The target was the test

South Korea's export discipline and the making of an industrial economy, 1961-1979

Country decision study | MacroLens Research | Independent desk research - not peer reviewed - not investment advice

ABSTRACT

On 26 October 1979, President Park Chung Hee was assassinated, closing an eighteen-year era in which exports rose from 41 million dollars in 1961 to 15.1 billion in 1979 - a 368-fold increase on Korean government records. The engine was not liberalization alone but discipline: export targets announced firm by firm, a monthly export-promotion meeting chaired by the president from January 1965, an exchange rate realigned for exporters that year, and tax, credit and import privileges that rose or fell with each company's measured export performance. The machinery then bet on heavy industry - steel, ships, machinery, electronics, petrochemicals, nonferrous metals - commissioning POSCO's first steel mill in 1973 and a shipyard that won orders before it existed. Growth ran between 7.3 and 15.0 percent yearly from 1963; power concentrated; 1980 brought a contraction. This case examines export promotion as an operating system, and what Sri Lanka can conditionally use.

WHY THIS CASE FOR SRI LANKA

Sri Lanka's export share of GDP fell from 39.0 percent in 2000 to 19.8 percent in 2024 on World Bank data. Total exports reached 16.34 billion dollars in 2024 on Export Development Board figures, with apparel and textiles still 31 percent of the basket; the trade account deficit was 6.07 billion dollars in 2024 on Central Bank data. The striking fact is that Sri Lanka already owns the institutions Korea had to invent: the Greater Colombo Economic Commission and the Katunayake Export Processing Zone both date from 1978 - the zone eight years after Korea's Masan - and the Export Development Board from 1979, seventeen years after KOTRA's founding. What Sri Lanka's public record does not show is the discipline layer: a published national export target, firm-level measurement, head-of-government review, and support that moved with delivered exports rather than announced intentions. South Korea in 1961 was poorer than Sri Lanka - income per head of 94 dollars against Sri Lanka's 146, on World Bank data - and exported almost nothing. Its record shows what an export operating system looks like, and what it costs.

THE STARTING POINT: A COUNTRY THAT EXPORTED ALMOST NOTHING

In 1961 South Korea exported 41 million dollars' worth of goods in the entire year, according to the National Archives of Korea; income per head was 94 dollars and exports were under 4 percent of GDP on World Bank data. The economy ran on American aid and the politics were unstable - the general who took power in a May 1961 coup would rule for eighteen years. There was no industrial base to speak of and few natural resources; what the new government had was a low-wage workforce and a decision to make exports the organizing test of economic policy. That decision came in stages: a promotion agency in 1962, a public target and a milestone ceremony in 1964, and from January 1965 a monthly export-promotion meeting chaired by the president himself, where ministries and firms reported against the target.

THE DECISIONS: MAKE EXPORTING THE NATIONAL TEST

The first decision was measurement with a calendar. From the early 1960s the government issued export targets, including to individual firms, a practice a World Bank study records it probably borrowed from Japan. From January 1965, on Park's instruction, the targets were reviewed in a monthly export-promotion meeting he chaired; the National Archives describe exports becoming the government's stated top priority that year. The second decision was price: a 1965 exchange-rate realism measure deliberately made exporting profitable rather than importing. The third was payment for performance: duty rebates on imported inputs for export production, financing for export orders, business-tax exemptions, accelerated depreciation and subsidized funds - the inventory catalogued by a Kellogg Institute study - with the Archives recording a shift from discretionary favors to automatic support linked directly to each firm's export record. The fourth was machinery: KOTRA founded in 1962, when exports were 55 million dollars a year, to sell Korean goods abroad; the first Export Day ceremony on 5 December 1964, after cumulative exports passed 100 million dollars on 30 November; the Masan Free Export Zone in 1970, the country's first foreign-investment zone; and the Export-Import Bank of Korea in July 1976. The fifth decision was ambition: on 12 January 1973 Park declared the Heavy and Chemical Industry drive, naming six strategic industries - steel, nonferrous metals, shipbuilding, machinery, electronics and petrochemicals - and pushed state-directed capital into them over the objections of many observers.

THE DECISION CHAIN: DATES

May 1961	Military coup brings Park Chung Hee to power; export-led strategy consolidates over the next four years
June 1962	KOTRA founded to promote exports; Korea's exports that year are 55 million dollars
30 November 1964	Cumulative exports pass 100 million dollars; first Export Day ceremony follows on 5 December
31 December 1964	The year's 120-million-dollar export target is reported reached (NBER account); the Archives' final 1964 tally is 119 million
January 1965	Monthly export-promotion meetings begin, chaired by the president; the 1965 exchange-rate realism measure follows
1970	Masan Free Export Zone designated - the first foreign-investment-only industrial zone
October 1971	Hyundai wins an order for two 259,000-ton tankers from Greek shipowner Livanos - before any shipyard exists
12 January 1973	Heavy and Chemical Industry declaration; six strategic industries named, a promotion committee formed in May
June-July 1973	POSCO taps its first blast furnace on 9 June; Pohang phase 1 commissioned in July at 1.03 million tons a year
1 July 1976	Export-Import Bank of Korea established, the first export-import bank in a developing country per its own history
November 1977	Exports for the year pass 10 billion dollars
1979	Exports reach 15.1 billion dollars; the second oil shock hits; Park is assassinated on 26 October
1980	GDP contracts 1.5 percent - the era's only annual contraction (World Bank)

