

Korea and the BICs (Brazil, India and China): catching-up experiences (Innovation and Growth: Chasing a Moving Frontier)

This chapter tests the neo-Schumpeterian model of Aghion et al. with industry-level data to analyse how Brazil, India and China are catching up to Korea's technological frontier in a globalised world. It validates Aghion et al.'s inverted-U hypothesis (industries closer to the technological frontier innovate to escape competition while longer distances discourage innovating). It suggests that for effective catch-up, distance-shortening (or innovation-enhancing) policies may be a necessary complement to liberalisation. Korea and China combined a variety of distance-shortening policies with financial subsidies to promote high-technology industries and an export-led growth strategy. Following liberalisation, they leveraged competition to spur catch-up. Brazil, which in 1980 was as rich as Korea, and India, which was as rich as China, are catching up more slowly. Import-substitution industrialisation strategies saddled Brazil and India with a large anti-export bias, and unfocused attention to innovation-enhancing policies dampened global competitiveness. Post-liberalisation, many of their industries were too far from the technological frontier to benefit effectively from competition. The catch-up experiences of the BICs show that distance from the technological frontier matters and that the design of country-specific distance-shortening policies can be an important complement to trade liberalisation in promoting catch-up with richer countries.

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