

KOREA

The GDP per capita gap with the upper half of OECD countries continues to narrow while the labour utilisation rate remains the highest in the OECD. The remaining income gap is due to shortfalls in productivity, especially in services. This can be largely addressed by implementing further reforms in the areas below. Also, crisis-related measures to assist small and medium-sized enterprises should be scaled back to avoid supporting non-viable firms.

Priorities supported by indicators

Ease regulation of network sectors and services

Strict product market regulations obstruct competition and investment in services, where productivity is low.

Actions taken: In 2009, the Presidential Council on Competitiveness announced plans to relax 26 market entry regulations by the end of 2010. The time and cost of starting new businesses has been significantly reduced.

Recommendations: Further reduce entry barriers through regulatory reform. Relax FDI restrictions, including foreign ownership ceilings in key services, and improve the business climate to attract foreign investors.

Reduce producer support to agriculture

Agricultural support remains far above the OECD average, with a result that consumers pay more than double the world price for agricultural products.

Actions taken: The government has reduced the volume and price of its purchases of barley with a view to phasing out the programme by 2012.

Recommendations: Replace market price supports, which account for almost 90% of the support provided in 2008, with direct support for farmers.

Reform employment protection to reduce labour market dualism

Stringent job protection on regular contracts has led to increased labour market dualism, as shown by the rise in the share of temporary workers from 17% of employment in 2001 to 28% in 2007. Such dualism is detrimental to human capital formation, productivity growth and equity.

Actions taken: No action taken.

Recommendations: Weaken the incentives that encourage firms to hire non-regular workers through a comprehensive approach of reducing employment protection for regular workers and expanding social insurance coverage, while improving training opportunities for non-regular workers.

Other key priorities

Improve the efficiency of the tax system by relying more on indirect taxes

Although Korea has one of the lowest tax burdens in the OECD area, the personal and corporate income tax bases are too narrow, the tax compliance of the self-employed is weak and the system of individual consumption taxes is too complex. The system also leaves little scope for dealing with the future burdens of population ageing.

Actions taken: The three lower personal income tax rates were reduced in 2009-10 by 2 percentage points from a range of 8-26% to 6-24%. The corporate income tax rate was cut from 25% to 22% in 2009.

Recommendations: Rely more on indirect tax for additional revenue, while broadening direct tax bases.

Strengthen policies to support female labour force participation

The participation rate of women between the ages of 25 and 54 was only 62% in 2009, the fourth lowest in the OECD.

Actions taken: Eligibility for taking the one-year parental leave was expanded in 2009 from those with children up to age three to all those with children too young for primary school. In 2010, the government launched a five-year plan to promote female participation through 60 policy priorities, focused mainly on promoting the re-employment of women who left the labour force after having children.

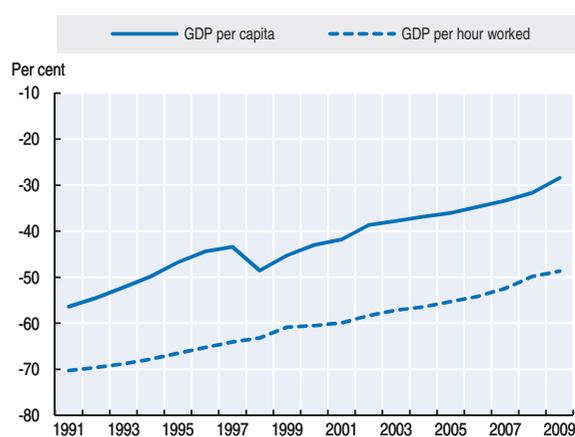
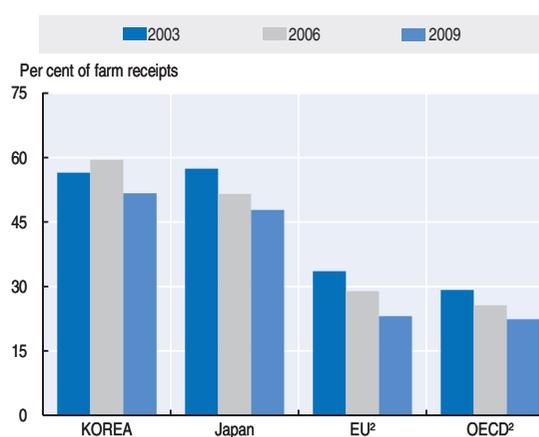
Recommendations: Expand the availability and quality of child care, in part by relaxing price controls on private-sector suppliers. Reduce the gender gap by tackling the non-regular worker problem and curbing the use of seniority-based wages as part of a move towards performance-based pay.

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Structural indicators

Average annual trend growth rates, per cent

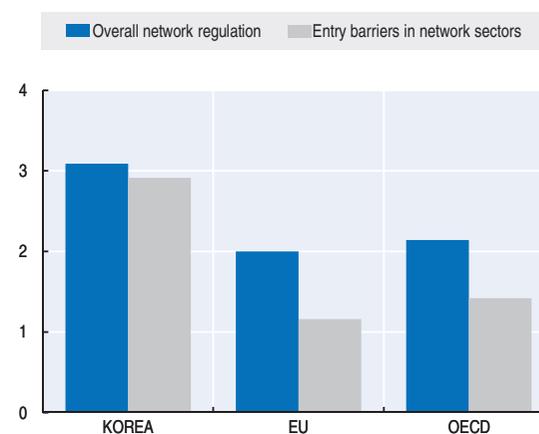
	1999-2009	1999-2004	2004-09
GDP per capita	4.0	4.2	3.7
Labour utilisation	-0.5	-0.4	-0.6
of which: Employment rate	0.7	0.7	0.7
Average hours	-1.2	-1.1	-1.3
Labour productivity	4.5	4.6	4.4
of which: Capital intensity
Multifactor productivity

Source: Estimates based on OECD (2010), *OECD Economic Outlook No. 88: Statistics and Projections Database*.
A. Gaps in GDP per capita and productivity have been narrowing
 Gap to the upper half of OECD countries¹

B. Agricultural support remains very high

C. Employment protection legislation is relatively unbalanced,
 2008

Index scale of 0-6 from least to most restrictive


D. Regulation in network sectors is strict

Index scale of 0-6 from least to most restrictive



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).

2. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia.

Source: Chart A: OECD, *National Accounts* and OECD *Economic Outlook No. 88 Databases*; Chart B: OECD, *Producer and Consumer Support Estimates Database*; Chart C: OECD, *Employment Database*; Chart D: OECD, *Product Market Regulation Database*.

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