

## KOREA

*Convergence in GDP per capita has continued, but the gap with the best performing countries remains large, reflecting a still low level of productivity.*

### Policy priorities

#### **Lower barriers to entry for domestic and foreign firms**

**Challenge and recommendations:** To promote competition and thereby higher productivity, it was recommended that entry barriers be reduced through regulatory reform and the remaining obstacles that might discourage potential foreign investors be removed.

**Actions taken:** Regulations on the creation of new enterprises were relaxed by the “Comprehensive Strategy to Improve the Business Environment” announced in September 2006 and this was followed by a second programme in June 2007. The government revised 962 of the 1 422 regulations (out of a total of 8 043) that were targeted during 2006. In December 2007, the government created three free economic zones (in addition to the three existing zones), which are aimed at attracting foreign investors through financial incentives and exemptions from certain restrictive regulations.

#### **Reduce producer support to agriculture**

**Challenge and recommendations:** To reduce distortions to trade and lower prices for consumers, it was recommended that the composition of assistance to farmers be shifted from market price support to direct payments, while lowering the overall level of support.

**Actions taken:** No major action. Under the Korea-US free trade agreement, completed in April 2007 but yet to be approved, tariffs are to be lifted immediately on 38% of agricultural tariff lines, covering 55% of food imports from the United States, including wheat. Tariffs on other important products, notably beef, will be gradually phased out, thus helping to reduce market price support.

#### **Strengthen competition in the energy sector**

**Challenge and recommendations:** To strengthen competition in the electricity and gas sectors, it was recommended that distribution companies that are independent of the transmission system be created, independent sectoral regulators be established and the pricing system be adjusted to reduce cross-subsidisation between sectors.

**Actions taken:** No major action. However, under the December 2006 plan to develop service industries, the cost of electricity for the service sector will be lowered by 30%, thereby matching the level in manufacturing. In addition, prices of electricity set by the government for industrial users and households were adjusted to better reflect costs.

#### **Improve the innovation system**

**Challenge and recommendations:** To increase the return on investment in innovation, it was recommended that linkages among research institutes in the business, university and government sectors be strengthened, intellectual property right protection be enhanced and the tertiary education sector be upgraded.

**Actions taken:** The government announced a plan in May 2007 to expedite the investigation of potential violations of intellectual property rights. A law aimed at increasing the transparency of university performance through objective assessments was enacted in May 2007.

#### **Increase female labour force participation**

**Challenge and recommendations:** To encourage greater labour force participation by women, it was recommended that the role of private childcare facilities be expanded by allowing more flexibility in their management and eliminating the ceiling on fees.

**Actions taken:** In 2006, the government expanded a subsidy to private childcare facilities for children under the age of three. The coverage of the income-tested support provided to families for childcare and education of children under the age of five will be expanded from half of the children in that age group in 2006 to 80% by 2009.