Can Korea’s semiconductor super-cycle help build an intergenerational fiscal contract?

Category: Korea,Uncategorized
written by oecdecoscope | July 2, 2026

Korea’s new semiconductor-fuelled age of plenty provides a window of opportunity to strengthen fiscal institutions and share fiscal burdens fairly between generations.

by Jon Pareliussen, OECD Economics Department

Korea is booming despite the fallout from the evolving conflict in the Middle East, as demand for advanced semiconductors is skyrocketing. Although this demand shock can potentially go on for a long time, it is temporary by nature, as prices and profits will eventually normalise when investment catches up and new production capacity comes online. When this happens, currently surging tax revenues will also fall back to normal levels. The fiscal and labour market consequences of Korea’s rapid ageing are just starting, but will intensify. The OECD Economic Survey of Korea 2026 illustrates the fiscal challenge of ageing and proposes directions to achieve savings and raise revenue. Booming tax revenues linked to the semiconductor super-cycle could be used to underpin an intergenerational contract aligning current tax and spending decisions with long-term fiscal sustainability.

Semiconductor exports drove GDP growth at an annual rate of 7.5% in the first quarter of 2026. Companies producing advanced chips are at the core of a historic stock market rally and workers in each of the two dominant producers secured annual bonuses totalling roughly 1% of Korea's GDP. The semiconductor super-cycle also raises tax revenues to new highs. So far these revenues have supported increasing spending in annual and supplementary budgets, while negative shocks since the pandemic have largely led to fiscal deficits. This means that when averaged over good times and bad times, Korea is running structural fiscal deficits. With one of the lowest debt-to-GDP ratios in the OECD, Korea is under no immediate pressure to balance the books, but sustained fiscal deficits will add to the already heavy fiscal pressures related to ageing that current young and future generations will need to address.

In a stylised scenario where spending pressures go completely unabated, fiscal pressures from ageing would add ten percentage points to annual public borrowing by 2060, by which time public debt would be 220% of GDP. Servicing this debt would require that a shrinking labour force consisting of today's young and currently unborn generations work harder, pay more taxes and receive less in return. This would be unfair and most likely untenable on current trends.

Few economic shocks are so profound, yet so anticipated, as Korea's ageing. Fertility has dropped from six children per woman in 1960 to well below one every year since 2018, while life expectancy has risen steadily and is now over two years above the OECD average. As a result, the labour force will fall as a share of the total population within the next few years, for the first time in living memory. At the same time, fiscal pressures from pensions, health and long-term care will mount. The OECD Economic Survey of Korea 2026 shows that by starting to address the issues systematically today, a combination of spending prioritisation, further pension reform, an increase in tax revenue and structural reforms to boost employment and productivity can stabilise public debt while growth performance is upheld and the tax burden remains reasonable (Figure 1).

Strengthened fiscal institutions can help successive governments systematically make the fiscal choices today that are compatible with long-term sustainable public finances and a fair burden-sharing between generations. A durable, long-term fiscal framework needs to be founded on expert analyses and anchored across the political spectrum and with key stakeholders. This broad coalition should agree on an intergenerationally fair fiscal trajectory and a mechanism to align annual budgeting with medium term fiscal objectives. An independent fiscal institution with a clear mandate to assess compliance could help build trust and ensure transparency.

Such a framework needs to provide clear guidance without being overly restrictive. It should allow for countercyclical fiscal policy and provide flexibility for severe crises, for example, by defining compliance over the cyclically-adjusted annual budget balance and building in an escape clause for severe crises. A structured process to adapt the fiscal framework could be envisaged to regularly adjust it to changing circumstances, as is done, for example, in Sweden over an eight-year cycle.

It is potentially easier to agree on sharing of burdens in an age of plenty. Korea’s new intergenerational fiscal contract should therefore be built today while tax revenue is soaring. The framework can then prove its worth by putting the public finances on a firm footing by the time fiscal constraints really start to bind when demographic headwinds intensify.

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OECD (2026), *OECD Economic Surveys: Korea 2026*, OECD Publishing, Paris, https://doi.org/10.1787/6b87f585-en.

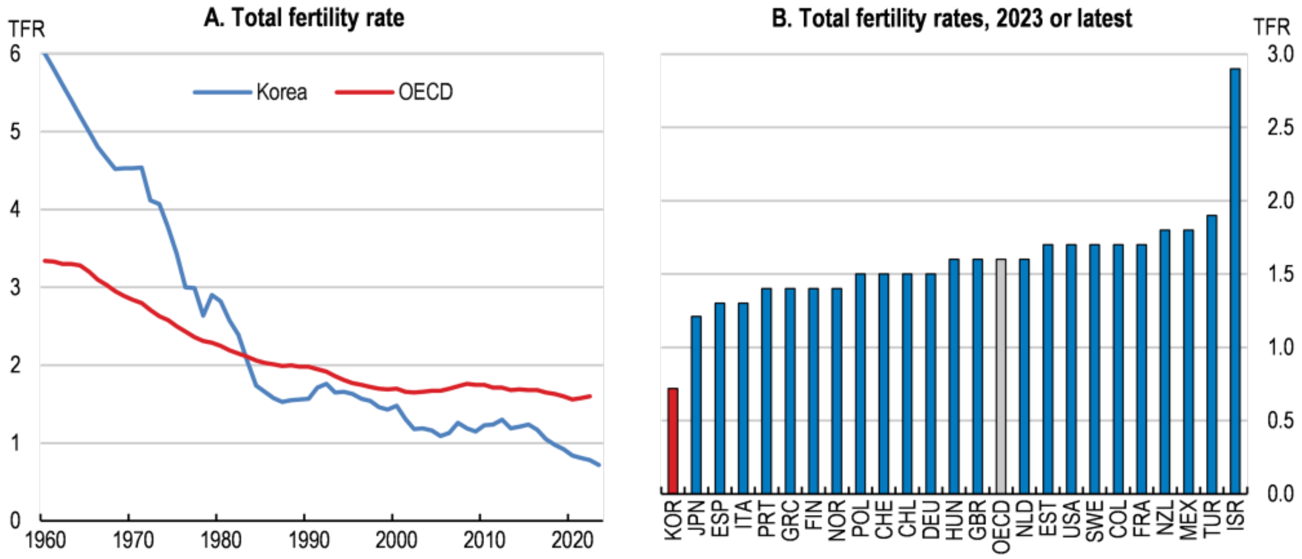
Addressing Korea's Fertility Crisis

Category: Ageing,fertility,Korea
written by oecdecoscope | July 2, 2026

by HyunJeong Hwang, OECD Economics Department

In 2023, Korea's fertility rate fell to a world-record low of 0.7. Its sharp decline implies a faster increase in the old-age dependency ratio than in any other OECD country. As the proportion of retirees grows, labour shortages will intensify, and the costs of health care, long-term care, and pensions are expected to more than double to 17.4% of GDP by 2060. The government has declared the situation a national emergency and announced plans to establish a new ministry focused on population strategy, alongside a range of policy initiatives. These demographic challenges are the main topic of the 2024 Economic Survey of Korea. It emphasises the importance of addressing obstacles preventing young adults from having the number of children they desire and implementing policies to mitigate the economic impact of an ageing population.

