

The 2014 *OECD Economic Survey of Korea*: Sustaining Growth and Fostering a Creative Economy

Randall S. Jones

Head, Japan/Korea Desk

OECD

22 July 2014

1. Korea's short-term economic outlook.
2. A new economic paradigm for Korea: Fostering a creative economy.
3. Promoting social cohesion and well-being.

Short-term economic outlook in Korea¹

Annual percentage change unless specified otherwise, volumes at 2010 prices, based on SNA2008

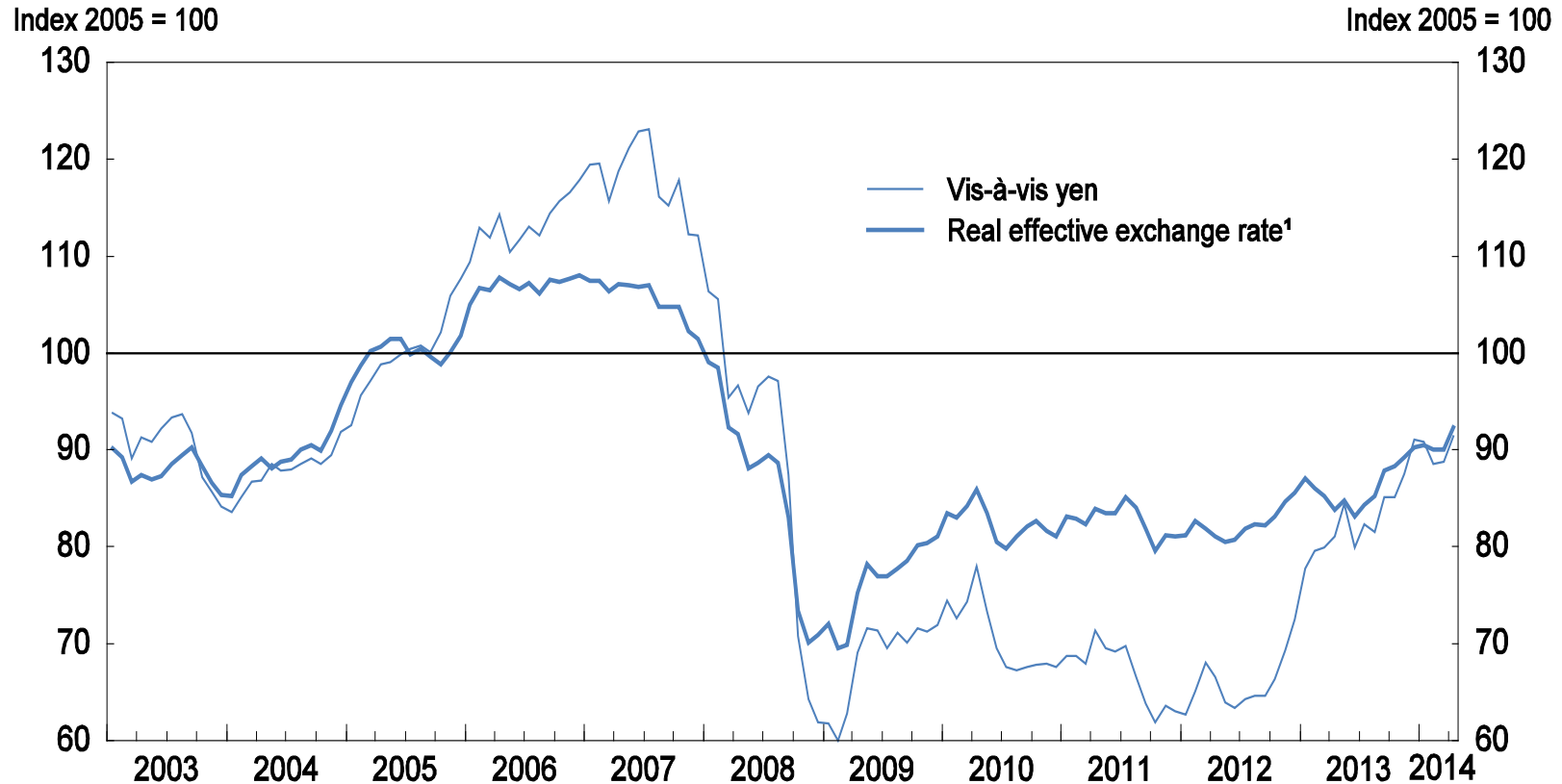
	Per cent of 2010 GDP in current prices	2011	2012	2013	2014	2015
GDP	100.0	3.7	2.3	3.0	4.0	4.2
Private consumption	50.3	2.9	1.9	2.0	2.6	3.1
Government consumption	14.5	2.2	3.4	2.7	2.4	3.1
Gross fixed capital formation	30.5	0.8	-0.5	4.2	5.4	6.4
<i>Of which:</i>						
Housing	3.6	-8.0	-2.9	19.4	5.5	6.3
Business	22.3	3.4	0.7	-1.0	7.9	6.8
Government	5.2	-6.0	-3.9	3.5	3.2	3.1
Final domestic demand	95.3	2.1	1.4	2.8	3.4	4.1
Stockbuilding ²	1.5	0.9	-0.6	-1.3	0.0	0.0
Total domestic demand	96.8	3.0	0.7	1.4	3.4	4.2
Exports of goods and services	49.4	15.1	5.1	4.3	5.9	8.5
Imports of goods and services	46.2	14.3	2.4	1.6	5.0	8.9
Net exports ²	3.2	0.8	1.5	1.5	0.0	0.3
Other indicators						
Unemployment rate ³		3.4	3.2	3.1	3.1	3.0
Consumer price index (CPI)		4.0	2.2	1.3	2.0	2.8
Core CPI		3.2	1.7	1.6	2.3	2.8
General government financial balance ⁴		1.0	1.0	-0.4	0.1	0.5
General government gross debt ⁴		33.3	34.8	36.5	37.9	39.0
General government net debt ⁴		-35.3	-35.9	-34.2	-32.8	-31.7

