produce quality products so as to compete effectively on the O.E.C.D. market. The outmoded structure also contributed to the failure of western technology to adequately upgrade the products that Hungary traded on the O.E.C.D. market. In addition, the trade discrimination encountered on the U.S. and E.E.C. markets was politically motivated. U.S. discrimination formally ended in 1978 after Hungary agreed to the terms of the 1974 Trade Act. By denying preferential access to Hungary, the E.E.C. continued to discriminate against its exports.

SOUTH KOREA: TRADE DIRECTION AND COMPOSITION 1968-1980

Both the direction and assortment of goods offered for export by South Korea changed significantly during the period of analysis. While the Hungarians were attempting the break into the U.S. market and to boost their exports to the E.E.C., the South Koreans, after 1974, actively sought to reduce their dependence on the U.S. and Japanese markets in order to escape trade discrimination. They, therefore, increased their efforts to expand exports to the developing world and the E.E.C. In 1968, Japan and the U.S. accounted for 74.1 percent of South Korea's total exports, with the U.S. share being 52.1 percent and that of Japan 22 percent. The rapid redirection of trade occurred after 1973. In that year, Japan and America took 70.2 percent of South Korea's exports. By 1977, their share had fallen to 52.5 percent, and by 1980, it had been reduced further to 45.5 percent. The U.S. continued to be South Korea's largest export market, accounting for 26.3 percent of total exports in 1980. Japan accounted for 17.3 percent of total exports in that year.[23]

South Korea's trade pattern with the U.S. was similar to that of Hungary with the C.M.E.A. market. It exported primarily manufactured goods to the U.S. and imported a large amount of primary goods, along with some capital ones. In 1975, 96.4 percent of South Korea's exports to the U.S. were manufactured goods, with only 4.6 percent being primary. However, most of these consisted of light and basic manufactured goods. Chemicals amounted to only 0.6 percent and machinery and transport equipment to 15.7 percent of total exports. In this same year, 63 percent of the U.S. exports to South Korea were primary goods, while 37 percent were manufactured ones. The largest item of import from the U.S. by South Korea was machinery and transport equipment, accounting for 26.9 percent of total exports.[24]

However, South Korea's trade pattern with Japan was similar to that of Hungary with the O.E.C.D. market. It displayed the behaviour of a developing country while its trade pattern with the U.S. was similar to that of a developed country.[25] South Korea exported mainly manufactured goods of a basic nature along with a large proportion of primary goods to Japan. It imported largely capital goods and technology. In 1975, 95.2 percent of South Korea's imports from Japan were capital goods, being led by machinery and transport equipment that constituted 43.9 percent of total exports. On the export side, machinery and transport equipment amounted to 12.9 percent and chemicals to 2.4 percent of total exports.

TABLE IV

SOUTH KOREA'S TRADE COMPOSITION
(IN % OF TOTAL TRADE)

Year	SITC 0	SITC 1	SITC 2	SITC 3	SITC 4	SITC 5	SITC 6	SITC 7	SITC 8	SITC 9	Primary Products	Manufactured Products
1968	9.8	1.9	13.5	0.5	0.02	0.7	31.5	5.4	36.6	0.0	25.8	74.2
1973	7.6	0.7	6.1	1.1	0.01	1.5	34.2	12.3	36.3	0.2	15.5	84.5
1977	9.4	1.1	3.0	0.1	0.00	2.2	30.0	17.3	35.3	0.4	5.2	84.8
1980	6.5	0.8	1.9	0.2	0.01	4.5	35.7	19.8	30.2	0.5	9.7	90.3

SITC = Standard International Trade Classification. For a description of the individual categories, see Appendix, p. A-1.

Source: Computed on basis of United Nations Commodity Trade Statistics: Various Years. Figures may not add up to 100 percent because of rounding.

As the above table shows, the composition of South Korea's exports changed over time. At the aggregate level, primary exports fell from 25.8 percent of total exports in 1968 to 9.7 percent in 1980. Manufactured goods, which constituted 74.2 percent in 1968, now amounted to 90.3 percent of total exports in 1980. Change also occurred within the composition of goods exported. As Younggil Kim pointed out, light manufactured goods such as plywood, footwear, clothing, textiles and wigs were the main export items of the 1960s. But according to an official South Korean source, "heavy and chemical industry exports have become increasingly important to Korea's economic growth, accounting for 41.6 percent of total exports in 1980".[26]

This change can be seen in part by the movement of chemicals, and machinery and transport equipment in the export composition. In 1968, they constituted 0.7 percent and 5.4 percent, respectively, of total export. By 1980, however, they amounted to 4.5 percent and 19.8 of total exports.

