

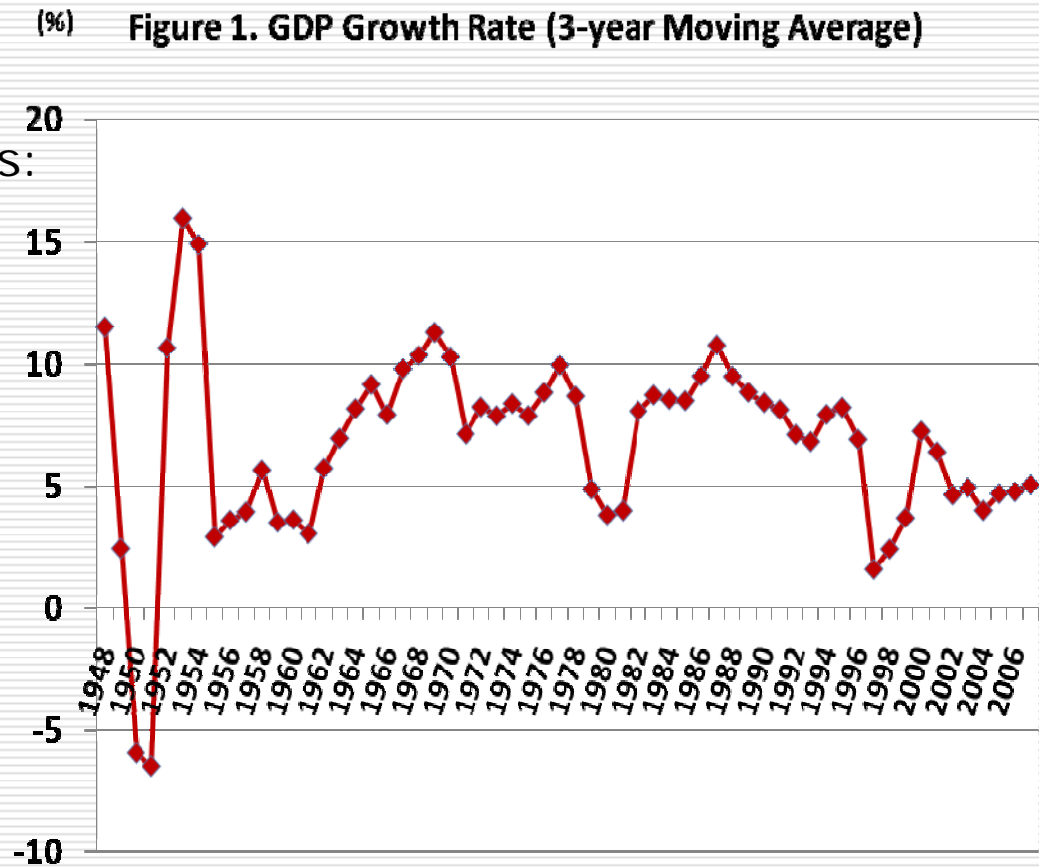
Comments on “The Korean Economy Six Decades of Growth and Development”

Marcus Noland, Peterson Institute for
International Economics and the
East-West Center

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What is the role of government in South Korea's economic growth?

- *South* Korea premier development success
- Conventional explanations:
 - Culture
 - Geography
 - Institutions
 - Policy
 - Leadership
- *North* Korean case suggests that it is not culture
- Growth discontinuity tilt toward policy a/o leadership



Source: Kim (2009) & Author's Calculation.

Characteristics of the Korean experience

- Identify market failure
- Design intervention
- Implement
- Justifications typically due to internal market failure; in international rent-shifting models, retaliation possible
- Policies applied
 - Capital channeling: direct and indirect subsidies, tax breaks
 - International trade and investment protection
 - Lax competition policy
 - R&D promotion
- Evidence
 - TFP regressions
 - IO studies
 - Other regression approaches
- Modest positive impact

Impact of Industrial Policy, 1963-83, Lee (1996)

Independent variables	Dependent Variables		
	Value added	Capital accumulation	Total factor productivity
Log (initial value added)	-0.163 (-11.64)	0.025 (1.79)	-0.153 (-10.2)
Log (initial capital)	0.172 (7.17)	-0.209 (-12.30)	0.078 (4.33)
Non tariff barrier coverage ratio	-0.092 (-3.07)	-0.159 (-5.68)	-0.167 (-5.06)
Tariff rate	0.118 (3.03)	-0.029 (-0.76)	-0.113 (-2.35)
Tax incentives	-0.084 (-0.50)	0.499 (4.75)	0.074 (0.65)
Subsidized bank loans	0.092 (10.76)	-0.019 (-1.0)	-0.123 (-0.68)
Estimation technique	3SLS	3SLS	3SLS
Number of observations	146	145	146

