

KOREA

- Sustained rapid growth has boosted GDP per capita to within a quarter of the average of the most advanced OECD countries. However, productivity in Korea is only about half as high, while working hours are among the longest in the OECD.
- Inequality, as measured by the Gini index, is below the OECD average, although still higher than in the 1980s during Korea's high-growth era. The share of disposable income of the poorest 20% of the population remains below OECD average, reflecting wage inequality stemming from labour market dualism and the weak redistributive effect of the tax and social transfer system.
- A Tripartite Agreement between management, labour and the government in 2015 is aimed at alleviating labour market dualism. The coverage of non-regular workers by the National Pension Scheme was increased in 2015. Korea made regulatory reform a priority in its Three-year Plan for Economic Innovation by implementing a number of initiatives, notably the “cost-in, cost-out” system, to reduce the burden of regulations on firms. Policies to expand the availability of childcare and improve its quality, while promoting the take-up of parental leave, are boosting the employment rate of women. Korea signed five additional free trade agreements in 2014-15, bringing the total to 15, helping to lower barriers to agricultural imports.
- A comprehensive strategy to break down labour market dualism is essential to reduce high wage inequality resulting from the large wage gap between regular and non-regular workers. It is also a key to increasing the employment of women, along with policies to enhance the quality of childcare and encourage work-life balance and the take-up of maternal and parental leave. Further progress in regulatory reform and reducing the role of administrative guidance is a priority to raise productivity. Relying more on indirect taxes would promote growth while providing an efficient source for financing rapidly rising social expenditures. The tax-financed Basic Pension should be concentrated on low-income elderly to reduce the poverty rate among the population aged over 65 years. Reducing the high level of agriculture protection would promote efficiency and reduce costs for consumers.

Going for Growth 2017 priorities

Reduce the regulatory burden on economic activity. Restrictive product market regulation hinders competition, slowing innovation and productivity gains, particularly in the service sector.

Actions taken: The Regulatory Guillotine and Thorn Under the Nails initiatives had resolved nearly 600 reform proposals made by companies by the end of 2015. The coverage of the sunset rule, which covered 32% of regulations at the end of 2014, is being extended to half by end-2017.

Recommendations: Use the new “cost-in, cost-out” system to reduce the regulatory burden, based on accurate Regulatory Impact Assessments (RIAs), and phase out positive-list regulations. Improve regulatory quality by subjecting proposed legislation, including that initiated by the National Assembly, to RIAs and public consultation. Reduce the role of administrative guidance. Phase out entry barriers for large firms from business lines reserved for SMEs, which are primarily in the service sector.

Strengthen policies to support female labour force participation. The employment rate of women is 21 percentage points below that of men, the largest gap in the OECD, limiting growth and social inclusion.

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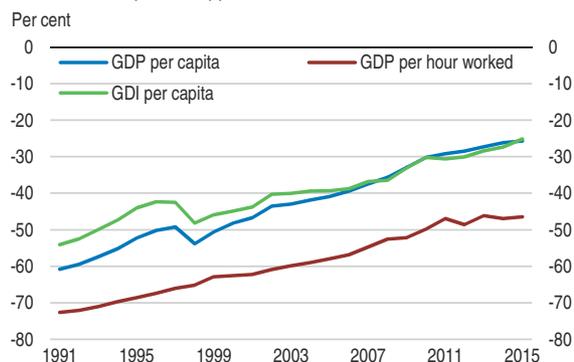
Growth performance and inequality indicators

A. Growth		
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	3.3	3.0
Labour utilisation	0.0	0.9
of which: Labour force participation rate	0.0	0.9
Employment rate ¹	0.0	0.0
Employment coefficient ²	0.0	0.0
Labour productivity	2.8	1.9
of which: Capital deepening	0.6	0.2
Total factor productivity	2.2	1.6
Dependency ratio	0.5	0.3

B. Inequality		
	Level	Annual variation (percentage points)
	2014	2008-14
Gini coefficient ³	30.2 (31.7)*	-0.2 (0)*
Share of national disposable income held by the poorest 20%	6.9 (7.7)*	0 (0)*

* OECD average

C. The narrowing of the gap in GDP per capita has recently accelerated but productivity lags behind
Gap to the upper half of OECD countries⁴