Fertility rates in Korea have declined reaching the lowest in the world



Source: Statistics Korea; OECD (2024), Fertility rates (indicator). doi: 10.1787/8272fb01-en; OECD Pensions at a Glance (2023).

A key cause of ultra-low fertility is the high opportunity cost of having children in Korea. Rapid economic development and higher access to education have enabled women to pursue increasingly rewarding careers. But long hours, insufficient protections against workplace discrimination, and a work culture where work is expected to take priority over family make it very challenging to combine work and motherhood. This leads to a large career cost for women who become mothers and underpins the widest gender pay gap in the OECD.

Improving the work-life balance must be a top priority to reverse the decline in fertility rates. While policies have made childcare nearly free, there is still room to expand access to popular childcare services, ensure consistent quality across all types, and align childcare opening hours with work hours. Raising the take-up of paid parental leave, which is currently very low, especially for fathers, is also essential. This can be achieved by relaxing strict eligibility, raising the benefit ceiling, and strengthening sanctions for workplace discrimination.

The weak financial position of youth holds back family formation. Labour market duality with large differences in pay, job quality and social protection weaken the economic position of young adults. Many young people either postpone their careers to land high-quality jobs in large firms, or start at smaller companies with non-regular contracts. Duality also spurs a race for credentials, which leads to high spending on private education. Addressing labour market dualism by relaxing employment protection for regular workers and expanding social insurance would help strengthen the financial prospects of young people and encourage family formation.

However, boosting fertility alone will not suffice to offset the rapid decline in the workforce. Even tripling fertility to 2.1 children per woman by 2040, the level associated with a stable population in the long term, would not prevent the workforce from declining. Korea must therefore prepare for and adapt to the challenges of an ageing and shrinking population.

Lengthening working lives is essential to counteract inevitable population ageing. Careers are shortened by the seniority-based wage system which renders older workers less appealing to firms when their wage rises above their productivity. Company-specific mandatory retirement ages below the legal pension age and the practice to encourage older employees to voluntarily leave before reaching the mandatory retirement age also contribute to premature retirements from their main job. Reforming these systems, raising the statutory retirement age, and offering upskilling opportunities for older workers can help keep them in the workforce longer.

Increasing the supply of foreign labour is another vital strategy. Although Korea has significant potential to boost immigration, various visa hurdles for skilled immigration as well as poor working conditions for low-skilled immigrants hold back immigration. Korea’s immigration policies need reform to enhance opportunities for both low-skilled and skilled immigrants. Removing entry barriers for qualified foreign talent and integrating low-skilled immigrants better will help increase the foreign labour force.

Further reading:

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Upgrading Korea’s growth model

Category: Korea,Uncategorized
written by oecdecoscope | July 2, 2026

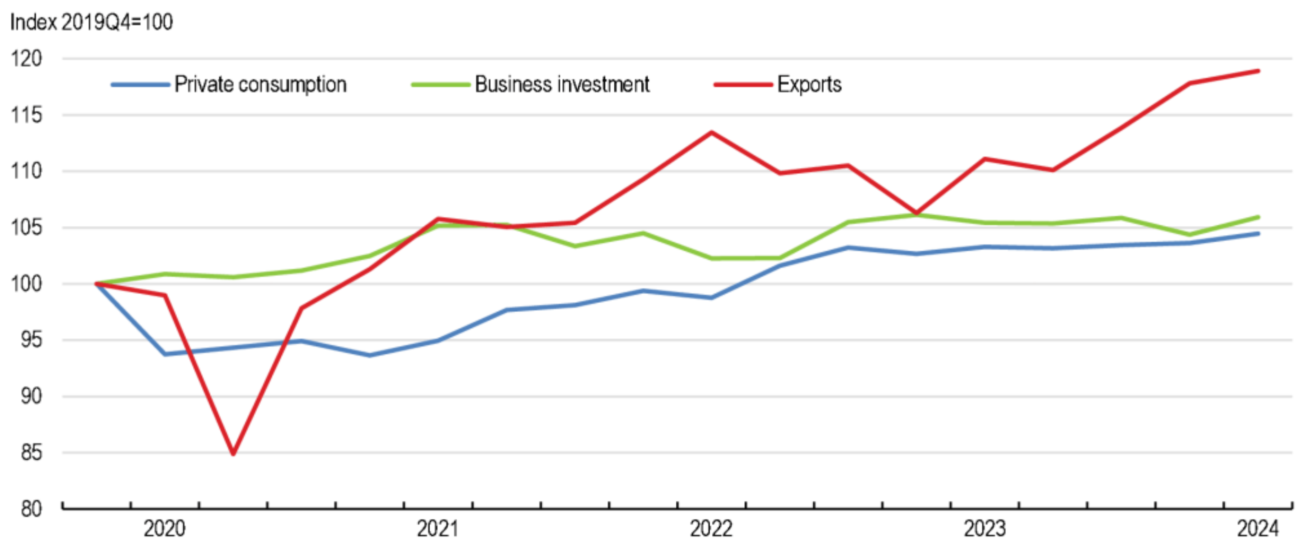
By Jon Pareliussen, OECD Economics Department

After going through a soft patch, exports are again driving economic growth in Korea as demand for computer chips has soared to power a wave of investment in artificial intelligence. Korea's export-oriented growth model has served the country well for decades, along with sound macroeconomic policies and a strong commitment to education. Even so, the 2024 OECD Economic Survey of Korea argues that Korea needs to upgrade its growth model to revitalise private consumption as an additional growth engine, to become greener, happier and halt the declining fertility trend.

