KOREA

Priorities supported by indicators

Reduce labour market dualism (2009, 2011)

Recommendations: Expand the coverage of the social insurance system and ease employment protection legislation for regular workers. Increase training opportunities for non-regular workers.

Actions taken: The government introduced free training programmes for non-regular workers in 2009 and expanded them in 2010.

Ease regulation in network industries and services (2007, 2009, 2011)

Recommendations: Further reduce entry barriers, promote regulatory reform and create independent sectoral regulators. Relax FDI restrictions, including foreign ownership ceilings in key services.

Actions taken: The government relaxed 28 market entry regulations, primarily in services, in 2009-10. Foreign ownership ceilings were increased for satellite broadcasting and programme providers in 2009.

Reduce producer support to agriculture (2007, 2009, 2011)

Recommendations: Increase openness to agricultural imports through Free Trade Agreements (FTAs) and shift the composition of assistance from market price supports to direct payments to reduce distortions to trade and production.

Actions taken: Since 2007, Korea has implemented FTAs that include agriculture with the European Union, Peru, ASEAN and India. The government has expanded direct payment schemes, including a pilot project in 2010 aimed at promoting income stability for farm households.

Lower barriers to entry for domestic and foreign firms (2007)

Recommendations: Reduce entry barriers and encourage FDI by reducing regulatory obstacles.

Actions taken: In 2009, the government abolished the minimum capital requirement to create a firm and reduced the number of administrative procedures from ten to eight. The government simplified the approval process for FDI in 2009.

Other key priorities

Strengthen policies to support female labour force participation (2007, 2009, 2011)

Recommendations: Relax price controls on private childcare facilities and provide vouchers to parents.

Actions taken: The government introduced vouchers in 2009 that provide free childcare to children under the age of five in families with below-average incomes, expanding it to the lower 70% of income levels in 2011. It allowed private-sector childcare providers to set fees up to 50% above the ceiling on a trial basis in 2011.

Improve the efficiency of the tax system by relying more on indirect taxes (2011)

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

Actions taken: The government extended the coverage of the VAT to some areas of medical and educational services in 2011.

Improve the innovation system (2007, 2009)

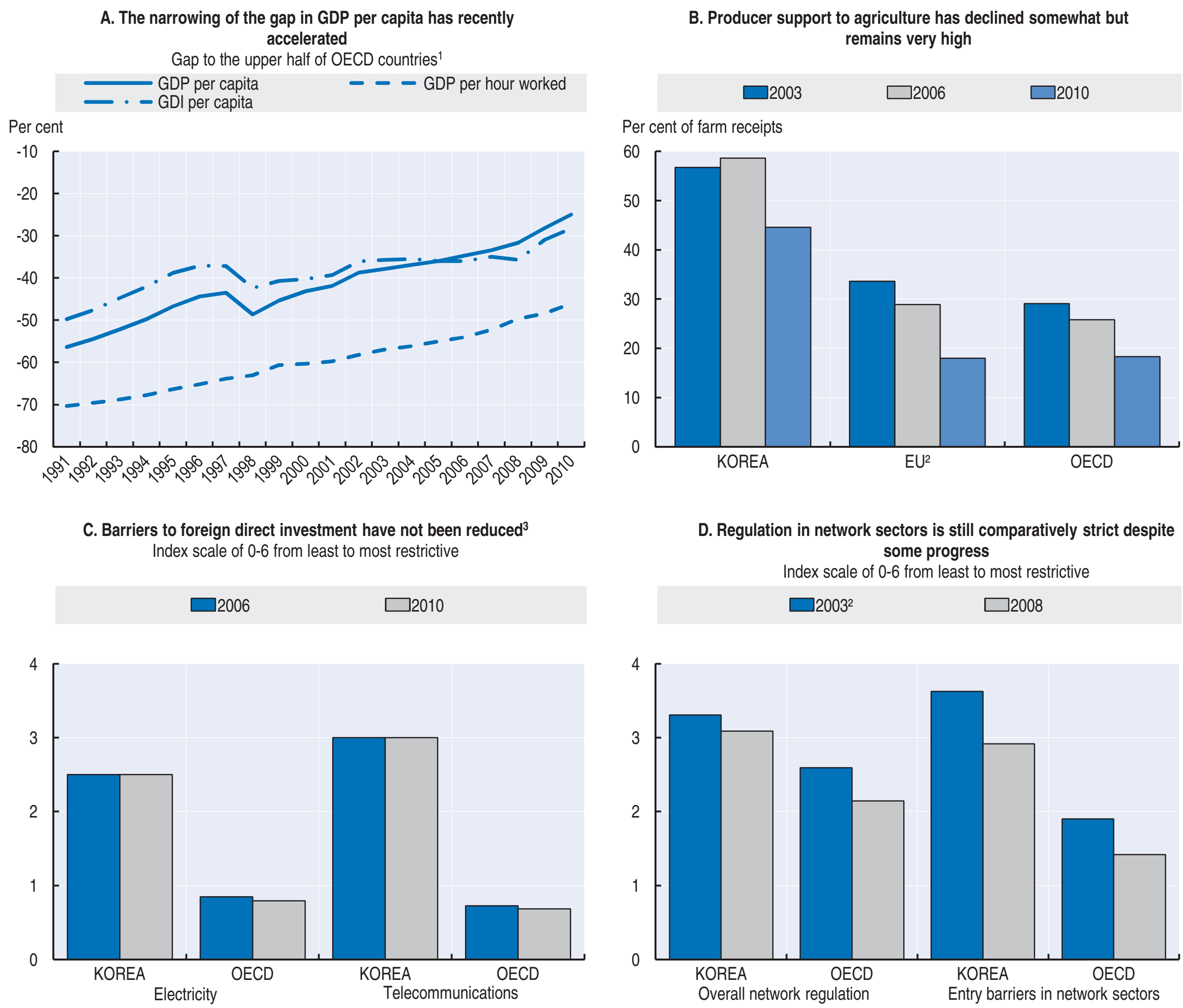
Recommendations: Upgrade the quality of universities through greater competition and deregulation, and enhance intellectual property rights.

Actions taken: The government enacted a basic law on intellectual property rights in 2011. The disclosure of some key information by universities was mandated in 2008 to strengthen competition.

KOREA

- The gap in GDP per capita relative to the upper half of OECD countries continues to narrow. Korea's labour utilisation rate remains the highest in the OECD area, so the remaining income gap is entirely due to shortfalls in productivity, particularly in services.
- Key reforms have taken place in priority areas to relax market entry barriers for domestic and foreign firms, strengthen intellectual property rights and provide vouchers for childcare. However, much less progress has been made to overcome labour market dualism, reduce the level of support to agriculture and increase competition in network industries.
- In other areas, to cushion the labour market crisis, short-term public employment was temporarily doubled in 2009.

Performance and policy indicators



1. 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).
2. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia in Panel D.
3. The OECD FDI regulatory restrictiveness index looks only at statutory restrictions and does not assess the manner in which they are implemented.

Source: Chart A: OECD, *National Accounts and Economic Outlook No. 90 Databases*; Chart B: OECD, *Producer and Consumer Support Estimates Database*; Chart C: *http://www.oecd.org/investment/index*; Chart D: OECD, *Product Market Regulation Database*.

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