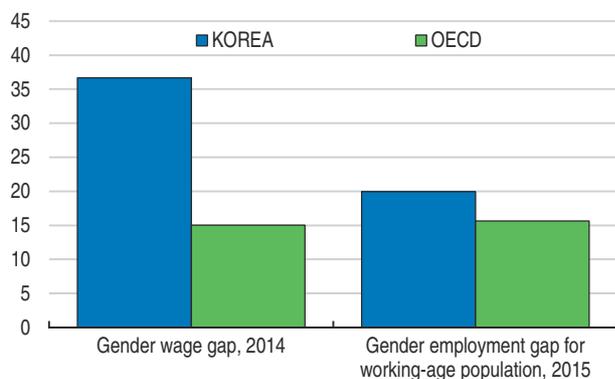
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

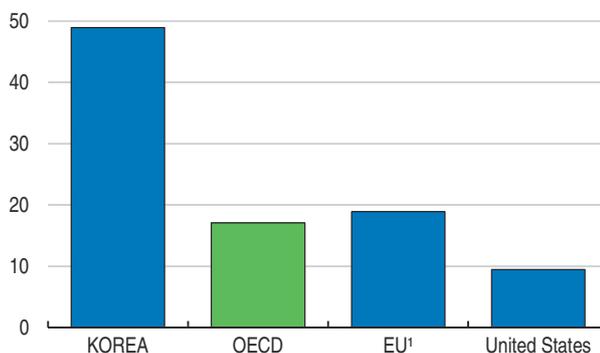
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Policy indicators

A. Participation of women in the labour market is low, driving up wage inequality
Percentage



B. Producer support to agriculture is more than double the OECD average
Percentage of farm receipts, 2015



1. For this measure, EU refers to all 28 members of the European Union.

Source: Panel A: OECD, *Labour Force Statistics and Social Protection and Well-being Databases*; Panel B: OECD, *Producer and Consumer Support Estimates Database*.

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Actions taken: Access to free childcare was revised in 2016 to give priority to working mothers. Public childcare centres were provided with assistant teachers in 2015 and teacher training was reformed in 2016. To increase fathers' take-up of parental leave, the first three months of the leave taken by the second parent (typically the father) was set at 100% of wages up to a ceiling set at 45% of the average wage.

Recommendations: Enhance childcare quality by making accreditation mandatory and strengthening competition. Increase the take-up of maternity and parental leave systems by enforcing compliance and raising the benefit level for parental leave. Promote a workplace culture that supports work-life balance. Break down labour market dualism.

Reform EPL and tackle labour market dualism. Dualism drives inequality, given the large wage gaps between regular and non-regular workers, and reduces firm-based training of workers.

Actions taken: The 2015 Tripartite Agreement between management, labour and the government contains measures aimed at alleviating dualism. The government proposed an amendment to the labour law in 2015 that would allow fixed-term contracts to be extended by another two years for employees aged 35 or older. In 2015, 390 000 non-regular workers (6% of the total) were enrolled in the National Pension Scheme by their employers and two programmes were launched in 2016 to increase enrolment among workers with unstable employment status.

Recommendations: Break down dualism by relaxing employment protection for regular workers, in particular by simplifying and accelerating the remedy procedure for unfair dismissal and making it more transparent, by increasing the minimum wage and expanding social insurance coverage and training for non-regular workers.

Improve the efficiency of the tax system and strengthen the social safety net. The tax system can be made more growth-friendly, while social spending as a share of GDP is half of the OECD average.

Actions taken: The Customised Benefit System, which sets different eligibility criteria for livelihood, medical services, housing and education benefits under the Basic Livelihood Security Programme, was introduced in 2015 and eligibility criteria were relaxed. All self-employed workers were made eligible for the Earned Income Tax Credit.

Recommendations: Gradually raise tax rates to finance rising social spending, focusing on taxes with a less negative impact on growth, such as the VAT and environment-related taxes. In addition, higher taxes on property would reduce inequality. Focus the Basic Pension on the elderly with the lowest incomes to reduce the relative poverty rate for the population aged over 65 years, which is the highest in the OECD at 49.6%, and expand the coverage of the National Pension Scheme.

