KOREA

Notwithstanding continued convergence of GDP per capita, the gap to the best performing countries is still large because of the low level of productivity.

Priorities supported by indicators

Lower barriers to entry for domestic and foreign firms

The total cost, minimum capital requirement and number of procedures to start a new firm are well above the OECD average, reducing competition from potential new entrants, with adverse effects on productivity. Relatively limited inflows of foreign direct investment (FDI) further limit competitive pressures in the domestic market.

Actions taken: During 2005, the government took steps through the Regulatory Reform Committee to reform nearly 1 000 regulations out of 7 900 regulations under the responsibility of the ministries, which lead to progress in some areas such as deregulation of the securities industry.

Recommendations: Further reduce entry barriers through regulatory reform, particularly in the non-manufacturing sector. Encourage FDI by removing the remaining obstacles that might discourage potential foreign investors, particularly foreign-ownership restrictions in the telecoms and electricity sectors.

Reduce producer support to agriculture

At 63% of total farm receipts, support for agricultural producers is double the OECD average, creating trade distortions while maintaining excess resources in low-productivity activities.

Actions taken: The introduction of a direct income support system in 2005 is expected to reduce the share of market price support, which currently accounts for 92% of producer support. Government purchases of rice were abolished in 2005 and the minimum market access of rice imports is to increase from 4% of domestic consumption to about 8%.

Recommendations: Further shift the composition of assistance from market price support to direct payments, and reduce the overall level. Eliminate remaining restrictions on farm size, so as to raise productivity.

Strengthen competition in the energy sector

Restructuring in the electricity and gas industries has stalled, leaving them dominated by state-owned monopolies. Distortions in the tariff structure results in cross-subsidisation between sectors.

Actions taken: Electricity prices have been adjusted to better reflect costs. Five generating companies have been established but the plan to privatise them has stalled.

Recommendations: Create electricity generation and distribution companies that are independent of the transmission system. Increase the use of cost-reflective prices and establish independent sectoral regulators.

Other key priorities

- Improve the innovation system by strengthening linkages between research institutes in the business, university and government sectors, by enhancing protection of intellectual property rights and by upgrading the tertiary education sector through deregulation and greater competition.
- To increase female labour force participation, expand the role of private childcare facilities by allowing more flexibility in their management and eliminating the ceiling on fees set by local governments.

ECONOMIC POLICY REFORMS: GOING FOR GROWTH – ISBN 92-64-03047-6 – © OECD 2007