

## KOREA

- Sustained rapid growth has brought GDP per capita to within a quarter of the upper half of the OECD countries. However, productivity in Korea is only about half as high, while working hours are among the longest in the OECD.
- Korea's 2013 roadmap to achieve a 70% employment rate and the 2014 Three-year Plan for Economic Innovation address some key priorities, with measures to reduce regulation and increase female labour force participation. Recent free trade agreements with Canada, Australia and New Zealand have reduced barriers to foreign direct investment and imports, including in agriculture.
- Further regulatory reform and measures to create an attractive business climate remain essential, in part to boost the stock of inward foreign direct investment, which is the second lowest in the OECD area. Improving the efficiency of the tax system by relying more on indirect taxes would promote growth while easing budgetary pressures associated with rapidly rising social spending. Measures to break down labour market duality would boost productivity growth and encourage female employment.
- In addition to boosting growth, reducing labour market duality would also lower income inequality.

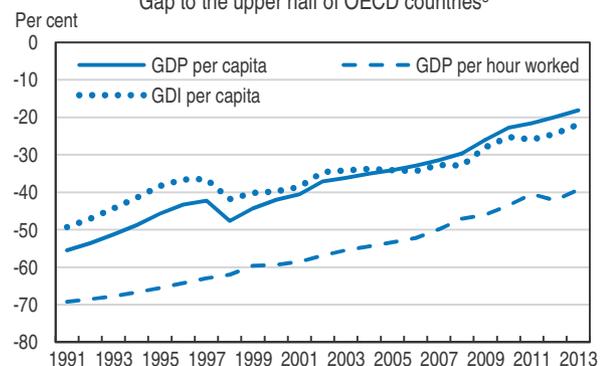
### Growth performance indicators

#### A. Average annual trend growth rates

Per cent

	2003-08	2008-13
Potential GDP per capita	3.0	2.6
Potential labour utilisation	0.0	0.2
of which: Labour force participation rate	0.0	0.1
Employment rate <sup>1</sup>	0.0	0.0
Trend employment coefficient <sup>2</sup>	0.0	0.0
Potential labour productivity	2.9	2.4
of which: Capital deepening	0.4	0.1
Labour efficiency	1.6	1.6
Human capital	0.9	0.7

#### B. The narrowing of the gap in GDP per capita has recently accelerated but productivity lags behind Gap to the upper half of OECD countries<sup>3</sup>



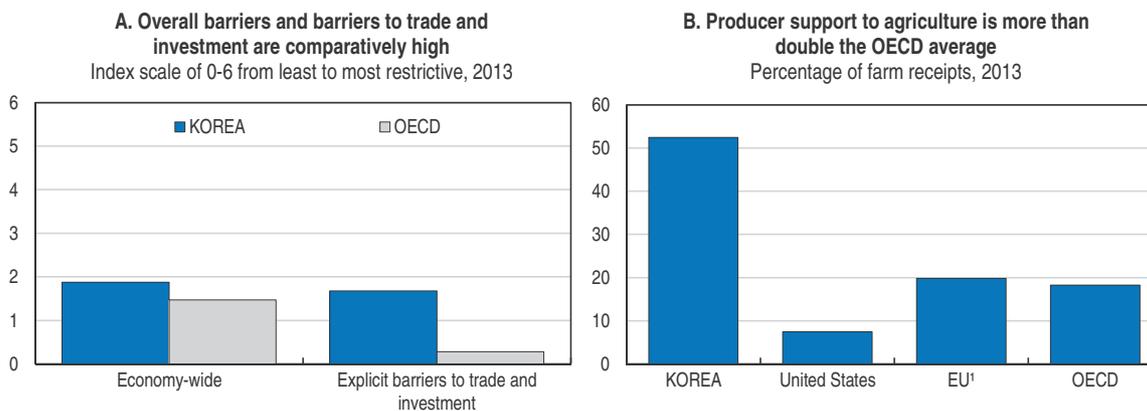
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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## Policy indicators



1. For this measure, EU refers to all 27 members of the European Union.

Source: Panel A: OECD, *Product Market Regulation Database*, [www.oecd.org/economy/pmr](http://www.oecd.org/economy/pmr). Panel B: OECD, *Producer and Consumer Support Estimates Database*.