Korea's export-led growth model has changed over time. Past periods of reforms that boosted competition and exports at the same time were more successful with fewer negative side-effects than periods of more heavy-handed "dirigiste" industrial policy. However, export-oriented growth in any shape or form tilts society's resources towards production, investments and exports and thereby away from consumption and leisure (Figure 1). For example, compared to the OECD average Korea spends a large share of GDP on supporting businesses while a comparably small share is used to support people through the social safety net. Energy, of which two-thirds is used in industry, is relatively cheap, while food and clothing are expensive in relative terms compared to OECD peers.

Figure 1. Exports drive growth

Real GDP level by component

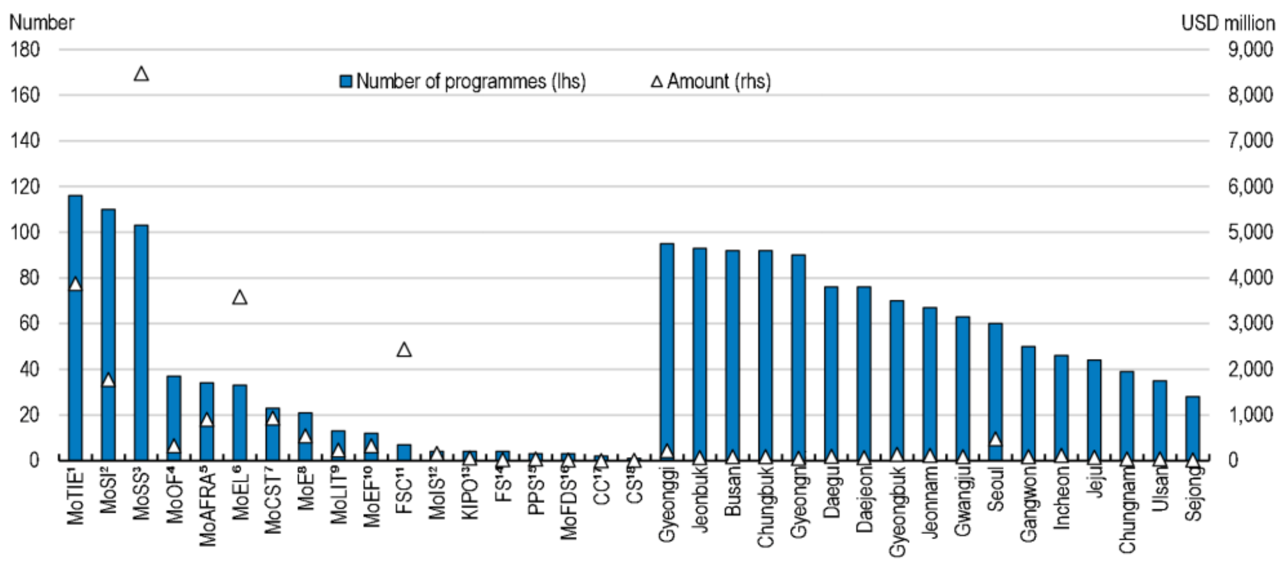


Source: *OECD Economic Surveys: Korea 2024*.

Many of the large manufacturing-heavy business groups benefitting from export promotion policy in the past gained dominance in a shielded domestic market, contributing to large productivity gaps between large and small companies and between manufacturing and services. Eventually, to meet these imbalances, the government’s duty to support SMEs became enshrined in Korea’s constitution. Today a cobweb of support schemes and regulations supports the SME sector (Figure 2), in which 85% of employment is found, while SME productivity keeps lagging. Consolidating these supports would facilitate productivity catch-up by levelling the playing-field in the domestic market and incentivising SMEs to grow. Room remains to further open up to foreign investment and trade and reduce public interventions in the economy.

Figure 2. A cobweb of subsidies are available to SMEs

SME support programmes by entity



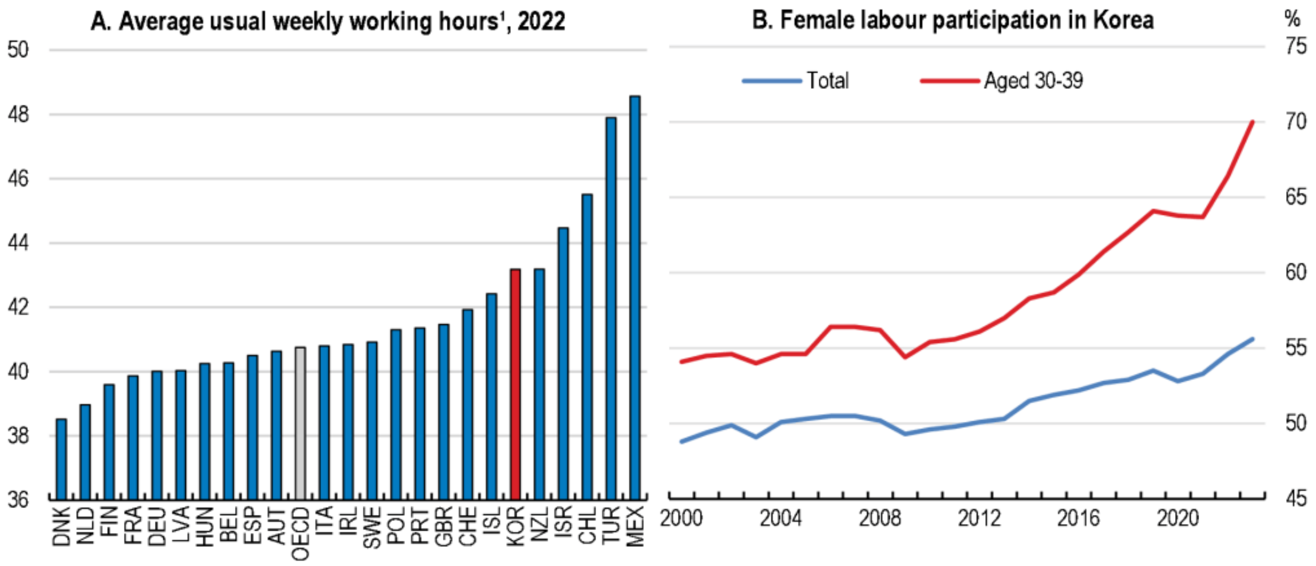
1. Ministry of Trade, Industry and Energy. 2. Ministry of Science and ICT. 3. Ministry of SMEs and Startups. 4. Ministry of Oceans and Fisheries. 5. Ministry of Agriculture, Food and Rural Affairs. 6. Ministry of Employment and Labor. 7. Ministry of Culture, Sports and Tourism. 8. Ministry of Environment. 9. Ministry of Land, Infrastructure and Transport. 10. Ministry of Economy and Finance. 11. Financial Services Commission. 12. Ministry of Interior and Safety. 13.

