

## KOREA

### Priorities supported by indicators

#### **Reduce producer support to agriculture (2005, 2007, 2009)**

**Recommendations:** Shift the composition of assistance from market price support to direct payments, while lowering the overall level of support. Eliminate remaining restrictions on farm size.

**Actions taken:** Several direct payment schemes, such as fixed payments for paddy fields, have been introduced and expanded since 2005. The government abolished its purchases of rice and subsidies on chemical fertilisers in 2005. Consumers were allowed to purchase imported rice from 2005.

#### ► **Reform employment protection legislation for regular workers (2005, 2009)**

**Recommendations:** Reduce incentives to hire non-regular workers rather than regular workers by easing protection for the latter, and expand the coverage of the social insurance system for the former.

**Actions taken:** Advance notice period for collective dismissals of regular workers was shortened in 2007, but another law aims at preventing excessive use of non-regular workers by requiring workers on temporary contracts to become regular workers after two years.

#### ► **Lower barriers to entry for domestic and foreign firms (2005, 2007)**

**Recommendations:** Further reduce entry barriers through regulatory reform, particularly in non-manufacturing. Extend the FDI incentives in the three Free Economic Zones to the rest of the country.

**Actions taken:** The government designated three more Free Economic Zones in 2008.

#### **Ease regulation in network industries (2007, 2009)**

**Recommendations:** Reduce the foreign ownership ceiling in network industries, create independent electricity distribution companies and establish independent sectoral regulators.

**Actions taken:** The creation of the Korea Communications Commission in 2008 was an important step toward an independent regulatory body for telecommunications and broadcasting. In 2008, the foreign ownership ceiling on satellite broadcasting was increased from 33% to 49%.

#### ► **Further liberalise the services sector (2005)**

**Recommendations:** Promote greater competition in services, especially in professional services.

**Actions taken:** The Regulatory Reform Task Force implemented 558 regulatory reforms in the non-manufacturing sector during 2004-07. The Korea-US Free Trade Agreement, completed in 2007, will foster a competitive environment in a number of professional services once it is implemented.

### Other key priorities

#### **Improve the innovation system (2007, 2009)**

**Recommendations:** Upgrade the quality of universities through greater competition and deregulation.

**Actions taken:** Supervision of university admissions was transferred to a private-sector council and regulations on the number of students and management were eased in 2008. Competition was strengthened through the mandatory disclosure of information in 2008.

#### **Increase the role of private childcare facilities (2007, 2009)**

**Recommendations:** Eliminate the ceiling on fees 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 incomes below the average (urban employee) level.

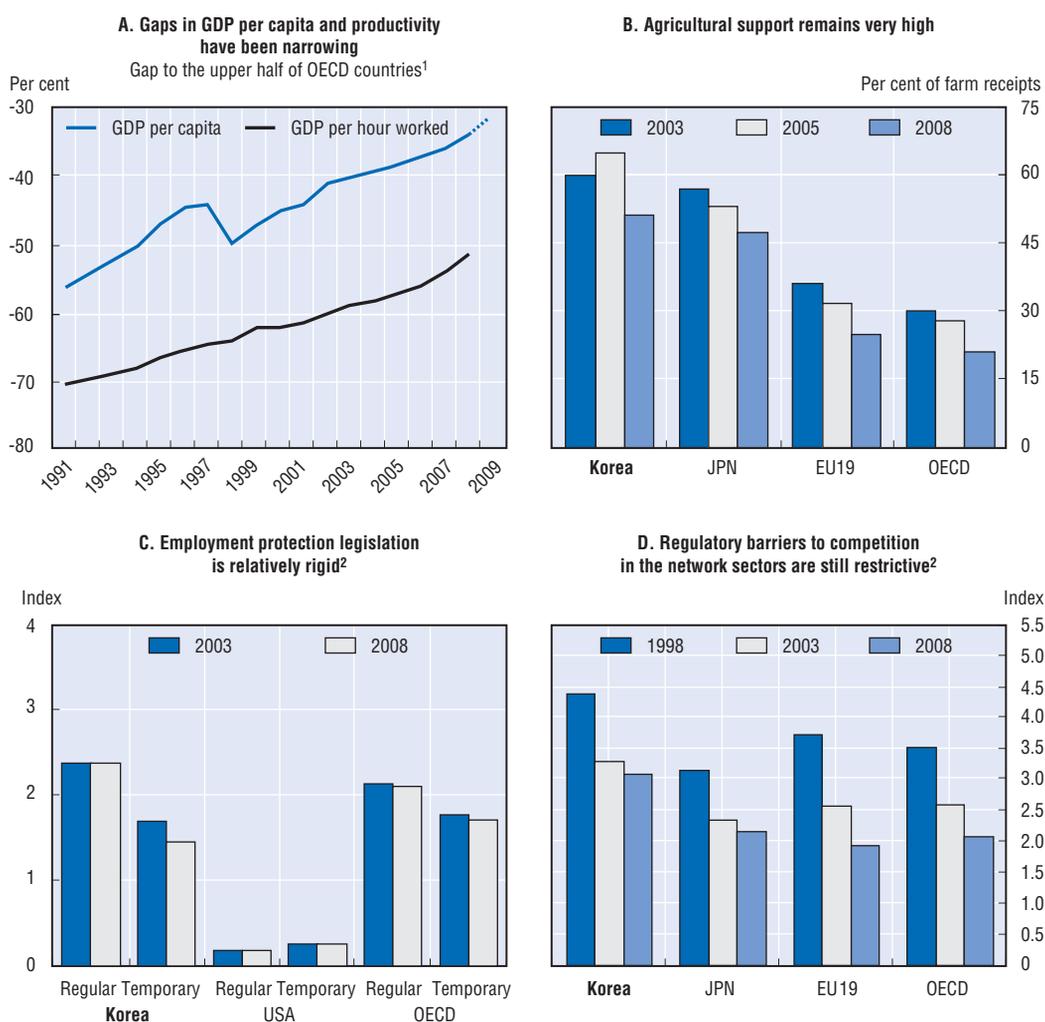
#### **Improve the functioning of the financial sector (2005)**

**Recommendations:** Improve the soundness and functioning of the financial system by extending privatisation and strengthening supervision, notably for credit card companies.

**Actions taken:** The Capital Markets Consolidation Act of 2009 integrated seven laws governing capital markets and investment services, thereby allowing firms to provide a broader range of services.

## KOREA

- GDP per capita has converged steadily toward the best performing countries and the rate of labour utilisation remains the highest in the OECD. Nevertheless, the income gap remains large due to shortfalls in productivity, which are largest in the services sector.
- Recent structural policy measures have focused on accelerating regulatory reforms and strengthening competition, particularly in services. While significant progress has been achieved in a number of areas, further action is needed to reduce support to agriculture and make it less distortionary, increase competition in network industries and address the factors responsible for labour market dualism.
- Some reforms in other areas have taken place recently in income taxation, regulation of large business groups and the creation of holding groups.



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gap in GDP per capita for 2009 is an OECD estimate, based on the *OECD Economic Outlook*, No. 86.

2. Index scale of 0-6 from least to most restrictive.

Source: Chart A: OECD, *National Accounts and Economic Outlook 86 Databases*; Chart B: OECD, *Producer and Consumer Support Estimates Database*; Chart C: OECD, *Employment Outlook Database*; Chart D: OECD, *Product Market Regulation Database*.

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