How Brazil and South Korea differ

In the 1970s the economies of Brazil and South Korea were similar; today they are very different. What did Korea do to become so much richer?

Thais Thimoteo

If today South Korea is recognized for economic policies that in a few decades turned it into a rich economy, the reasons go beyond an efficient industrial policy anchored in long-term strategies and programs of incentives and benefits that had well-defined expiration dates. Complementary policies also contributed to South Korean economic success: massive investments in infrastructure and education, improvements in the business environment, relative inflation control, and organization of public finances. This combination makes it easier to understand why the South Korean economy has grown rapidly while Brazil’s growth is disappointing.

Until the 1970s both countries had similar per capita income. Both were poor. And at the end of that decade, the global oil price shock hit both countries. The difference lies in how each dealt with the shock. "The question now is why Brazil did not grow much in 40 years and South Korea did," says Mauricio Canêdo Pinheiro, researcher at the Brazilian Institute of Economics. He believes the difference lies in industrial policy and the policies that complemented it.
“It was the success of both types of policy that led South Korea to reach per capita income three times greater than that of Brazil,” Pinheiro says. “Some analysts believe that South Korea has grown mainly due to industrial policy. Others credit … other policies. I think it was a combination of the two.”

South Korea’s per capita income in dollars, adjusted by the purchasing power of the population (PPP) went from US$1,074 in 1960 all the way to US$27,522 in 2011. Meanwhile, Brazil’s went up from US$1,982 only to US$9,300.

South Korea also made major strides in education. Schooling of South Koreans older than 15 rose from 4.2 years in 1960 to 12 in 2010; over the same period in Brazil schooling went up from 2.5 years to 7.9. “Brazil has improved economically and has tried to catch up, especially in educational levels, but we lost more than 30 years,” Pinheiro says. “Education access and quality were stagnant in the 1970s and 1980s. We thought that leveraging industry, education would come along and that did not happen.”

The infrastructure differences between the two nations are even greater. According to the World Economic Forum’s 2013–14 report Brazil’s performance in improving the ports, railways, roads, and airports that are fundamental for industry is similar to the poorest countries. South Korea performs among the richest. “Brazil is a middle-income country, but it is at the same level of infrastructure as low-income countries. Until we change this situation, Brazil cannot grow,” Pinheiro says, adding, “Until we change this situation, Brazil cannot grow.”

Mauricio Canêdo Pinheiro

The lessons

Trade liberalization—gradually removing protections of the domestic industry from import completion—is also important to make domestic industry competitive and build up a resilient economy. Because South Korea has provided subsidized credit to selected sectors and fiscal incentives to its industry, and protected its domestic market as it was opening up gradually, at a glance Korean industrial policy seem similar to Brazil’s current policies. However, there is a fundamental difference: South Korea set definite expiration dates for protection and incentive programs, which functioned to avoid turning the economy into an autarchy that was neither productive not competitive. “The great move of South Korea’s industrial policy was to set expiration dates. There was planning. If it was important for a particular industrial sector to develop, the government would help it, so later it could go on its own. When we compare the degree of market opening in Brazil and South Korea (measured by the sum of imports and exports as a proportion of GDP), we realize that Brazil’s has stayed the same since the 1960s,” Pinheiro says.

Industrial policy should take into account long-term development. However, “The difficult task is to raise competitiveness gradually,” Pinheiro warns. “We cannot open the domestic market overnight because that will harm Brazilian industry, which does not have adequate infrastructure, skilled labor, and a favorable business environment to compete with foreign products. The challenge is to continue addressing these shortcomings, and at the same time open the economy gradually to international markets.”

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