MEASURED OUTCOMES I: THE NUMBERS

The export record is the strongest finding. The National Archives' series runs: 41 million dollars in 1961, 119 million in 1964, 1,068 million in 1971, 10,047 million in 1977 and 15,056 million in 1979 - 368 times the 1961 figure, an average growth rate of 39 percent a year, meaning exports doubled roughly every two years for eighteen years. The growth record behind it is nearly as stark: World Bank national accounts show real GDP growth between 7.3 and 15.0 percent in every year from 1963 to 1979, peaking at 15.0 percent in 1973. Income per head rose from 94 dollars in 1961 to 282 in 1970, 1,073 in 1977 and 1,814 in 1979. Exports as a share of GDP rose from 3.9 percent in 1962 to 11.3 percent in 1970 and 23.1 percent in 1979. The composition moved with the volume: an economy that began the era shipping ores, silk and fish was, by the late 1970s, selling ships, steel and electronics into world markets - though precise share breakdowns vary by source and are not asserted here.

MEASURED OUTCOMES II: THE HEAVY-INDUSTRY BET AND ITS COSTS

The 1973 Heavy and Chemical Industry drive is the part of the record most often copied and least often examined. The bet produced real assets: POSCO's first integrated steel mill at Pohang was commissioned in July 1973 at 1.03 million tons a year after five earlier state attempts at a mill had failed since 1958, built with Japanese government cooperation on financing and technology. Hyundai took orders for two 259,000-ton tankers in October 1971 while no yard existed, then built the ships alongside the yard itself - a method the Korean national encyclopedia records as a world first - and founded Hyundai Heavy Industries in 1973. Thirty years later, on 2003 orders, Korea displaced Japan as the world's leading shipbuilding nation, according to TradeWinds citing the Korean Shipbuilders' Association. The costs were real too. The drive was financed heavily through foreign borrowing just as the world trade environment worsened in the late 1970s, a vulnerability the World Bank's retrospective records; growth concentrated in a small number of large conglomerates whose dominance Korean economists still debate; and the era closed badly - the 1979 oil shock, the president's assassination on 26 October 1979, and a 1.5 percent GDP contraction in 1980, the only negative year in the World Bank series. A 2025 Quarterly Journal of Economics study finds the targeted sectors did expand as promoted; the study of whether the promotion was worth its fiscal and financial cost remains open in the KDI's own retrospective.

TRANSFER LIMITS: WHAT SOUTH KOREA DOES NOT PROVE

First, the enforcement context is not for sale. Korea's targets were binding because the state controlled bank credit, and the state was authoritarian; a democracy with independent banks cannot and should not replicate that leverage. The transferable element is measurement and review cadence, not coercion (desk interpretation). Second, the instruments have a date on them. Korea exported into the post-war American-centered trading order, which tolerated export-contingent subsidies that are now prohibited under WTO subsidy rules; Sri Lanka's versions must be the legal ones - duty drawback, input rebates, logistics and trade finance. Third, Korea had a capital event Sri Lanka lacks: diplomatic normalization with Japan in 1965 opened claims capital and supplier relationships that financed the first heavy plants, POSCO's included. Fourth, sequencing matters: the heavy-industry bet came after a decade of light-manufacture export success, not before; a country whose basket is still concentrated in one sector - apparel and textiles are 31 percent of Sri Lanka's 2024 exports - is at the first stage of that sequence, not the second. Fifth, the milestone record above is the Korean state's own archive; figures here were cross-checked against World Bank national accounts where an independent series exists, and flagged where it does not.

CONDITIONAL LESSONS FOR SRI LANKA

These are design observations, not prescriptions.

1. Measure exports firm by firm, and review them at the top on a fixed cadence. Korea's genuinely transferable innovation was not any subsidy but the monthly president-chaired review begun in January 1965 - a deadline with an audience. Sri Lanka's Export Development Board has existed since 1979; no equivalent head-of-government review rhythm is visible in its public record.

2. Tie support to delivered exports, within the rules. Korea's raw export-contingent subsidies would now be prohibited; the transferable piece is the performance test. Remission or drawback must not exceed the import charges actually levied on inputs consumed in producing the exported product (SCM Agreement, Annex I(i)); scheme-specific conditions still require legal review, and anything tied to export performance beyond that boundary is prohibited territory (desk interpretation).

3. Publish one national target and hit it in public. Korea announced annual export targets and marked milestones nationally - the first Export Day after cumulative exports passed 100 million dollars on 30 November 1964. Sri Lanka's EDB publishes annual export performance after the fact; a single published merchandise-export target with monthly public tracking would be cheap to adopt (desk interpretation).

4. Diversify the basket deliberately and in sequence. Korea entered ships and steel only after light manufactures had created a generation of exporters; the 1973 declaration named six industries, not sixty. Sri Lanka's concentration - apparel and textiles at 31 percent of 2024 exports - argues for choosing a small number of next sectors and resourcing them fully.

5. Make exporting profitable before demanding it. The 1965 exchange-rate realism measure came before the takeoff milestones - the billion-dollar year of 1971 and the ten-billion-dollar year of 1977 - not after them. For Sri Lanka the present-day equivalents are the exporter's cost stack - input tariffs, energy and logistics - rather than the exchange rate alone (desk interpretation).

The case's real claim is narrow: between 1961 and 1979 a poor country raised exports 368-fold by making exporting a measured, reviewed national test - and then spent its credibility on a heavy-industry bet whose costs arrived with the 1980 contraction. For Sri Lanka, whose export institutions date from 1978-79 but whose export share of GDP has halved since 2000, the case is a map of a discipline layer its public record does not show - with the authoritarian parts marked out of bounds.

SOURCES

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