

KOREA

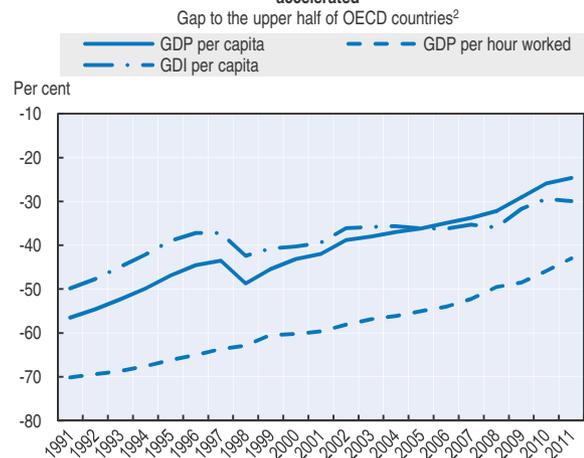
- GDP per capita continues to increase rapidly, rising to within a quarter of the upper half of the OECD countries. Productivity in Korea is only about one-half as high but working hours are the longest among OECD countries.
- The recent free trade agreements with the European Union and the United States have reduced barriers to imports of services and agricultural products, as well as to foreign direct investment. Expanded subsidies for childcare and kindergarten fees are facilitating increases in female employment.
- Narrowing the productivity gap requires policies to reduce entry barriers and encourage inward foreign direct investment (FDI), particularly in services, where productivity has lagged behind. In addition, it is important to break down labour market duality, make the tax system more favourable for growth and enhance the competitiveness of agriculture. Another priority, in the face of rapid population ageing and declining working hours, is to increase women's labour force participation.
- Further improvements in access to early childhood care and education would enhance opportunities for disadvantaged children and could reduce inequality in the long term. Breaking labour market duality would also help reducing inequality by improving employment and wage prospects of youth and the low-skilled.

Growth performance indicators

A. Average annual trend growth rates

	Per cent	
	2001-06	2006-11
Potential GDP per capita	3.3	2.7
Potential labour utilisation	0.2	0.0
of which:		
Labour force participation rate	0.1	0.0
Employment rate ¹	0.1	0.0
Potential labour productivity	3.1	2.8
of which:		
Capital intensity	1.2	1.0
Labour efficiency	1.3	1.3
Human capital	0.7	0.5

B. The narrowing of the gap in GDP per capita has recently accelerated



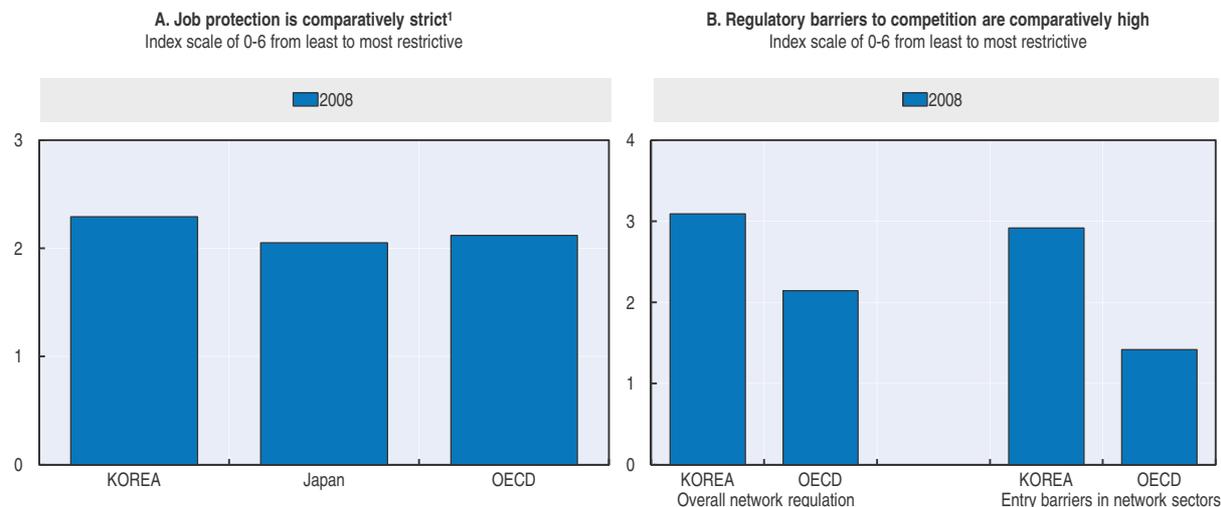
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*.

StatLink  <http://dx.doi.org/10.1787/888932777150>

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Policy indicators



1. Employment protection legislation on regular contracts.

Source: OECD, *Employment and Product Market Regulation Databases*.