Korean Intellectual Property Office. 14. Forest Service. 15. Public Procurement Service. 16. Ministry of Food and Drug Safety. 17. Communications Commission. 18. Customs Service.
Source: Ministry of SMEs and Startups.

Concerns of adding cost to business and reducing external competitiveness have also so far stood in the way of aligning climate policies sufficiently with Korea’s climate targets. Setting the overall cap of the emissions trading scheme in line with the 2030 target will take the country three-quarters of the way to meet its 2030 emission reduction target, while a failure to do so would put the target in question. Reforming electricity supply and use to a market-based system where the true cost of energy and emissions is fully reflected, would reduce the society-wide cost of the green transition.

Korea’s imbalances between producing and consuming are mirrored in mothers’ and fathers’ struggle to balance work and life (Figure 3). This is a key reason why Korea has the lowest birth rate in the world, falling to 0.72 child per woman in 2023. If carried forward, today’s young adults will outnumber their grandchildren by nine to one, with dire consequences for labour supply and public finances. The OECD Economic Survey of Korea discusses the complex structural causes of low fertility and argues that reversing the trend would require broad structural reforms to product and labour markets, filling gaps in family policies, and changing gendered norms and practices. Adapting to inevitable ageing requires postponing retirement, boosting female and youth labour participation and promoting work immigration.

Figure 3. Women increasingly participate in the labour market, where hours are long



1. Average usual weekly hours worked on the main job for full-time employed.
Source: Statistics Korea; and OECD Labour Force Statistics database.

An upgraded growth model building on these recommendations would boost average incomes and let more accrue to those who will spend more, in particular low-income households and households with children. Such reforms could revitalise private consumption as an additional growth engine and make Korea not only richer, but also greener, happier and more family-friendly.

Reference:

OECD (2024), *OECD Economic Surveys: Korea 2024*, OECD Publishing, Paris, https://doi.org/10.1787/c243e16a-en

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Korea: Stunning success and

work in progress

Category: Korea
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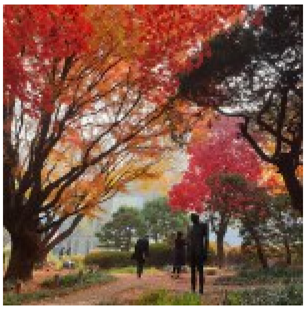


Productivity gaps fuel inequalities and a race to win a golden ticket.

Asia & Pacific economies are projected to rebound from COVID-19

Category: Australia,China,COVID-19,India,Indonesia,Japan,Korea,Malaysia,New Zealand,Thailand,Uncategorized
written by oecdecoscope | July 2, 2026

by Patrick Lenain and Kosuke Suzuki, OECD Economics Department

While the world is struggling to exit from the coronavirus crisis, the region Asia & Pacific is a notorious exception:

many countries in the region have stopped the COVID-19 pandemic after the first wave, and they quickly returned on a path of growth in the second half of 2020 – a rare accomplishment. The OECD projects that the region's recovery will continue in 2021 and 2022 (Table 1).

Table 1: Strong growth projected in Asia & Pacific

(Real GDP growth, % year-on-year)

	2020	2021	2022
Australia	-3.8	3.2	3.1
China	1.8	8.0	4.9
India*	-9.9	7.9	4.8
Indonesia	-2.4	4.0	5.1
Japan	-5.3	2.3	1.5
Korea	-1.1	2.8	3.4
New Zealand	-4.8	2.7	2.6
Dynamic Asia**	-4.6	4.3	4.6
Asia & Pacific	**-1.5**	**5.9**	**4.1**
Rest of world	-5.7	3.2	3.4
World	**-4.2**	**4.2**	**3.7**

* Fiscal year starting in April.

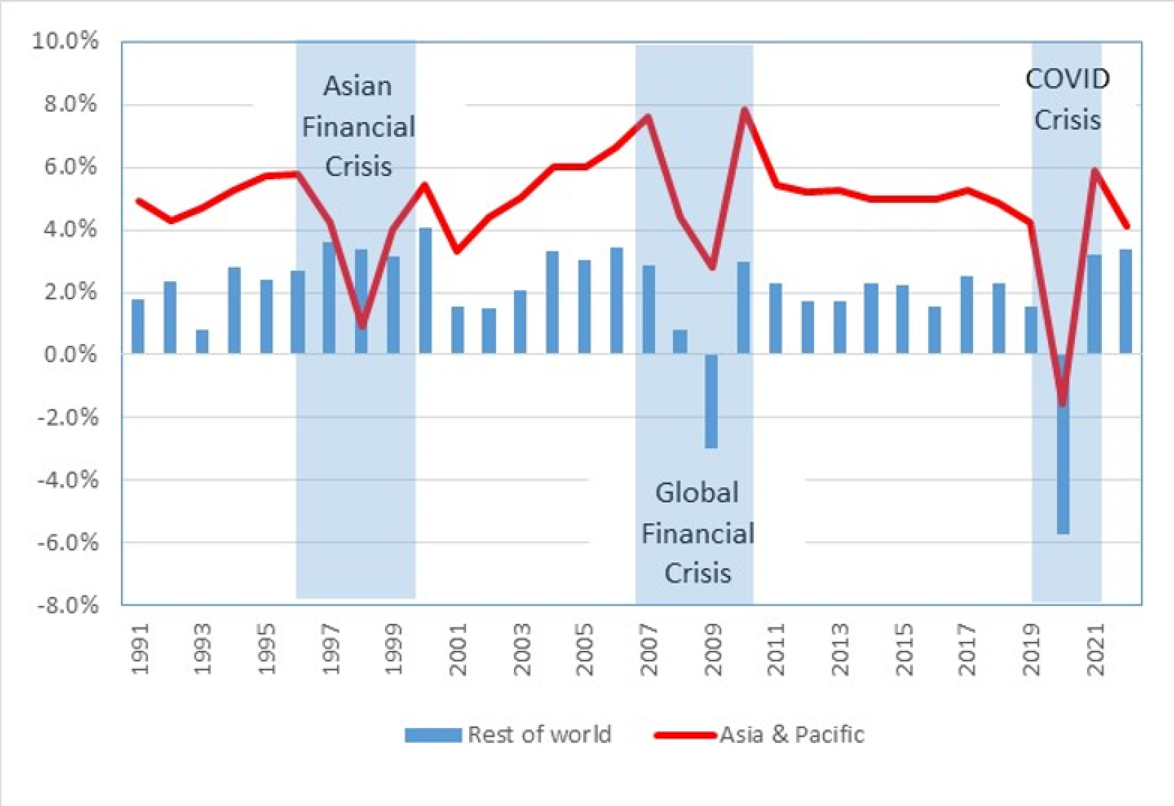
** Dynamic Asia includes Chinese Taipei, Hong Kong, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Source: *OECD Economic Outlook*, December 2020.