Unlike Hungary, which exported a wide variety of goods, the export structure of South Korea was fairly narrow, enabling it to exploit its comparative advantage in labour intensive goods. In 1980, over 90 percent of South Korea's total exports were made up of seven items, including such products as textiles and ships.[27]

In sum, South Korea was able to significantly change the composition as well as the direction of its exports. While in 1968 roughly a quarter of total exports were made up of primary goods, by 1980 the situation had drastically changed. Primary goods now amounted to 9.7 percent, with an overwhelming number of manufactured goods now being exported. The following section will, therefore, enquire into the causes of this transformation feat that eluded the Hungarians.

SOUTH KOREA: TECHNICAL ASSISTANCE AND DIRECT FOREIGN INVESTMENT

The use of up-to-date western technology and association with multinational corporations so as to penetrate the O.E.C.D. market were seen by Hungarian and South Korean planners as integral parts of their export promotion drive. Unlike the Hungarians, however, the South Koreans managed to implement their strategy quite successfully.

It is true that the Hungarians made some efforts to encourage direct foreign investment (D.F.I.). Foreign companies were allowed up to 49 percent in joint ventures with Hungarian companies, and after 1973, even majority ownership in some lines of activity. It was recognized, though, that since Hungary was a socialist country, and given the Soviet political constraint, D.F.I. could never be extensive in Hungary. The South Korean government, on the other hand, possessed no ideological inhibition nor was it subject to any political constraint in regard to D.F.I. In fact, the South Korean government made a determined effort to obtain up-to-date technology and to secure a market for its exports by offering the most liberal and attractive incentives in Asia in order to encourage multinational corporations to locate in South Korea. These incentives included exemptions from income tax for a five year period, the right to repatriate profit and principal, along with other forms of tax concessions. Finally, the government followed up these incentives that were established in the 1960s by establishing the Masan Free Trade Zone in 1970. All imports of machinery, raw materials and semi-finished parts that were to be used for export promotion in the Zone were exempted from import duties or tariffs. Also, through legal and coercive measures, the government guaranteed potential investors a strike free environment.[28]

These measures were effective, as a number of foreign firms, spear-headed by Japanese companies, rushed in to utilize the incentives. Japan had four companies in South Korea in 1967. Six years later, the number of companies had risen to 320, with total investments of U.S. $205.2 million. By 1975, the number of Japanese companies had jumped to 777, possessing investments of U.S. $498.2 million. Japan has been responsible for most of the D.F.I. in South Korea. For the period 1972-1976, its firms accounted for 39 percent of total D.F.I. The U.S.A. has been South Korea's second largest D.F.I. supplier.[29]

There were several factors that led to this rush of Japanese D.F.I. into South Korea, apart from the incentives offered and which made its companies the most export oriented ones of all the foreign companies operating in that Asian country. First, South Korea's low wage policy and disciplined labour force were attractive to Japanese investors because their country, due to rising labour costs and a shortage of workers, no longer could compete internationally in labour intensive products. Secondly, because of the shortage of industrial sites and opposition to pollution oriented industries, the Japanese government encouraged heavy and labour intensive companies to locate abroad. Finally, Japaness investors could avoid some of the restrictions imposed on their products that were produced in Japan, by having them produced in South Korea. The latter qualified for preferential access on the E.E.C. and U.S. markets.[30]

The Park regime found that these Japanese heavy and labour intensive companies complemented its strategy of economic development well.[31] The majority of Japanese companies moved into labour intensive production, and so contributed to the reduction of unemployment. Technological transfer occurred, especially in the Masan Free Trade Zone. In addition, the Japanese companies treated their operations in South Korea as subsidiaries and so assumed marketing responsibilities for all their goods produced there.

The most important result of D.F.I., however, was its contribution to the change from light to heavy industrial exports. By 1974, of the chemicals, petroleum products, and machinery and parts exported, 57.3 percent, 56.2 percent, and 84.2 percent, respectively, were exported by foreign companies. Finally, of the share of electrical and electronic goods exported, 86.6 percent came from foreign companies. While D.F.I. pales in comparison with loans and other forms of capital, it, nevertheless, played an important role in upgrading the production and export structure.

