

An Empirical Test of Industrial Targeting: The Case of Korea

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ABSTRACT

This paper first show that South Korea's industrial targeting in the name of heavy and chemical industry drive in the 1970s managed to produce industries with international competitiveness over time. It then performs *ex post* cost-benefit analysis to show that industrial targeting in Korea has failed to pay off. One reason is that targeted industries grow fast during their long infancy period but growth slows down after they mature. Another reason is that the cost incurred during the infancy period consists of a large margin of protection and subsidy while the benefit reaped after maturation is composed only of excess profitability. The results suggest that an eclectic view is needed in interpreting the 'East Asian Miracle.'

Key words: industrial policy, infant industry, targeting, cost-benefit analysis, protection, subsidy

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