StatLink  <http://dx.doi.org/10.1787/88893277169>

Identifying Going for Growth 2013 priorities

Priorities supported by indicators

Reduce barriers to entry for domestic and foreign firms in network industries and services. High barriers to entry hinder competition, holding back productivity in various services sectors.

Actions taken: The introduction of mobile virtual network operators in 2011 is strengthening competition in telecommunications. The 2012 Korea-US Free Trade Agreement (FTA) will reduce the ceiling on foreign ownership of programme providers from 50% beginning in 2015.

Recommendations: Continue to lower entry barriers in services and network industries, *e.g.* by increasing penalties for violating the Anti-Monopoly and Fair Trade Act and reducing exemptions to it. Improve the business climate to attract FDI in services, in part by reducing obstacles to cross-border mergers and acquisitions and enhancing the transparency of tax and regulatory policies.

Strengthen policies to support female labour force participation. Increasing the labour force participation of women, currently the third lowest in the OECD area, is a priority to boost labour utilisation and mitigate the negative impact of rapid ageing.

Actions taken: The government introduced subsidies for tuition fees for childcare and kindergarten for all children below the age of 2 and for 5 year-olds in 2012, regardless of household income.

Recommendations: Promote female labour participation by expanding the availability of affordable, high-quality childcare, encouraging maternity and parental leave and reducing labour market duality.

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Reform employment protection to reduce labour market duality. The large gap in the degree of job protection between regular and non-regular contracts is one of the main causes of labour market duality.

Actions taken: The government launched a scheme in late 2011 to subsidise contributions to social insurance schemes for low-wage workers in firms with less than five workers. The government's on-the-job training programme was extended to non-regular workers from 2012.

Recommendations: Reduce effective employment protection for regular workers, while expanding the social protection coverage of non-regular workers and upgrading training programmes for them.

Other key priorities

Improve the efficiency of tax system by relying more on indirect taxes. The tax burden is low but the current tax structure, which relies too heavily on direct taxes, could be made more growth-friendly by relying more on indirect sources of taxation.

Actions taken: No action taken.

Recommendations: Rely primarily on indirect taxes, notably the value-added tax, environmental taxes and property-holding taxes, while keeping taxes on labour income low to promote jobs and growth.

Reduce producer support to agriculture. High producer support, which is twice the OECD average, imposes a large burden on consumers and reduces Korea's growth potential by misallocating resources.

Actions taken: Korea has implemented three FTAs since mid-2011 that significantly reduce barriers to agricultural imports, while increasing transfers to compensate farmers.

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

Previous Going for Growth recommendations no longer considered a priority

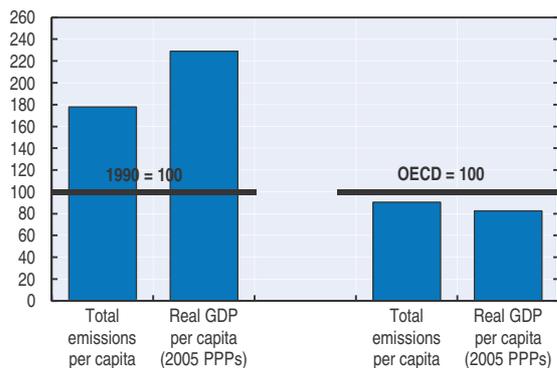
For this country, all 2011 *Going for Growth* recommendations remain as priorities.

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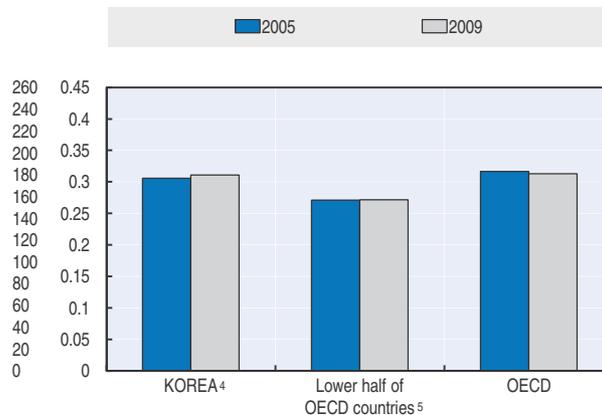
Other dimensions of well-being: Performance indicators

A. Emissions per capita have risen by less than GDP since 1990
Average of years 2005, 2008 and 2010¹

Share in global GHG emissions:² 1.2%



B. Income inequality³ has increased and is significantly above the best performing OECD countries
Gini coefficient



1. Total GHG emissions in CO₂ equivalents from the *International Energy Agency (IEA) Database*. These 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 IEA data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equalised household disposable income for total population.
4. Data refer to 2006 and 2011.
5. Lower half of OECD countries in terms of income inequality.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, Energy (IEA) Database and OECD Income Distribution Database, provisional data (www.oecd.org/social/inequality.htm).

StatLink  <http://dx.doi.org/10.1787/888932777188>