

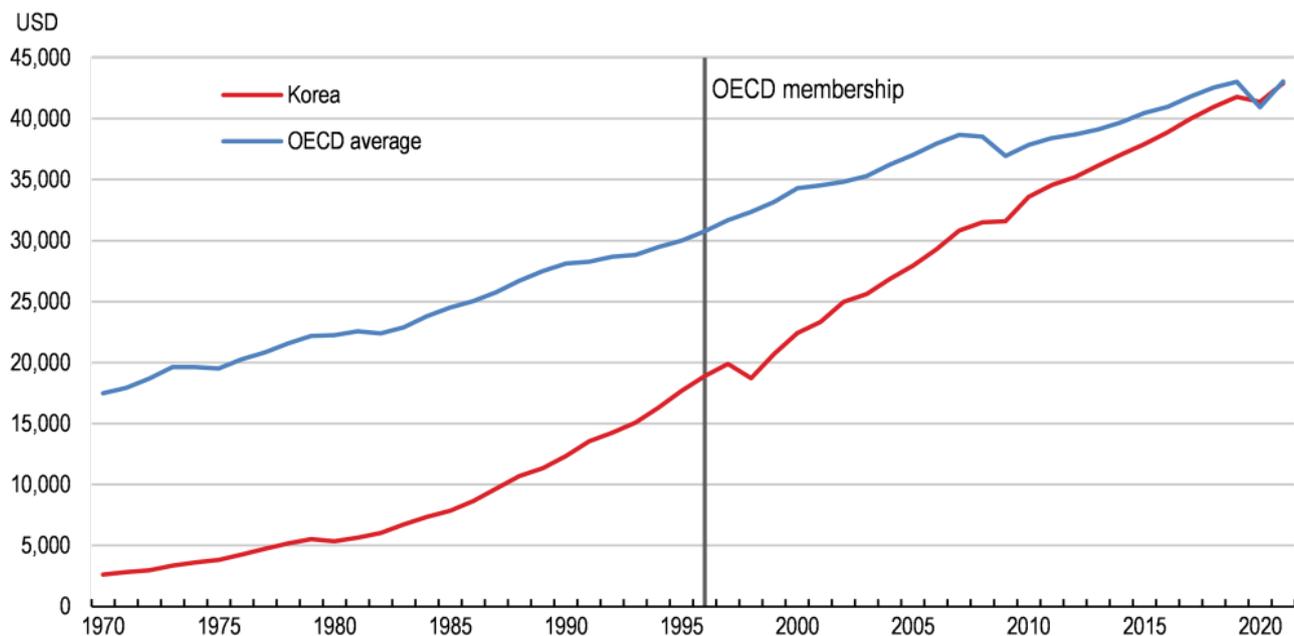
Korea: Stunning success and work in progress

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Walking in modern-day Seoul, you are easily struck by its modernity. You do not even have to go there if you own a Samsung smartphone, drive a Hyundai, listen to BTS (which recently announced a break) or Blackpink, watch Squid Game or Extraordinary Attorney Woo. It is hard to fathom the speed at which Korea has travelled the long road from poverty and devastation following the Korean War to strength and prosperity, with per capita GDP rising above the OECD average in 2020 (Figure 1). Since the 1960s, income growth and access to health care pushed life expectancy well above the OECD average, accompanied by an equally impressive transition from authoritarian rule to vibrant democracy. The 2022 OECD Economic Survey of Korea tells the tale of present strengths and skilful governance, but also points to current and future challenges which are to an extent rooted in Korea's export-oriented growth strategy and its rapid ascent from poverty to prominence.

Figure 1. Rapid development and great economic success

GDP per capita, constant 2015 prices and PPPs



Source: OECD National Accounts Database.

Sound economic policies

In the recent past, skilful health management steered the country through the pandemic relatively unscathed, with a world-leading tracing system implemented early in spring 2020 and a vaccination campaign carried out with speed and efficiency. Building on a tradition of sound economic management, supportive policies protected people and businesses from hardship and bankruptcy. The strong exporting sector helped the economy rebound. The recovery is set to continue as pandemic-era restrictions on contact-intensive services are shelved, despite the Russia-Ukraine war raising inflation and highlighting the need to boost supply chain resilience.

K-ETS should be Korea's best friend to reach climate pledges

Korea has committed to reducing emissions by 40% from the 2018 level by 2030, and to net zero by 2050. Its exporting sector and electricity generation are emission intensive, pointing to a challenging transition. However, this also leaves room for relatively low-cost emission reductions with considerable co-benefits from cleaner air. Korea's emission trading scheme (K-ETS) was the first in East Asia and should be recognised by

policymakers as the best tool to reduce emissions as much as possible at a lowest possible cost. K-ETS puts a price on carbon from a large share of emissions, but too many allowances are handed out for free and its overall emission limit is not yet aligned with the new and more ambitious emissions reduction targets. Deregulation is needed to allow the carbon price to pass through to electricity producers to actually incentivise emission reductions in this important sector.

