Korea needs a paradigm shift to sustain its convergence to the highest-income countries

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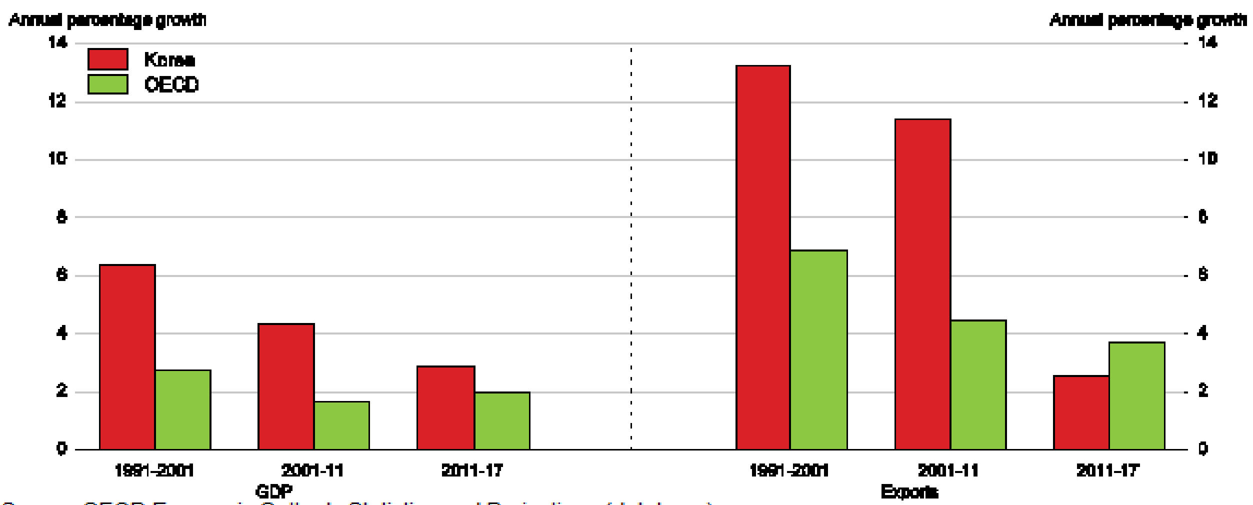
Korea's transformation from one of the poorest countries in the world in the 1950s to a major industrial power and member of the OECD was exceptionally rapid, reflecting good policies, notably sound fiscal and monetary policy, high levels of investment in human and physical capital and an outward orientation that increased its share of world trade. Per capita income increased from 14% of the OECD average in 1970 to 86% in 2016. However, the traditional growth model seems to be losing effectiveness, as income growth has slowed toward the OECD average. Although economic growth typically slows as countries approach the high-income economies, the sharp deceleration from an annual rate of 6.4% over 1991-2001 to 2.9% since 2011 (Figure 1), raises concerns. Moreover, export volume growth slowed from a double-digit annual pace over 1991-2011 to 2.6% since 2011, lagging behind global trade.

Figure 1. Korea's output and export growth have slowed sharply



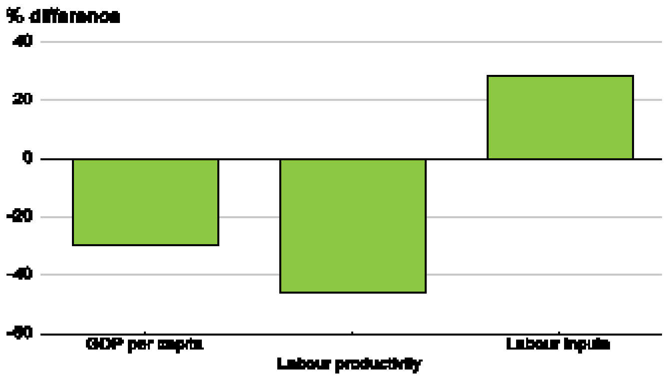
Source: OECD Economic Outlook: Statistics and Projections (database).

StatLink http://dx.doi.org/10.1787/888933740022

Korea’s real per capita income was one-third below the top half of OECD countries in 2016 (Figure 2). The large income gap reflects low labour productivity, which is 46% below the top half in the OECD. Low labour productivity is offset by very long working hours, at the expense of well-being and female employment. The decline in the working-age population beginning in 2017 year will put downward pressure on labour inputs and per capita income growth. Removing obstacles to the employment of women and youth, whose employment rates are below the OECD average is essential to mitigate the impact of demographic factors. In addition, there is large scope to raise Korea’s labour productivity, given its large investments in education and R&D, which is the second highest in the OECD area as a share of GDP. To take full advantage of its investment in innovation, Korea needs to shift from its traditional growth model to a more balanced approach that promotes inclusive growth through reforms to raise productivity in both the large business groups and SMEs.

Figure 2. Labour productivity is low in Korea and labour inputs are high

Korea relative to the top half of OECD countries in 2016



Source: OECD Economic Outlook: Statistics and Projections (database).

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References:

OECD (2018), *OECD Economic Survey of Korea*, OECD Publishing, Paris.