We saw that the Hungarians had opted for industrial cooperation rather than D.F.I. as a means of improving their export structure. The South Koreans not only favoured D.F.I. but also made considerable use of foreign technology, marketing assistance and technical know-how to boost exports. This became readily apparent in 1976, after 112 companies located in the export sector were surveyed, regarding the relative importance of domestic and foreign sources of technology.[32]

The South Koreans made extensive use of foreign technology. Even most of the technology that the respondents indicated was locally developed actually came from abroad. Some of this know-how was brought to South Korea by the Japanese during colonial rule. Japanese technology was to be found in the plywood and textile industries, whose products were important export it Local manufacturers, however, experienced no difficulty in readily assimilating the overseas technology.

In the area of product innovation, foreign sources dominated, too, and were of invaluable assistance to South Korean exporters. The exporters held that foreign sources had accounted for 68 percent of their product innovation knowledge. More specifically, the purchasers of South Korea's exports led the way, followed by the visits of staff abroad. The greatest influence exercised by foreign buyers on South Korean exports was in the area of the nature of the good produced. An overwhelming number of firms admitted that, "they either modified the characteristics of their product to accomodate buyers' requests or produced in direct accord with buyers' specifications."[33] Assistance given to South Korean exporters in order of descending importance was in the areas of styling and product design, packaging, technical requirements of a basic nature and, finally, simple product requirements. This assistance was especially important because of the demanding, changing and fragmented nature of the O.E.C.D. market. In addition, South Korean exporters improved their trade competitiveness after they followed the advice of foreign buyers to make certain changes in their plants' managerial and organization systems; costs fell and efficiency improved.

Japan was by far the largest exporter of technology and capital goods to South Korea, followed by the U.S.A. Japan's prominence was due to its proximity which made it easy to service industries in South Korea, and its capacity to modify western technology to suit its needs. Since South Korea was following essentially the same export promotion path as was done by Japan, its technology was well suited for Korean use.

In sum, we have seen that South Korea's considerable use of D.F.I. and technical assistance from its main suppliers enabled it to produce goods that were tailored to the requirements of the Japanese and American markets, its two largest trading partners. This contrasted sharply with Hungary's decision to avoid extensive use of D.F.I. and to rely on industrial cooperation agreements to secure markets and technology. The Hungarians were unsuccessful, but even in this area, the South Koreans made tremendous gains.

SOUTH KOREA AND O.E.C.D. TRADE DISCRIMINATION

Both Hungary and South Korea were subjected to high levels of protectionism in their trade with the O.E.C.D. countries. Hungary's virtual exclusion from the largest market in the world for manufactured exports, until 1978, had a greater negative impact on its export performance than the considerable trade obstacles thrown in the path of South Korean exports by U.S.A. trade officials, for the U.S.A. market continued to be South Korea's largest. Hungary, too, suffered more on the O.E.C.D. market, for unlike South Korea, it was denied preferential access. This is not to deny, though, that South Korean exports faced strong protectionist winds on the E.E.C., as well as on the Japanese market.

Unlike Hungary, South Korea enjoyed M.F.N. status with the U.S.A., for the entire period under consideration. Also, while the protectionist policies imposed against South Korean exports were politically motivated, they were not caused by any desire of the U.S. government to use trade as a political weapon against that country. The U.S. government, in imposing various restrictions on Korean exports, was responding to domestic political pressures. Organized labour was at the forefront in the call for protectionism against foreign steel, textiles and ~~other~~ items in the U.S.A. George Meany, then leader of the powerful AFL-CIO, denounced the theory of free trade advocated by the Carter government as outmoded, dangerous and extremely costly for the U.S. economy. Meany proposed his own version of free trade for coping with foreign competition. "The answer is fair trade - do unto others as they do to us - barrier for barrier - closed door for closed door."[34]

The labour movement was in a powerful position to exercise protectionist pressure on the Carter Administration. Labour suffered a major protectionist defeat in 1974. Since then, the economic situation had changed drastically by 1977. A wide range of American industries, such as steel, textiles, and electronics, were under economic strain and had suffered high unemployment levels as a result of foreign competition. Labour, affected industries, and congressional as well as local community leaders, all combined their efforts in calling for protectionism. Textile and steel lobbies were quickly formed in Congress. With 1978 being a congressional election year, with the AFL-CIO possessing a membership of 13,540,000, and with jobs lost being attributed to unfair foreign competition, protectionist sentiment quickly rose in Congress.[35]