The region's current resilience is in sharp contrast with the late 1990s, when the Asian Financial Crisis hit it very hard (Figure 1). Governments in the region drew lessons from this experience and were better prepared when the Global Financial Crisis arrived. They were also ready when the coronavirus struck: fiscal space was available, monetary policies were sound, exchange rates were flexible, foreign exchange reserves abundant, bank well capitalised, external indebtedness was low – and health systems had been re-organised.

Figure 1 – The economic performance of Asia & Pacific has improved

(Annual GDP growth in %)



Source: *OECD Economic Outlook*, December 2020.

Strong resilience in the face of crises contributes to long-term growth, especially in poor and emerging countries, as shown by a literature launched by Easterly et al. (1993). Thanks in large part to their growing resilience, the 15 countries and territories of Asia & Pacific doubled their share in world GDP from 19% in the early 1990s to 34% currently. The region has become an economic powerhouse and most likely will gain further ground. The Regional Comprehensive Economic Partnership (RCEP) recently signed will provide another boost to long-term growth, as discussed in the recent OECD Economic Survey of Thailand.

Of course, not all countries of the region have the same resilience. To throw light on this disparity, we use a hierarchical cluster analysis (Ward linkage), a statistical procedure that identifies homogenous groups of observations without making a difference between dependant and independent variables. We identify four groups of countries with common factors for each of the three crises. To group the region's economies, we use the following indicators: 1) the depth of recession, 2) the speed of recovery, and 3) the post-recession scarring of growth. The first two indicators provide a contemporary measure of resilience when faced with a shock, while the third indicator is an ex-post measure of resilience. For the current crisis, we use the number of COVID-19 deaths as a proxy of ex-post resilience, in line with empirical findings that the spread of the coronavirus has damaged economic activity due a combination of government-imposed lockdowns and self-imposed lockdowns (Golsbee and Syverson, 2020).

Our cluster analysis reveals some diversity within the region. The resilience of individual economies has changed rapidly – in both directions (Table 2). Some key findings are:

- Australia has shown great resilience during the first two crises, but fell into a recession with the coronavirus.
- While China and India were resilient in the face of the first two crises, they have lost some ground with the COVID-19 pandemic, especially India.
- Korea and Thailand have seen their resilience improve after each crisis.
- Vietnam has consistently been the most resilient economy in the region.

Table 2 – Many Asian & Pacific economies are resilient in the face of shocks, though not all

Asian Financial Crisis (1997-99)			
Sharp recession, slow exit & scarring	Recession, rapid exit & scarring	Mild recession & rapid exit	Muted impact of crisis
IDN, THA	HKG, KOR, MYS, SGP	JPN, NZL, PHL	AUS, CHN, IND, MNG, TWN, VNM
Global Financial Crisis (2008-09)			
Sharp recession & slow exit	Sharp Recession, rapid exit & scarring	Recession & rapid exit	Muted impact of crisis
JPN	HKG, SGP, TWN	KOR, MNG, MYS, NZL, PHL, THA	AUS, CHN, IDN, IND, VNM
COVID-19 Crisis (2020-21)			
Sharp recession, slow exit & scarring	Recession, slow exit & scarring	Recession, slow exit	Recession, swift exit
IDN, IND, PHL	AUS	CHN, HKG, JPN, MYS, TWN	KOR, MNG, NZL SGP, THA, VNM

Rising resilience →

Source: OECD estimates using a hierarchical cluster analysis procedure (Ward linkage).

Despite this diversity, the region displays overall a strong resilience and is placed to recover rapidly from the COVID-19 crisis, assuming that the pandemic is brought under control and that the large population can be vaccinated soon. If this happens, Asia & Pacific will confirm its new position as a global powerhouse. The return to economic growth should be an opportunity to address socioeconomic problems inherent in several countries, notably high informality and inequality, and make headways on a path of decarbonisation.

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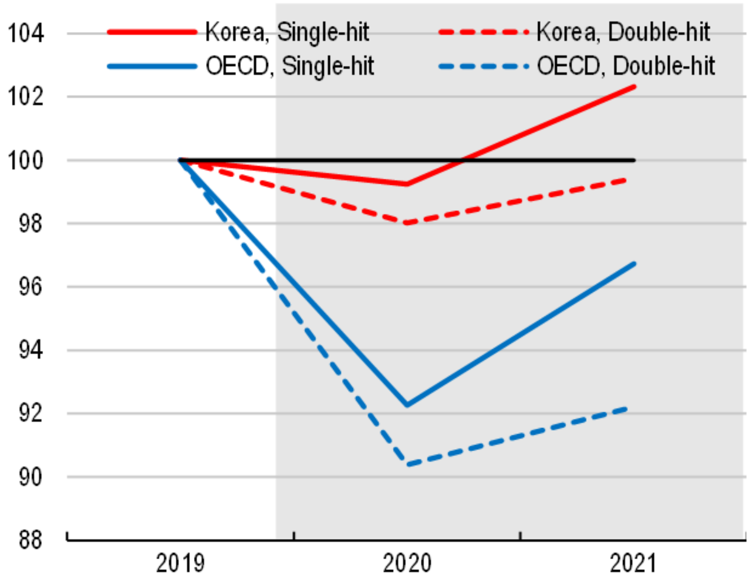
The Korean economy: resilient but facing challenges

Category: COVID-19,Korea,Uncategorized
written by oecdecoscope | July 2, 2026
By Christophe André, OECD Economics Department

The prompt and effective reaction of the Korean authorities to contain the spread of COVID-19 limited the impact of the pandemic on the economy. Strong fiscal and monetary policy measures were quickly implemented to support households and businesses. As a result, the Korean economy is set to contract much less than other OECD economies in 2020, both in a scenario with no resurgence of the pandemic (single-hit scenario) and in a scenario assuming a second global wave of infections (double-hit scenario) (Figure 1).