Productivity gaps are mirrored in income, social protection and working conditions

Export-led growth and the nurturing of large exporting companies laid the ground for considerable and persistent productivity gaps to smaller companies. Large firms typically offer highly educated workers well-paid jobs, good working conditions, regular employment and social insurance coverage, but their share of employment has fallen as production has been automated and moved offshore. Low-productivity SMEs hire a larger share of non-regular workers, who earn less and are less protected. These firms find it hard to attract the skilled workers needed to boost productivity, for example by adopting digital technologies. A large number of policies have been put in place to support SMEs, including subsidies, favourable access to public procurement, regulations differentiated by company size, and even whole market segments reserved for SMEs. Each policy may have some justification if seen in isolation, but they sum up to a system that supports the survival of low-productivity firms against a backdrop of regulatory complexity.

Youths' struggle for a golden ticket is unproductive

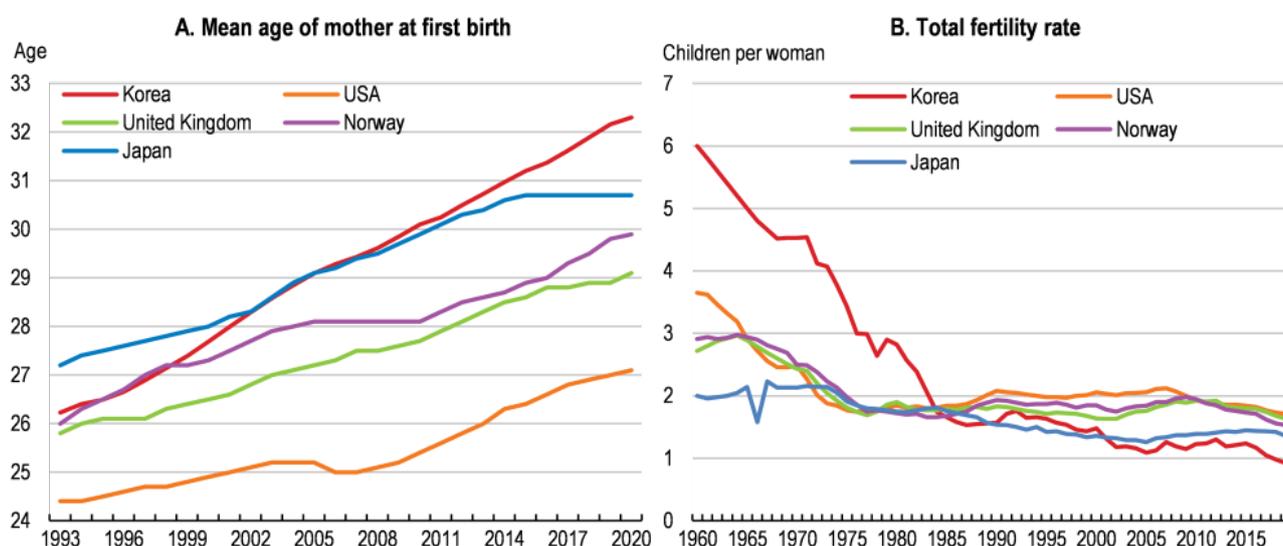
Korea's high level of human capital is fundamentally a strength, but important aspects of the current status quo are unproductive. Entering a top university increases the chance to land a secure and attractive career in a large firm or the

public sector rather than in a low-productivity SME. Competition is therefore fierce to score highly on the university entrance exam. This Korean “Golden ticket syndrome” has several negative effects, including low youth employment, a lot of time and money spent on private tutoring (*hagwon*), skill and qualification mismatches, high pressure on students and low life satisfaction.

Korea needs more children and more working moms

Over the past few decades, education and access to jobs have become increasingly equal between genders. The large-scale roll-out of publicly-funded day care and kindergartens has raised enrolment rates to the level of Nordic countries, but working life and social norms have not kept pace. Combining career and children is often not an option when facing norms and expectations based on traditional gender roles, and long working hours and limited flexibility in the workplace. Mothers returning to working life tend to find that only low-paid non-regular jobs are available. Young women therefore postpone family formation and have fewer children over their lifetime (Figure 2). This has put Korea on the path to rapid ageing which will lead to fiscal and labour market pressures going forward.

Figure 2. Women postpone childbirth



Source: OECD Economic Surveys: Korea 2022.

Work in progress

Building on its considerable strengths, Korea should harness the economic dividends of equal opportunity and fair competition to reduce productivity gaps, thereby narrowing gaps in pay and social protection and reducing the pressure to win a golden ticket. Wise climate policies can contribute to productivity and help secure equal opportunities for future generations. Making the workplace friendlier to both women and men along with a continued drive by the government to lead by example, facilitate the combination of career and family and change gender norms could lead to more children, more working moms and happier people.

Find out more:

Jones, R. (2021), *"The Republic of Korea: Economy"*, Routledge, London.

MOEF (2022), *The new government's economic policy directions*, Ministry of Economy and Finance, Sejong.

OECD (2022), *OECD Economic Surveys: Korea 2022*, OECD Publishing, Paris, <https://doi.org/10.1787/20bf3d6e-en>.

OECD (2019), *Rejuvenating Korea: Policies for a Changing Society*, OECD Publishing, Paris, <https://doi.org/10.1787/c5eed747-en>.