In order to prevent Congress from passing more stringent antidumping legislation, the Carter Administration responded to these pressures by introducing the trigger price system. The latter was based upon the constructed value of Japanese production cost plus shipping expenses to the U.S. market. As one moved from East to West, the trigger price system became less protectionist. The implication of this system was ominous for Korea. According to one analyst, Korea would have to be given special privileges in order to be able to continue exporting steel to the U.S.A. All this occurred at a time when the South Koreans had expanded their steel capacity significantly.[36]

U.S. protectionist measures affected other South Korean exports besides steel. In 1978, South Korea's clothing and textile exports were limited to their 1977 level. In addition, Washington limited the growth of a wide range of South Korean exports, well below its past growth rate of 6 percent a year; roughly 70 percent of South Korea's total exports were adversely affected. In February of 1979, color televisions were limited and U.S. trade officials made it known that restrictive action would be taken against 130 export items, unless South Korea moderated its export growth rate.[37]

The protectionist measures imposed by the Japanese government on South Korean exports of tuna fish and raw silk in 1975 also resulted from demands from local producers for economic relief against foreign competition. The Japanese government also called for more orderly marketing arrangements in light industrial and textile products with South Korea. The latter found Japan's actions difficult to accept and understand, because it had increased output of the mentioned products in response to requests from Japanese businessmen. Japan, along with the U.S.A., prior to 1975, had advocated free trade in textile and light industrial products.[38]

South Korea, unlike Hungary, was granted preferential access to the E.E.C. market. While this reduced the severity of the protectionist measures, South Korean exports, nevertheless, came in for trade discrimination that was politically motivated. Because it did not export food and animal products to the E.E.C., South Korea escaped the protectionist agricultural policy of the E.E.C. that had seriously affected Hungary's export performance. France and Britain pushed the hardest for the protection of the steel and textile industries. They made it known that unless the E.E.C. acted quickly, they were prepared to introduce tough measures to stem the rising tide of unemployment that they perceived as being caused by foreign imports. Following 1973, an estimated 500,000 textile workers lost their jobs. In the steel industry, another 20,000 joined the ranks of the unemployed. In addition, steel companies were operating at only 60 percent of full capacity. Against this unemployment background, France and Britain argued that the E.E.C. should limit the imports of textiles from abroad; consequently clothing and textile exports were drastically reduced in 1978.[39]

Protectionism enjoyed popular support in the E.E.C. in 1978. The communists and the Gaullists demanded it in France. The British government was much influenced by the analysis of the group of Cambridge economists who argued that British industry needed protection in order to make the necessary changes in the economy to improve its efficiency and competitiveness. Even West Germany, long a champion of free trade in the E.E.C., conceded that some protectionism was needed in order to protect jobs. Italy took a similar view.[40]

In conclusion, we have seen that Hungary's and South Korea's export performances were affected by matters largely beyond their control. Both countries ran into heavy protectionist obstacles on the U.S.A. and the E.E.C. markets that were politically motivated. Hungary suffered the greater blow. Its export structure made it especially vulnerable to the common agriculture policy of the E.E.C. South Korea suffered gravely, too, but had the advantage of enjoying U.S. M.F.N. status and preferential access to the E.E.C. market that undoubtedly lessened the severity of the protectionist blows.

Because of its outdated production structure, which was due to the political and systemic factors already discussed in chapters three and four, respectively, industrial cooperation and advanced western technology did not succeed in enabling Hungary to change its export structure, so as to avoid protectionism. South Korea, unencumbered by ideology, and these political and systemic constraints, made extensive use of D.F.I. and foreign technological assistance that contributed greatly to its changed export structure. The above reinforce my thesis, already discussed, that it is the political and systemic variables that account for the greatest difference in export performances.

CHAPTER 6

CONCLUSION

After accounting for the difference in export performances between South Korea and Hungary by examining each of the three variables in a separate chapter, the conclusion will now attempt to assess, in a comparative sense, the explanatory power of each variable. It will also investigate possible connections between and among the variables.

The political variable, which looked at the distribution of political power within the ruling regimes, as well as the relationships of the latter to key groups in South Korea and Hungary, respectively, played differing roles in the two countries. Although both countries essentially possessed authoritarian regimes, the South Korean government was better able to manipulate and oppress its political opponents and gain adherence to its export promotion strategy than was the Hungarian government.