A saving grace: targeting exports

- Clean standard not subject to manipulation
 - “these were the only statistics that could not be faked”
 - Local firms could not rig international competition like they could domestic markets
 - Possible externalities
 - Support to laggards terminated
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Alternative explanation— Convergence from an unusual starting point

□ Possibly irreproducible initial conditions:

□ “Deceptively poor”—unusually high level of human capital

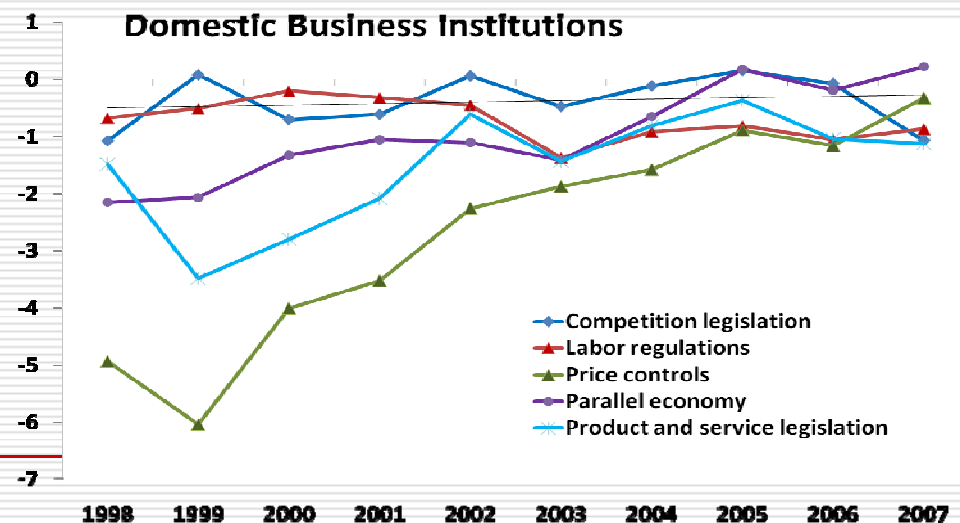
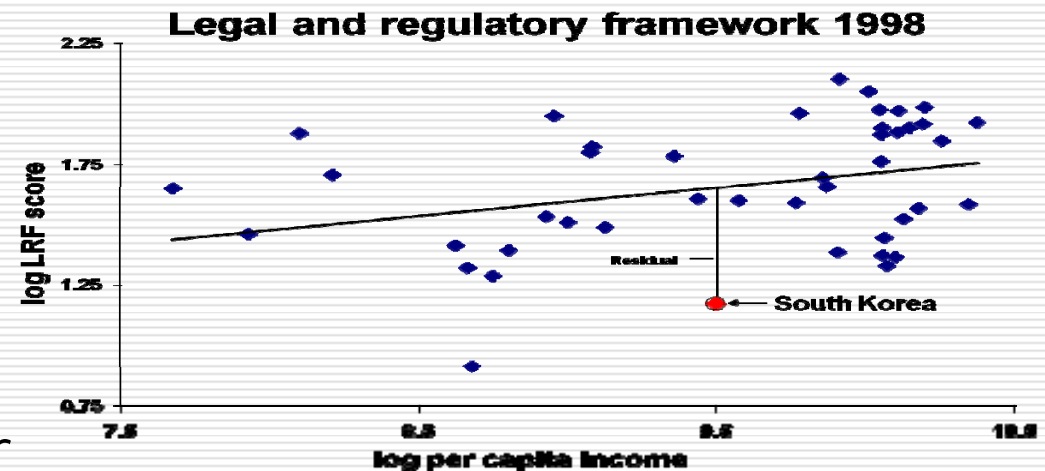
□ Unusual endowments

□ Land reform

Country	Year	Human Capital Index	Per Capita Income	Ratio of Human Capital Index to Per Capita Income
Japan	1955	1673	519	3.2
The Philippines	1956	738	277	2.7
Korea	1955	494	217	2.3
Israel	1954	1200	609	2
Thailand	1955	302	181	1.7
Greece	1956	693	468	1.5
Malaysia	1957	334	351	1
US	1955	2293	2443	0.9
Italy	1956	787	971	0.8
Turkey	1955	267	365	0.7
Argentina	1955	760	1059	0.7
Mexico	1955	352	637	0.6
Spain	1955	389	652	0.6

Institutional convergence

- Causality: do institutions cause growth or does rising income foster institutions?
- Regressions on each indicator, year by year
- Calculation of “studentized residuals” and 2.0 rule of thumb
- Korea converging from below—less and less distinct



Thank you for your attention

Background materials available on
www.piie.com and
www.eastwestcenter.org