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## Going for Growth 2015 priorities

**Priorities supported by indicators**

**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:** Legislation introduced in 2014 caps the regulatory burden by requiring that an existing regulation be abolished whenever a new one is introduced. The law also requires that the strengthening of an existing regulation must be offset by relaxing another regulation. Under the reform, five key service industries – health, education, finance, tourism and software – are under review. A global fund was launched in 2014 to encourage investment by overseas venture capitalists in Korea. However, a (backward) measure in 2013 imposed restrictions on the entry of large firms in a number of business lines that are now reserved for small and medium-sized enterprises (SMEs).

**Recommendations:** Reduce barriers to foreign direct investment and improve the business climate, in part by enhancing the transparency of tax and regulatory policies, to attract foreign investors. 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.** Labour market duality contributes to reducing female employment and wage prospects. Increasing women's labour force participation, currently the fifth lowest in the OECD area, will boost employment and mitigate the negative impact of rapid population ageing.

**Actions taken:** From 2013, childcare and kindergarten subsidies are granted for all children aged five and below, regardless of household income. Parents are allowed to reduce working hours for up to two years following maternity leave. The government is increasing the number of high-quality part-time jobs in the public sector.

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**Recommendations:** Break down labour market duality (see priority below). Encourage the use of parental leave and flexible working arrangements, including more part-time jobs. Expand the supply of affordable, high-quality childcare.

**Reform employment protection.** The large gap in wages and in job protection between regular and non-regular contracts and the low coverage of non-regular workers by social insurance makes labour market duality a major problem.

**Actions taken:** The government launched a plan in 2013 to convert around a quarter of fixed-term workers in the public sector to regular employment status by 2015. Reforms in 2014 are aimed at expanding the coverage of unemployment insurance to specific categories of self-employed workers.

**Recommendations:** Reduce effective employment protection for regular workers, in particular by simplifying and accelerating the remedy procedure for unfair dismissal, while expanding the social protection coverage of non-regular workers and upgrading training programmes for them.

**Other key priorities**

**Improve the efficiency of the tax system by relying more on indirect taxes.** The tax burden is low but the tax system can be made more growth-friendly, in particular given that the VAT is the second lowest in the OECD area. Such reform is also needed to cope with the double-digit growth of public social spending.

**Actions taken:** No action taken.

**Recommendations:** Rely primarily on indirect taxes, notably the VAT, as well as environmental taxes and property-holding taxes. Keep taxes on labour income low.

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

**Actions taken:** In 2014, Korea signed Free Trade Agreements with Canada, Australia and New Zealand that significantly reduce barriers to agricultural imports.

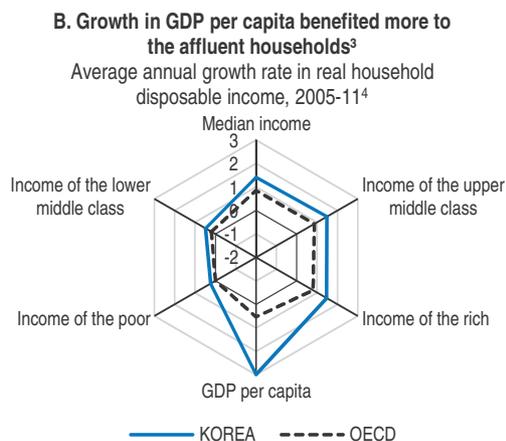
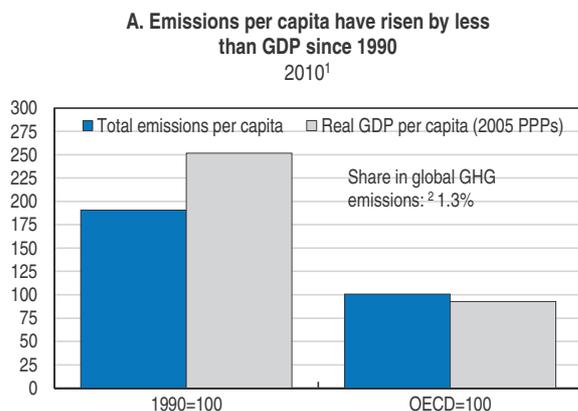
**Recommendations:** Further reduce barriers to agricultural imports and scale back the high level of support, while shifting its composition away from market price measures toward direct support.

**Reform areas no longer considered a priority in *Going for Growth***

For Korea, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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## Beyond GDP per capita: Other policy objectives



1. Total GHG emissions in CO<sub>2</sub> 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.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2006-12 for Korea.

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

StatLink  <http://dx.doi.org/10.1787/888933178720>