

KOREA

While GDP per capita continues to converge to that of the best performing countries, the gap is still very large due to a significant productivity shortfall which is only partially offset by high labour utilisation. After several years with little progress, a renewed push for structural reforms is required, notably in the areas below.

Priorities supported by indicators

Ease regulation in network industries

Restrictive product market regulations limit competition in network industries, contributing to the productivity gap between manufacturing and services, which is the largest in the OECD area.

Actions taken: The government introduced a “Roadmap for Telecommunication Policy and Regulation” in 2007, which allows number portability, relaxes price regulation and the interconnection system and lowers entry barriers. The Korea Broadcasting Commission and the Korea Communications Commission were combined into a single regulator in 2008.

Recommendations: Introduce reforms along the lines of the telecommunication reform in other network industries, including electricity, where the privatisation of power-generating companies has stalled. Lower or remove foreign ownership ceilings in network industries, such as telecommunications, transport and electricity, to reap benefits associated with inflows of foreign direct investment.

Reduce producer support to agriculture

Support for agricultural producers remains more than double the OECD average, distorting trade and forcing consumers to pay far above the world price for agricultural products, while keeping resources in low-productivity activities.

Actions taken: No action since the free trade agreement (FTA) was negotiated with the United States in 2007 that will gradually reduce barriers to a number of major products, including wheat, corn and beef. Despite the introduction of a payment to farmers based on paddy field area, the proportion of market price support – the most distortive type of support – rose to over 90% in 2007.

Recommendations: Increase openness to imports of agricultural products *inter alia* through the implementation of the FTA with the United States and agreements with other trading partners. Shift the composition of assistance from market price support to direct income payments while reducing the overall level of support.

Reform employment protection legislation for regular employment

The proportion of temporary workers has risen from 17% of employees in 2001 to 28% in 2007. The precarious nature of such jobs, their limited coverage by the social insurance systems and the lack of training creates both equity and efficiency concerns.

Actions taken: The provision of the Non-Regular Worker Act, which is aimed in part at preventing discriminatory treatment of non-regular workers by allowing them to submit complaints to the government, was extended to companies with between 100 and 299 employees in July 2008.

Recommendations: Ensure that the Non-Regular Worker Act does not reduce overall employment. Reduce the incentives to hire non-regular workers by easing employment protection for regular workers and expanding the coverage of the social insurance systems, while improving training opportunities for non-regular workers.

Other key priorities

- **Innovation incentives.** Improve the innovation system by upgrading the quality of universities through deregulation and competition and increasing their relatively limited role in R&D.
- **Childcare facilities.** To encourage female labour force participation, enlarge the role of private childcare facilities by eliminating the ceiling on fees and provide vouchers to parents rather than expanding the capacity of public childcare.

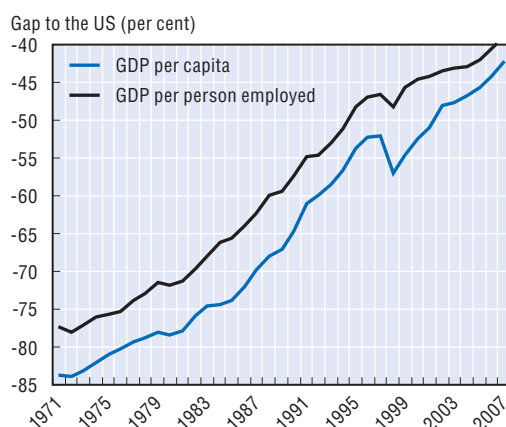
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Structural indicators

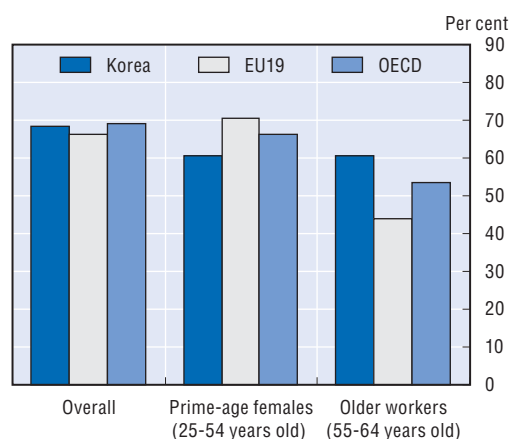
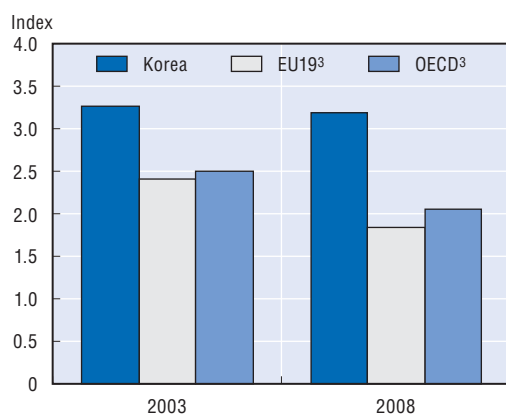
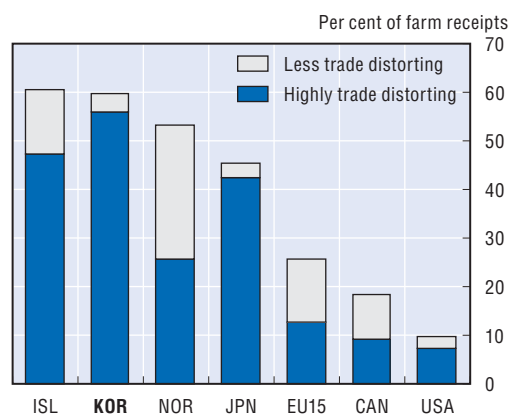
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	4.0	4.0	4.1
Labour utilisation	-0.4	-0.5	-0.3
of which: Employment rate	0.6	0.5	0.8
Average hours	-1.0	-1.0	-1.1
Labour productivity	4.5	4.5	4.4
of which: Capital intensity
Multifactor productivity

Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Convergence in GDP per capita and productivity remains strong¹

B. The overall employment rate is close to the OECD average despite low rates for females, 2007

C. Product market regulation in network industries is stringent²D. Agricultural support is high, 2007
Producer support estimate

1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).

2. Index scale of 0-6 from least to most restrictive.

3. Excluding Greece, Ireland and the Slovak Republic.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD, Product Market Regulation Database; Chart D: OECD, Producer and Consumer Support Estimates Database.

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