

Sharing Knowledge, Sharing the Future

글로벌 지식공유 포럼

November 30, 2018 (Fri) | Lotte Hotel Seoul (Crystal Ballroom 2F)

Hosted by



Industrialization and the Role of Government

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1. Introduction

1. Industrial policy in Korea

- 256/951 projects (for 2004-2016) are related with industrial development.
- Korea, Economic growth through export-oriented industrialization
 - Virtuous cycle from export promotion
 - Full-set industrialization (domestic supply chain, industrial linkage)
- Industrialization and Industrial policy
 - Industrialization = Modernization
 - Industrial policy = Promotion of industries
- Scope of industrial policy
 - Selective, strategic industrial promotion
 - EU, Framework policy for R&D
 - Any government policy affecting the resource allocation among industries.
Rodrik(2008)

2. The Scope of Industrial Policy

Policies

Category	Policy scope	Policies
Macro-level /Non-Industrial policy	Economic policy	Macroeconomic policy Exchange rate policy Infrastructure policy Energy policy Regulatory reform Openness and Liberalization
	Social policy	Education policy Redistribution policy Environment policy
Industrial policy	Framework	Competition policy State ownership and privatization Industrial regulatory policy Industrial standards
	Horizontal	R&D supports Start-up promotion Human resource development Public procurement SME policies
	Sectoral	Export promotion Regional development Industrial parks and clusters
	Selective	Strategic industrial promotion

Reforms and measures

Level	Scope	Areas
State reform	Political reform Judicial reform	
	Public administration reform	Reform of budgetary institutions Economic policy reform Social policy reform
Market reform	Competition promotion Privatization Regulatory reform Financial reform	
Industrial Promotion	Regulation and protection	Entry control Tariff
	Promotion and incentives	Financial incentives Fiscal incentives Administrative support

For effectiveness

- Coherence
- Compliance
- Policy capability



2. Challenges and Policies In Developing Countries Observed From the KSP

1. Topics Studied in the KSP

- KSP Topics in Industrial Development

Income group	HIC	UMIC	LMIC	LIC	Total
Structural transformation and economic diversification	2	16	11	2	31
Business enabling environment and enterprise development	1	9	10	2	22
Other industrial and corporate policies	-	12	7	1	21
Trade and export promotion	1	26	24	3	54
Industrial parks and clusters	2	22	26	-	50
Micro, small- and medium sized enterprises	5	18	29	2	54
Foreign direct investment	2	9	11	-	22
Total	13	112	118	10	253

1. Topics Studied in the KSP

- Subtopics of three major topics

Income group		HIC	LIC	LMIC	UMIC	others	Total
Supply capacity (22)	Technology	2	2	6	4		14
	Manpower				3		3
	Infrastructure		1	6	8		15
Demand (12)	Export market	1		5	2		8
	Domestic market				1		1
Policies (117)	Macroeconomic policy			3	1		4
	Human resource policy	1			5		6
	Trade policy	1	4	16	19	2	42
	Industrial policy	4	3	27	30		64
	Competition policy				1		1
Institutions (39)	Capacity to implement policy	3	3	5	12		23
	Law and institution			3	5		8
	Business environment			1	7		8
	Openness			3			3
Total		12	13	75	98	2	200

2. Challenges: Different and Similar

- Case studies on Ethiopia, Vietnam, Algeria, Columbia
- Different but similar
 - Similar industrial development strategies as they set up national development plan.
 - The major industries are still dominated by the inefficient SOEs.
 - Some developing countries such as Vietnam have achieved successful growth of manufacturing sector by attracting foreign investment.
 - The countries that have initiated growth of manufacturing industry through foreign capital inducement now face the challenge of upgrading the industry as wages rise.
 - Policy programs and supporting organizations, as Columbian case study shows, are being established but their functioning is questionable.
- What are real bottlencks?
 - Macro-level or institutional-level problems vs. Strategic industry promotion
 - Implementation and political will vs. policy measures



3. Korean Experience

1. Industrial Development in Korea

- Export-oriented economic growth
 - Virtuous cycle from export growth
 - Export-led industrialization
 - Aggressive industrial upgrading (Import-substitution)
- Why successful?
 - Fundamentals: education, private ownership, macroeconomic stability
 - Political leadership: economic growth as the first priority
 - Degree of intervention and direction of policy stance
 - Effective policy implementation

2. Success Factors of Industrial Promotion Korea Development Institute

- Export-promotion and industrial upgrading
 - Clear and transparent goals and criterion
 - Demand consideration: exports and industrial linkage
 - Performance-based policy support
- Effective policy implementation
 - Clear signaling with comprehensive support
 - Institutionalized support
- Alignment of interests of major stakeholders and national goal
 - Private ownership
 - Technocrat insulation



4. Applicability

1. Non-applicables

- Initial conditions: history and culture
 - High degree of education and health relative to its level of development
 - Equal income and wealth distribution
 - Relatively modern institutional setting
 - Weak vested interests
 - A Close tie with the U.S.
- Political leadership
 - Authoritarian government and effective political instruments
 - Potential threat and legitimation of power through economic development
- Long-run development of market economic system
 - although the degree of government intervention has varied over time

2. Applicables

- Adaptive reverse engineering (Evans, 1998)
 - Institutional framework of industrial policy
- Success factors of Korean experience
 - Knowledge sharing to make industrial policy effective
 - Policy coherence
 - Compliance
 - The effective policy implementation system
 - building more effective policy governance system at least in charge of industrial development
 - Coordination and monitoring
 - With balanced understanding of the success factors
 - Demand-side consideration
 - The context of policymaking

3. Adaptation

- Global production sharing and the role of FDI
 - Inadequacy of Korean-style industrial promotion
 - The rising importance of industrial capability of local firms
 - of business environment and macroeconomic stability
- Increasing regulation on the use of policy instruments under the WTO or else
- Size of economy and political will



5. Implications

1. For Developing countries

- The government should pay attention to the macro-level conditions for industrial development ahead of industrial policymaking.
- The demand-side considerations of industrial policy may be more important than the supply-side ones.
- The priority of industrial policy should be the productive capacity and capability of nation as a whole rather than the promotion of strategic industries.
- The government should show a strong commitment to global integration and private sector-driven growth.

2. For Korea

- The Korea's development model is no longer valid?
 - No, importance of exports, the outward-orientation of Korean economy and the role of large enterprises, in particular
 - Yes, need for more innovative activities from private initiatives
- Redefinition of the role of government
- Rising importance of competition policy as industrial policy
- Regulatory reform
- Education and training in Knowledge-based economy

3. For KSP

- More balanced view on Korea's success
 - What the government should do to improve market fundamentals
- The key elements and bottlenecks of industrial development may be beyond the scope of traditional industrial policy.
- Paying more attention to the area related with horizontal policy such as enhancing the productive capacity of local industries and firms.
- Sharing more context-based knowledge



Thank you !