Figure 1. GDP falls less than in the OECD

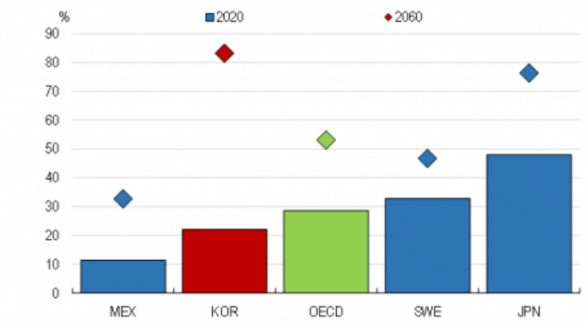


Nevertheless, the pandemic generates strong headwinds. Some sectors, like transport, tourism and entertainment still suffer from substantially reduced activity. Exports, traditionally a key growth engine of the Korean economy, are hit by the weakness in the global economy. Additional obstacles to the operation of global value chains, in which Korea is strongly integrated, would deal a further blow to the economy. High uncertainty is holding back investment and employment has fallen, especially for non-regular workers.

Hence, continued support for households and businesses will remain crucial until the recovery is fully under way. It will need to be carefully tailored to preserve long-term fiscal sustainability and avoid hampering the reallocation of resources towards the sectors with the strongest growth prospects. Any additional income support should be targeted towards low-income households and skills training should be provided, even beyond the crisis, to vulnerable people who lost their job. Investment in areas featuring in the recent Korean New Deal, such as 5G, telecommunication and artificial intelligence, will help boost the knowledge-based economy. Green investments are essential to tackle current problems, not least air pollution, and to ensure long-term environmental sustainability.

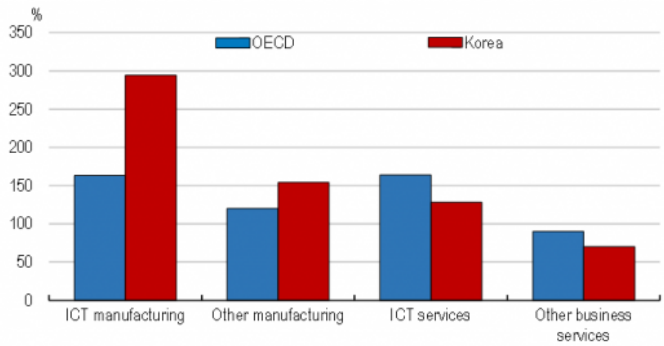
The pandemic compounds pre-existing challenges, many of which are shared to various degrees by most OECD countries, notably rapid population ageing and relatively low productivity in parts of the economy. Korea has the fastest ageing population in the OECD, with the number of persons aged 65 or over projected to exceed 80% of the working-age population by 2060, the highest ratio in the OECD (Figure 2a). The shrinking working-age population will weigh on GDP growth over the coming decades. However, better mobilising labour resources, especially from women, older workers and youth, can partly counteract this trend, as well as help build a more inclusive economy and society. Moreover, each worker has the potential to create more value. While productivity is high in manufacturing, especially for information and communication technology equipment, it is lagging in services, including digital services (Figure 2b). The productivity gap between big firms and SMEs is wider than in most other OECD countries. Overall, Korea's GDP per worker is about 20% below the OECD average, pointing to huge potential for catch-up.

Figure 2a. The old age dependency ratio will soar



Note: Ratio of population aged 65 and over to population aged 15-64. Unweighted average for the OECD.
Source: United Nations and OECD calculations.

Figure 2b. Service sector productivity is lagging



Note: Sectors' productivity relative to total productivity.
Source: OECD STAN Database.

As the population ages, scarcer labour resources will need to be used more effectively. Women's employment rate is about 18 percentage points below that of men, despite very high average academic qualifications among women, especially in younger generations. Relatively low wages and weak career prospects discourage many women from working. The gender wage gap is the widest in the OECD, at about 34% in 2018, compared to an OECD average of about 13%. A number of recent government measures, in particular to enhance childcare quality, improve work-life balance and facilitate return to work after career breaks, could help reduce the gender gap. More broadly, a culture of gender equality needs to be promoted in the workplace and at home.

Koreans effectively retire at an advanced age, but often end their working lives in poor-quality non-regular jobs, after being forced to retire from their career job in their fifties. Maintaining high activity rates, while enhancing the quality of jobs for older workers, will be essential to sustain the economy’s growth potential. At the same time welfare measures are needed to increase support for the elderly who are most in need. Indeed, old-age poverty remains the highest in the OECD, with more than 40% of people aged 65 or over living in relative poverty.

Less than half of youth aged 15-29 were employed before the COVID-19 crisis, the fifth lowest share in the OECD. This reflects long studies, as more than two-thirds of youth obtain tertiary degrees, but also slow transition from education to employment. The crisis exacerbates the difficulties faced by youth entering the job market. To address skills mismatches, the government has stepped up career counselling, developed apprenticeships and vocational education (notably Meister schools) and introduced incentives for tertiary education institutions to propose more market-relevant degrees. Nevertheless, career guidance and counselling will need to be stepped up, in particular through increased resources for the public employment service and stronger involvement of employers.

Digital technologies, in which Korea is a top player, offer vast opportunities to raise firms’ productivity and people’s well-being. Policies should aim at promoting the diffusion of technology across the economy and addressing digital skills gaps. Regulatory reforms, based on the recent experiences with sandboxes, which allow waiving some regulatory obligations to encourage innovation in products or business models, could boost growth and offer people better access to valuable services, as illustrated by telemedicine during the COVID-19 crisis.

Altogether, Korea is proving exceptionally resilient during the annus horribilis the world economy is undergoing, even though the global recession is hurting exports. Korea also has strong cards to address the longer-term challenges it is facing.

