

# **WHAT'S THE BIG DEAL?**

## **THE EFFECT OF CORPORATE REFORMS ON MANUFACTURING**

### **PRODUCTIVITY IN KOREA**

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#### **ABSTRACT**

Although Korea has achieved striking economic success during last four decades, following the 1997-98 foreign exchange crisis, Korea's economy was in urgent need of restructuring amid a series of corporate bankruptcies and a paralyzing credit crunch.

In this paper using an unpublished plant-level panel data set, I explore changes in total factor productivity and its growth before and after the crisis. In order to do so, I sort out eight industries that were most likely affected by the "Big Deal Program".

The results suggest the Big Deal had a positive and significant effect on TFP levels. Bigger plants in Big Deal

industries had differentially higher TFP levels. However, these results are not robust to the bigger plants classified as being in the top 5% in terms of K/L ratio.

Unlike the results for TFP levels, coefficient for the three variable interaction term ( $D_i T_{it} S_{pt}$ ) are all positive and significant with the plant-size specification. It means the bigger plants in eight Big Deal industries have more productivity growth even though they have lower TFP levels than the smaller plants after the reform. Depending on the plant-size specifications, the Big Deal program had a positive effect on the bigger plants in the Big Deal industries of 0.1 to 1.39 percents.