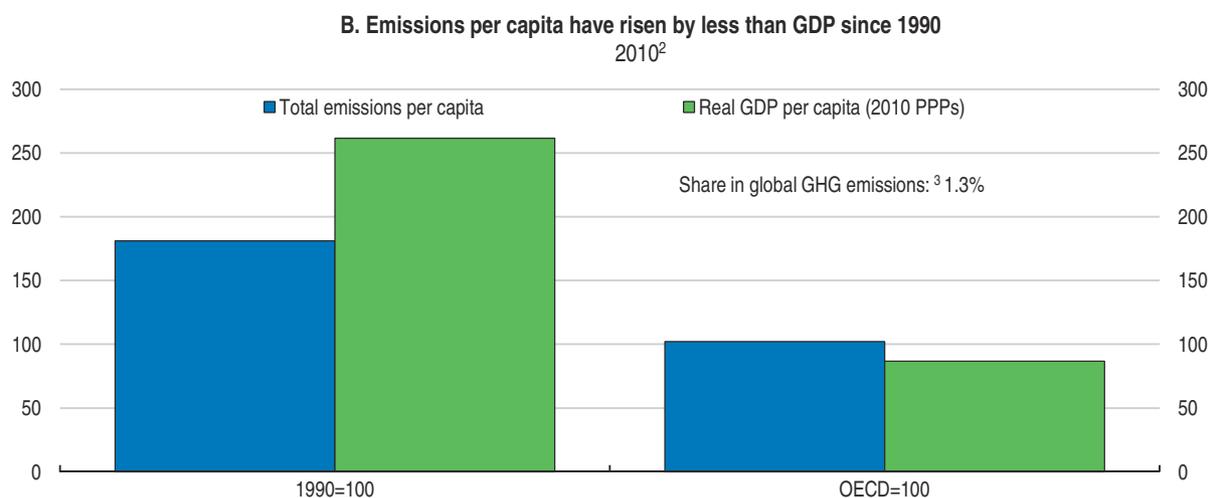
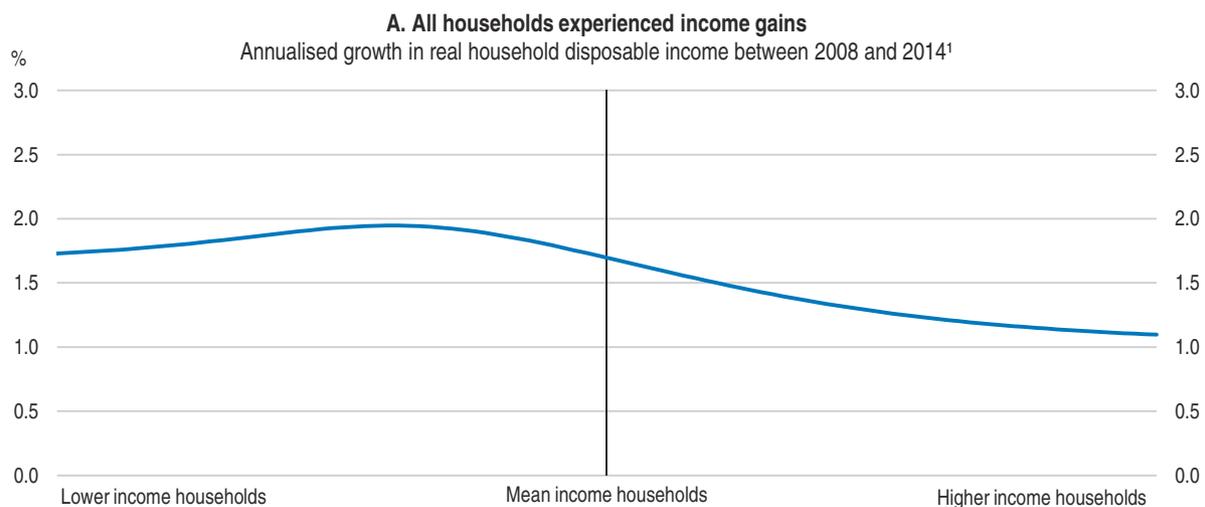
Reduce producer support to agriculture. High producer support, which is 2.5 times higher than the OECD average, imposes a large burden on consumers and distorts the structure of agriculture.

Actions taken: Korea introduced the system of tariffs for rice in 2015, under an agreement with the World Trade Organisation, setting the tariff at 513%. Korea signed free trade agreements with Canada, the People's Republic of China, New Zealand and Vietnam in 2015, and Columbia in 2016, which will gradually reduce barriers to agricultural imports.

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Recommendations: Further reduce barriers to agricultural imports and scale back the high level of support, while shifting its composition away from market price measures toward direct support.

Beyond GDP per capita: Other policy objectives



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2014. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions in CO₂ equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

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