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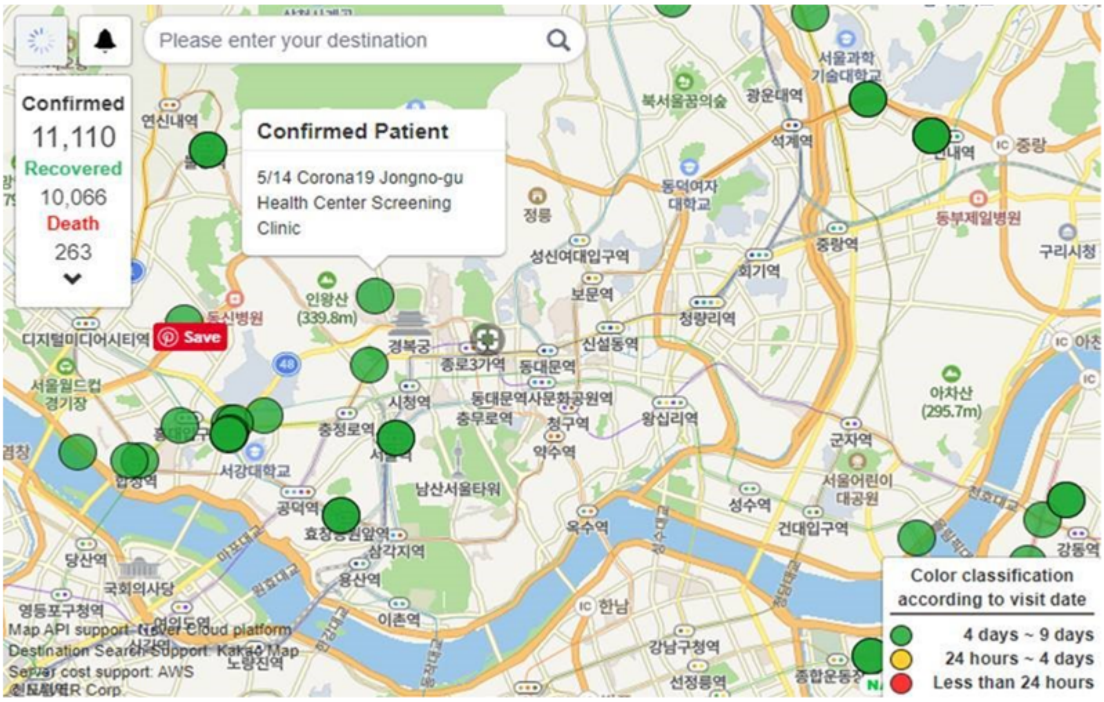
Korea: Roadmap to narrow digital gaps

Category: COVID-19,Digitalisation,Korea
written by oecdecoscope | July 2, 2026
By Mathilde Pak, OECD Economics Department

When it comes to emerging digital technologies, Korea is a top player, with an outstanding digital infrastructure and a dynamic ICT sector. 5G has been introduced nationwide earlier than in any other country in the world and has spurred numerous projects supported by the governement to enhance competitiveness, innovation and the quality of life: smart factories, smart grids, smart healthcare, smart cities, smart roads. Korea also stands out for its swift and effective use of advanced digital tools to contain COVID-19 without shutting down the economy. For instance, artificial intelligence enables fast testing, mobile apps provide real-time information on locations visited by patients diagnosed with COVID-19 (Figure 1) and untact (contactless) lifestyle limits the spread of the virus. The recent New Digital Deal further supports the use of digitalisation with projects exploiting synergies between the government and the business sector, including strengthening data infrastructures, expanding data collection and usage, establishing 5G network infrastructure early, promoting untact industries and developing artificial intelligence.

Figure 1. Corona Map App plots locations with confirmed cases of COVID-19

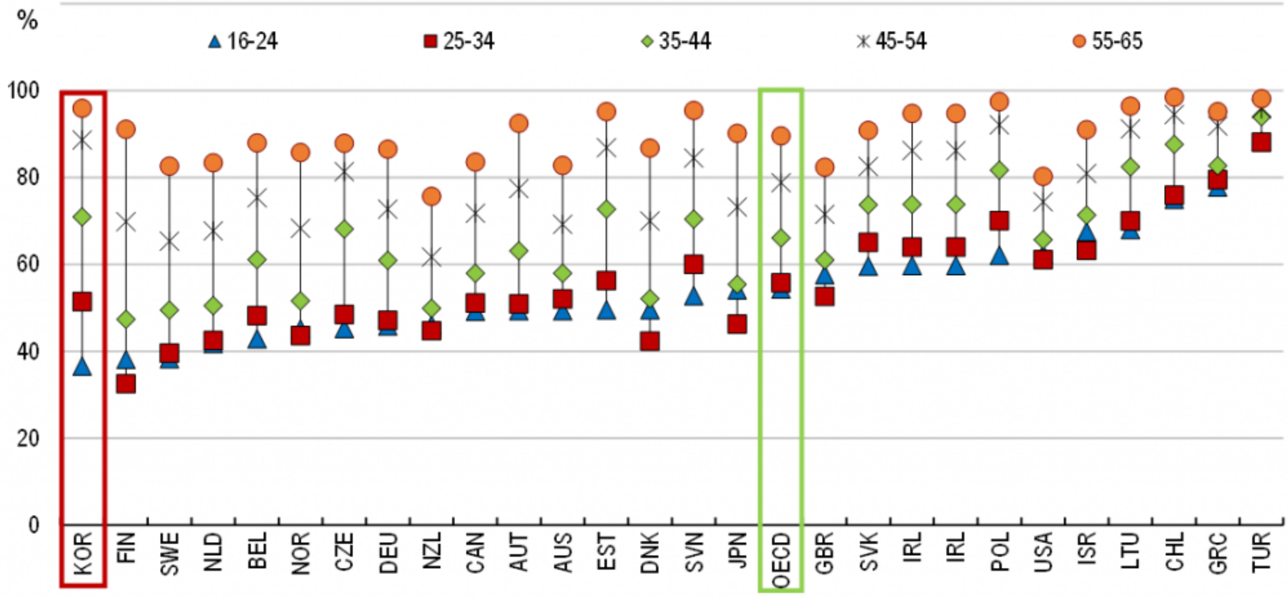


Source: https://coronamap.site

However, the diffusion of digital technologies among firms and workers is slow. The digital gap between SMEs and large enterprises is wide because SMEs face obstacles to the adoption of advanced technologies, like cloud computing and big data: lack of innovation, lack of information and funds, lack of skilled workers and low access to training. This digital gap creates wide productivity gaps, weighing on economy-wide productivity, which is far below the OECD average. Moreover, the digital gap between generations is the highest among OECD countries (Figure 2). In an ageing and increasingly digitalised society, this exacerbates well-being inequalities, as part of the population is left behind.