In South Korea, the basis of authoritarian power was the military, which upon coming to power in 1961, took drastic steps to establish its dominance over political and economic matters. Through various pieces of legislation, it prohibited several thousand politicians and, later, the leaders of the main political parties from engaging in any political activity. It also used highly restricted censorship laws and economic leverage to neutralize the power of the journalists, who were largely critical of the government. To put an end to the challenge from the students, which manifested itself in frequent and disruptive demonstrations, the Park regime made use of combat troops, martial law, arrested student leaders, threw out critical professors and students from the universities, and, on several occasions, even closed down some universities.

These measures effectively toppled the old political and economic elites from power. The Park regime was, therefore, strong enough to implement two key pillars of its export promotion strategy. Relations were normalized with Japan. The latter provided South Korea with economic assistance which enabled the Park regime to implement its first five-year plan. Its unquestionable control of political power also enabled the Park regime to control labour and to forceably hold down "excessive" wage increases.

In Hungary, on the other hand, several constraints existed on the use of authoritarian power, which were significantly connected to the 1956 revolution. The latter had taught the H.W.S.P. important lessons in regard to its relationship with society. While Rakosi had been able to use terror and other Stalinist techniques of control to establish party rule, his attempts to use these methods to accomplish economic objectives and to take an unwilling population further down the Stalinist path hastened the collapse of the party. They had also provoked strong resistance from the population.

Kadar had admitted this much. His alliance policy, which sought to unite party and non-party personnel to realize economic objectives and to ensure political peace, in effect, placed limits on the party's power. Hungarian society, after a long party courtship, had tacitly accepted party rule. The H.W.S.P., in turn, had agreed to abandon terror and limit coercion as devices for realizing political and economic goals. It followed that given this tenuous understanding, the communist party could not run the risk of destroying the alliance policy, which had provided the party with technical experts and a cooperative population, by forcing policy changes on the latter; neither could the regime resort to the much feared Rakosi method of political and economic control.

The party had to convince the population to go along with its policies. It was not surprising then, that in the areas of price, wages and employment, which were sensitive topics for the workers and population, that the H.W.S.P. moved slowly and even retreated, at times, in the face of societal opposition. This phenomenon seemed to be grounded in the 1956 revolution, and not to be a common feature of Marxist-Leninist systems; the Romanian government has often used overwhelming force to put down the slightest sign of workers' resistance.

A link also exists between the political and the systemic variable. The latter referred to the manner in which basic features of an economic system affected export promotion strategy. The Park regime did not use its unchallengeable control of Korean policy and political matters to limit enterprise autonomy. Rather it was used to pressure enterprises into exporting, to create a favourable business environment and to ensure that business costs did not rise drastically due to labour advocacy.

South Korean businesses cooperated with the government to boost exports. They made their own production and export decisions and took substantial investment risks. They were also well placed to react to market opportunities abroad and to adjust quickly to economic crisis, such as the 1973 "price explosion" on the world market. The existence of a government committed to export growth, at all costs, also benefited business in another way; more loans and financial assistance flowed to any company that helped the government to implement its export-first policy.

While it cannot be denied that South Korean business played an important role in the country's export promotion success, it was the political variable that exerted the most influence. Benefiting from import substitution, and judging from the resistance offered to the introduction of the export promotion strategy, it seemed unlikely that South Korean businessmen would have embarked on an export promotion strategy on their own initiative.

Possessing a monopoly on credit, access to foreign loans and the coercive powers of the state, the Park regime not only was able to force businessmen out of the lucrative and unproductive political economy of import substitution, but also created a favourable business environment. Using commands, as well as a system of rewards and punishments, the Park regime made certain that the resources of the state as well as those of the private sector were thrown and kept into the export promotion process.

There was also a connection between the political and systemic variables in Hungary, which in contrast to South Korea, exerted a negative and powerful influence on that country's export performance. When the dogmatists triumphed in the Politburo in 1972, following a party struggle, they immediately began to recentralize the economy. Many of the important principles of the N.E.M. were either discarded or weakly applied. The dogmatists also used the difficulties that the Hungarian economy experienced in the mid-1970s as an excuse for further increasing the role of central planning in the economy.

However, at a deeper level of analysis, it would seem that the success of the recentralization drive was due more to the systemic rather than the political variable. The fact that party officials in a Politburo in any communist country may desire to pursue a given economic course does not necessarily mean that it will be implemented. Implementation depends importantly upon the middle level bureaucracy. The failure of Khrushchev's reforms in the Soviet Union was due significantly to the resistance they encountered in the party bureaucracy.

