

KOREA

With growth rates of labour productivity and GDP per capita remaining well above most other OECD countries, Korea has continued to narrow its substantial income gap relative to the average OECD level.

Priorities supported by indicators

Ease employment protection for regular workers

Although collective dismissals of regular workers for economic reasons have been allowed since 1998, this reform has failed to promote flexibility in practice, given the constraints imposed on management.

Actions taken: An expert committee has recommended some easing of the conditions on collective dismissals.

Recommendations: The conditions on collective dismissals should be relaxed in order to reverse the growing proportion of non-regular workers in the labour force, which creates equity and efficiency concerns. This should be accompanied by further development of the social safety net, particularly unemployment insurance.

Reduce producer support to agriculture

Support for agricultural producers represents 60 per cent of total farm receipts, nearly double the OECD average. This creates distortions, keeping excess resources in low-productivity activities.

Actions taken: Rice imports have risen from 1 to 4 per cent of domestic consumption over the past decade, while overall support has fallen by 13 per cent. Direct payments to farmers have risen to 9 per cent of total support.

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.

Further liberalise services

Labour productivity in services is only about 60 per cent of that in manufacturing, one of the largest gaps in the OECD area, reflecting weaker competition, due to higher entry barriers and tighter regulation. Network industries are subject to control by government ministries rather than independent regulators.

Actions taken: The government has launched restructuring plans to introduce competition in the electricity and natural gas sectors. Collusion in fee-setting has been made illegal in nine professional service sectors, while a reform of 152 trade associations has been launched by the Fair Trade Commission.

Recommendations: Accelerate the restructuring of network industries and establish independent regulators to promote competition. Simplify procedures for opening large retail stores. Extend the prohibition on collusion in fee-setting to all professional services. Improve the interconnection framework in telecommunications.

Other key priorities

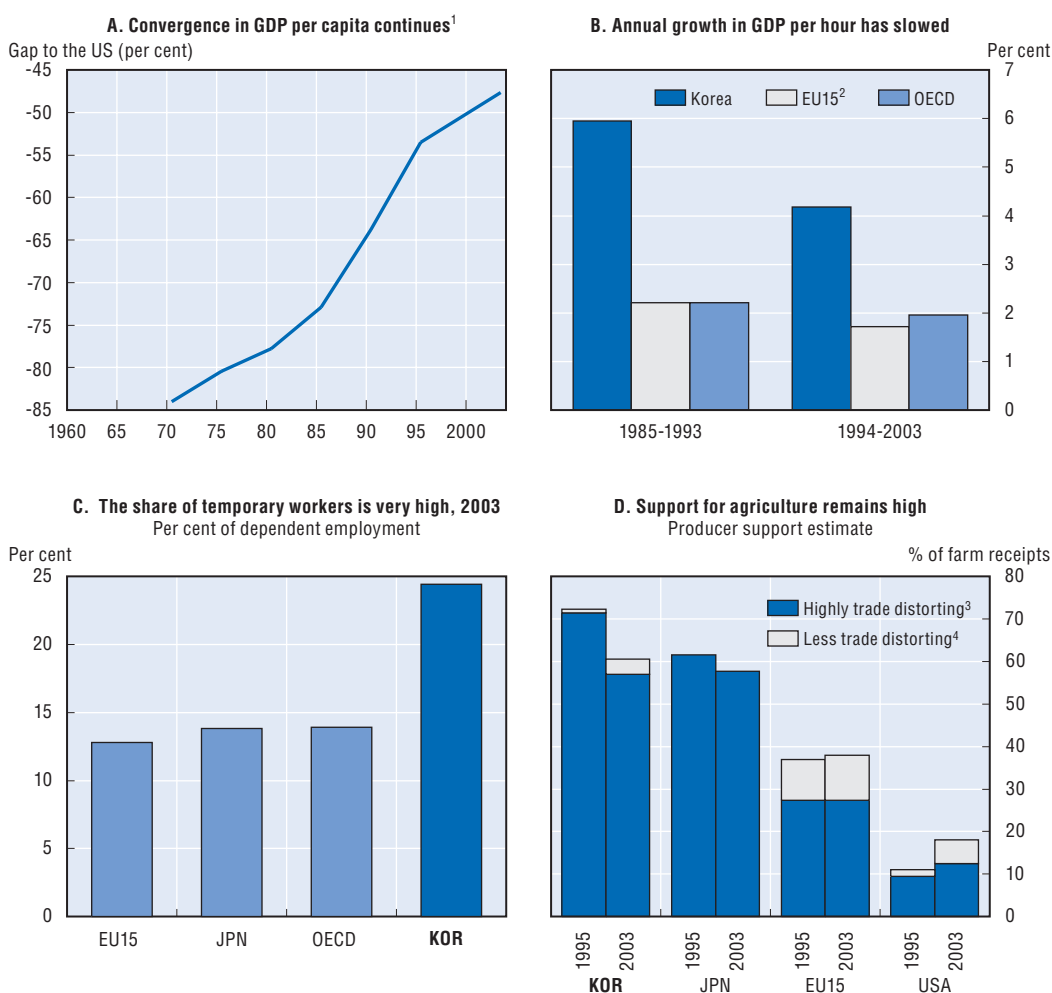
- Remove ownership, procedural and regulatory barriers to foreign direct investment, which is currently relatively low. Extend the incentives offered in the three Free Economic Zones to the rest of the country.
- Improve the functioning of the financial sector by completing the privatisation of banks, resolving the instability in the non-bank sector, notably the credit card companies, the investment trust companies and the fixed-income sector, and by shifting to a more pre-emptive approach to financial supervision to deal with emerging risks in this sector.

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Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	6.7	5.3	3.7	3.6
Trend employment rate	60.4	62.7	63.4	64.5
Trend participation rate	62.3	64.4	66.2	67.1
Structural unemployment rate (NAIRU)	3.0	2.6	4.2	3.8

Source: Estimates based on OECD Economic Outlook, No. 76.



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

2. Excluding Austria and Luxembourg.

3. Market price support and payments based on output and input use.

4. Payments based on area planted/animal numbers, historical entitlements and overall farm income.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: OECD Economic Survey, Korea 2004 and OECD Labour Force Statistics, 2004; Chart D: OECD, Producer and consumer support estimates database.