Figure 2. The digital skill gaps between generations is the highest among OECD countries

Share of adults with limited or no digital skills, by age group, 2012 or 2015



Source: OECD Economic Survey of Korea (2020).

Digital opportunities to boost productivity and well-being are numerous but are not used to their full potential. To promote the diffusion of technology, the 2020 OECD Economic Survey of Korea highlights recommendations focussing on three main areas.

First, regulations for product and service markets remain stringent, holding back innovation and new business models, as well as competition and productivity growth. The government has introduced regulatory sandboxes allowing firms in new technologies and new industries to test their products and business models without being subject to all existing legal requirements. The temporary lifting of the ban on telemedicine during the COVID-19 outbreak illustrates the potential benefits of a timely review of regulations. After four years at most, if a regulatory sandbox is considered effective and safe, it can lead to the permanent suppression of the regulation that was temporarily waived, its amendment, or the extension of the trial period. It can also lead to the creation of licences with a narrower scope, for example for FinTech companies, which could be allowed to provide some banking services without needing a full banking licence. Follow up on this strategy should allow identifying excessive regulation and revise or abolish it, notably in the case of telemedicine.

Second, subsidies to SMEs should better target innovative and productive companies. Extensive government R&D support still largely props up low-productivity companies and scale-up success is limited. Innovation vouchers in the form of a one-off payment should be provided to SMEs in manufacturing and services to commission R&D and studies on potential for new technology introduction from universities and research institutions. They would help develop innovation networks, which are still limited in Korea, and facilitate the diffusion of digital technology. In addition to promoting collaboration between SMEs and academia, collaboration between SMEs and large enterprises should be further strengthened to enhance innovation diffusion, for instance through open collaborative platforms to exchange new products, services and big data. Financial support for technology R&D should also be reallocated to commercialisation for SMEs that successfully developed new technology.

Third, addressing the lack of adequate skills and awareness of digital benefits or dangers is crucial. SMEs face a lack of skilled workers in digital fields, limited access to ICT training and insufficient awareness of managers of the potential of digital technologies. Older generations often lack digital and basic skills to participate in online activities like e-commerce. Most teachers feel they are not sufficiently prepared to use ICT for teaching, which has been a hurdle during the COVID-19 school closures. A relatively high share of individuals experience privacy violation and youth are at higher risk of cyber-bullying and addiction to

ICT technologies. More specialists and high-level researchers are needed in fourth industrial revolution core technologies like artificial intelligence and big data, as well as next-generation security technologies like blockchains and quantum cryptography communication. Higher-quality ICT education and training should be provided to enable students, teachers, SME workers and older people to thrive in a digital society.

The COVID-19 outbreak is strengthening the existing trend towards digitalisation, with a growing use of artificial intelligence and remote services like telework, telemedicine and e-commerce by firms and households. Narrowing the digital gap between firms and between workers is key to bring about a more rapid diffusion of technology and to make the most of digital opportunities to raise productivity and well-being.

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Korea needs a paradigm shift to sustain its convergence to

the highest-income countries

Category: Korea,Uncategorized
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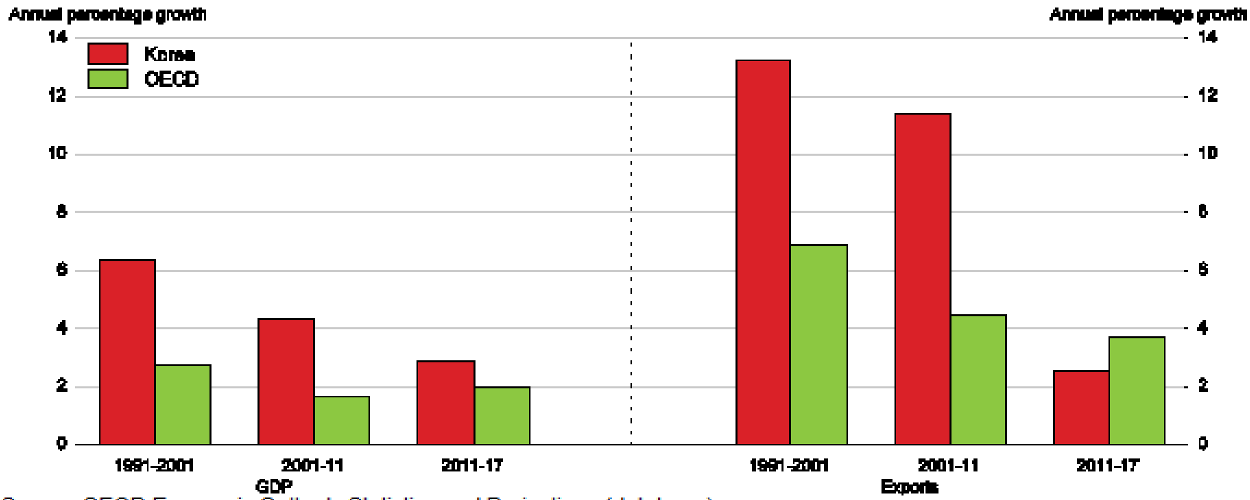
Korea’s transformation from one of the poorest countries in the world in the 1950s to a major industrial power and member of the OECD was exceptionally rapid, reflecting good policies, notably sound fiscal and monetary policy, high levels of investment in human and physical capital and an outward orientation 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



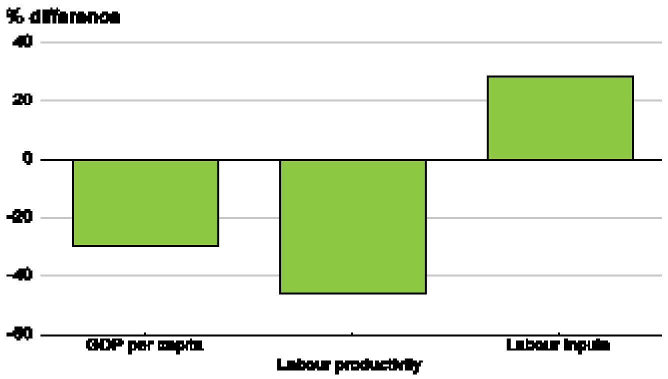
Source: OECD Economic Outlook: Statistics and Projections (database).

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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