The power, then, of the dogmatists in the Hungarian Politburo was ultimately rooted in the economic structure. The branch ministries, which enjoyed important supervisory and managerial functions over the enterprises that fell within their jurisdiction, were controlled by party personnel who held similar views to the dogmatists in the Politburo. The branch ministries existed as integral parts of the economic structure. It was, therefore, the personnel in the branch ministries who drew on the support of the dogmatists in the Politburo, and who exploited the changed political situation after 1972 to adopt various measures to obstruct the implementation of the N.E.M. and to reduce the autonomy of the enterprises. Both the dogmatists and the branch officials opposed the N.E.M. out of power and ideological concerns.

Even though the formal prohibition of branch ministries not to issue plan instructions to enterprises was not reintroduced in the period of recentralization, 1972 to 1978, production and other plan targets were, nevertheless, informally communicated to the enterprise managers. The latter, in part because of their training in the techniques of strict central planning and their fear that the reforms would not last, followed the "suggestions" of the branch ministries. The latter compensated the managers with subsidies and other state benefits. Thus, the emphasis of the N.E.M. on the principles of profit and market forces was replaced by this system of ad hoc negotiations between the ministries and enterprise directors.

Because the Hungarian economy was part of the economic grouping called C.M.E.A., the supporters of strict central planning in the branch ministries had insisted, even as early as 1968, that those enterprises responsible for fulfilling C.M.E.A. trade contracts could not be allowed any form of autonomy. They argued that the latter would make it impossible for Hungary to satisfy its C.M.E.A. trade obligations. They won their argument, thus methods of strict central planning were not applied to those enterprises that produced over 50 percent of Hungary's total trade; the N.E.M. never affected these enterprises.

While the dogmatists and the branch officials opposed the alliance policy and the N.E.M. primarily because they feared their effective implementation would reduce their power, socialist ideology also influenced their actions. The N.E.M. was adamant that enterprises should be judged on the basis of efficiency and profit criteria. The N.E.M. also wished to see redundant workers removed from their jobs and inefficient enterprises closed down. These requirements conflicted with the socialist ideology of the dogmatists; enterprises as creatures of the state should not be allowed to fail and should be treated equally. Workers as citizens of a socialist country should enjoy guaranteed employment.

Hence, after their 1972 victory, enterprises that performed poorly on the O.E.C.D. market were subsidized, and those that had performed well had their "excess" profits taxed away. Inefficient enterprises were kept afloat, and redundant workers retained.

Finally, the exogenous variable, which examined the trade discrimination visited upon these countries, and their efforts to overcome it provided the least explanatory power for the difference in export performance between these countries. Both Hungary and South Korea were subjected to high levels of protectionism throughout the period under study. Being a communist country, Hungary was virtually excluded from the huge American market until 1978. South Korean exports also ran into numerous obstacles on the U.S. market, as well as on that of Japan and the E.E.C. While it can be argued that Hungary experienced more discrimination than South Korea, the difference in the magnitude of this protectionism was not sufficient to account for the considerable difference in export performances. This provides further support for the thesis that it was the political and systemic variables that carry the greatest explanatory powers.

The efforts of the two countries to use technology and multinational corporations to upgrade their exports also showed different results. South Korea was able to alter the direction and composition of its trade. Hungary, on the other hand, because of systemic factors such as the economic structure and the sociopolitical environment, was unable to do so.

In sum, it has been shown that both the political and systemic variables in both countries explained more fully than the exogenous variable the difference in export performance. However, in the case of South Korea, the political variable exercised more influence on that country's export-first policy than the systemic variable, although the latter, nevertheless, played an important role. In respect of Hungary, it was the systemic variable rather than the political one that carried more influence. South Korea's better export performance over that of Hungary was, therefore, explained on the basis of political, systemic and exogenous variables.

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Appendix

SITC 0:	Food and live animals
SITC 1:	Beverages and tobacco
SITC 2:	Crude materials, inedible, except fuels
SITC 3:	Mineral fuels, lubricants and related materials
SITC 4:	Animal and vegetable oils and fats
SITC 5:	Chemicals
SITC 6:	Manufactured goods classified chiefly by material
SITC 7:	Machinery and transport equipment
SITC 8:	Miscellaneous manufactured articles
SITC 9:	Commodities and transactions not classified according to kind