How Much of South Korea's Growth Miracle Can be Explained by Trade Policy?

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Abstract

South Korea's growth miracle has been well documented. A large set of institutional and policy reforms in the early 1960s is thought to have contributed to the country's extraordinary performance. In this paper, we assess the importance of one key set of policies, the trade policy reforms in Korea, as well as the concurrent GATT tariff reductions. We develop a model of neoclassical growth and trade that highlights two forces by which lower trade barriers can lead to increased per worker GDP: comparative advantage and specialization, and capital accumulation. We calibrate the model and simulate the effects of three sets of tariff reductions that occurred between 1962 and 1995. Our main finding is that the model can explain up to 32 percent of South Korea's catch-up to the G7 countries in output per worker in the manufacturing sector. We find that the effects of the tariff reductions taken together are about twice as large as the sum of each reduction applied individually.

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