1. Historical data through 2013 for GDP and other indicators and projections from OECD Economic Outlook, No. 95 (May 2014) for 2014-15.
2. Contributions to changes in real GDP (percentage of real GDP in previous year).
3. As a percentage of the labour force.
4. As a percentage of GDP.
5. Under the sixth edition of the Balance of Payments and International Investment Manual (BPM6) introduced in March 2014, the current account surplus was \$79.9 billion in 2013 (\$70.7 previously), amounting to 6.1% of GDP.

Source: OECD Economic Outlook, No. 95.



The won has fluctuated widely

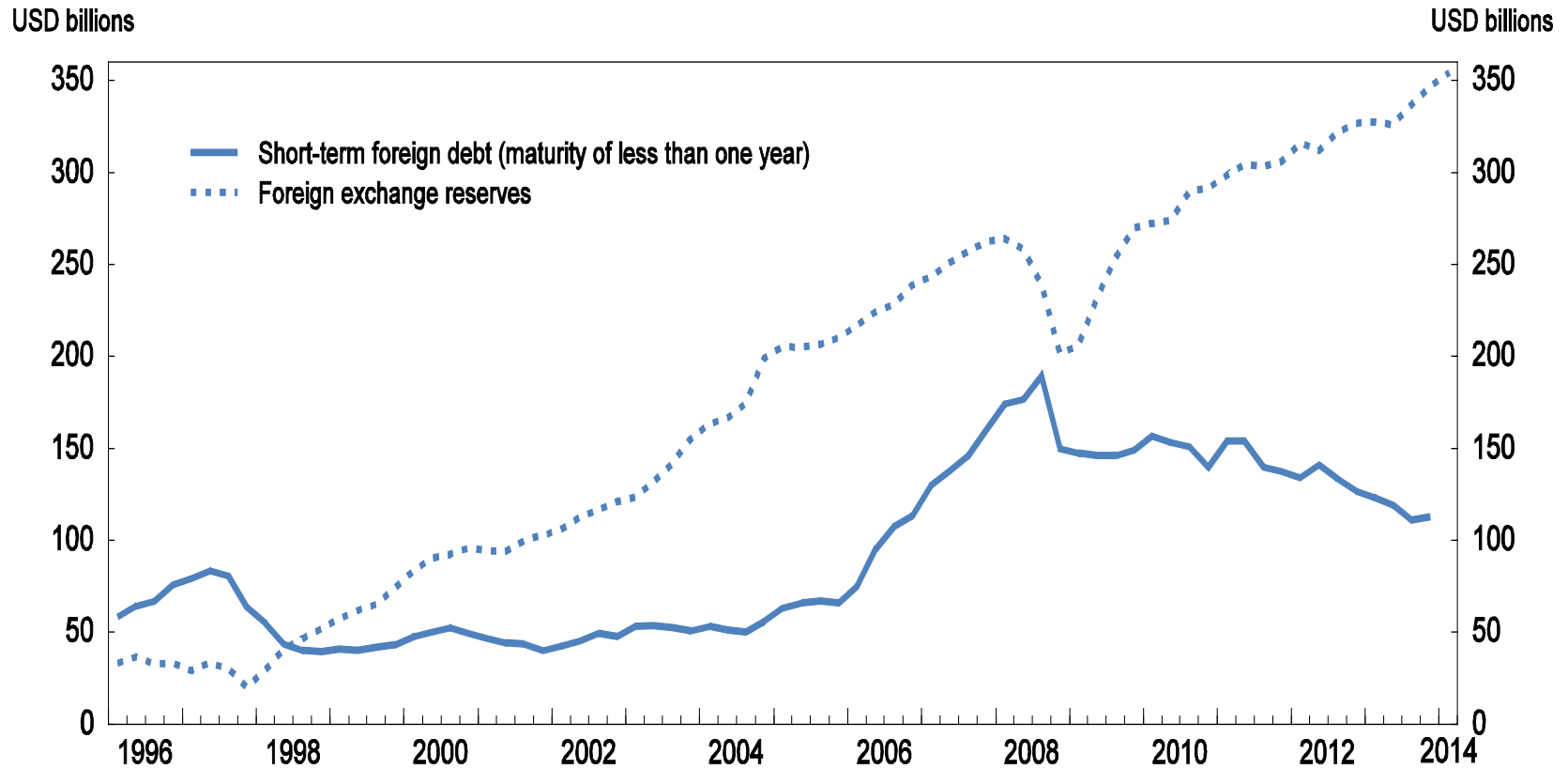


1. Calculated vis-à-vis 48 trading partners. The real rate is calculated using consumer prices.

Source: OECD Analytical Database and Bank of Korea.



Foreign exchange reserves are three times higher than short-term foreign debt



Source: Bank of Korea.

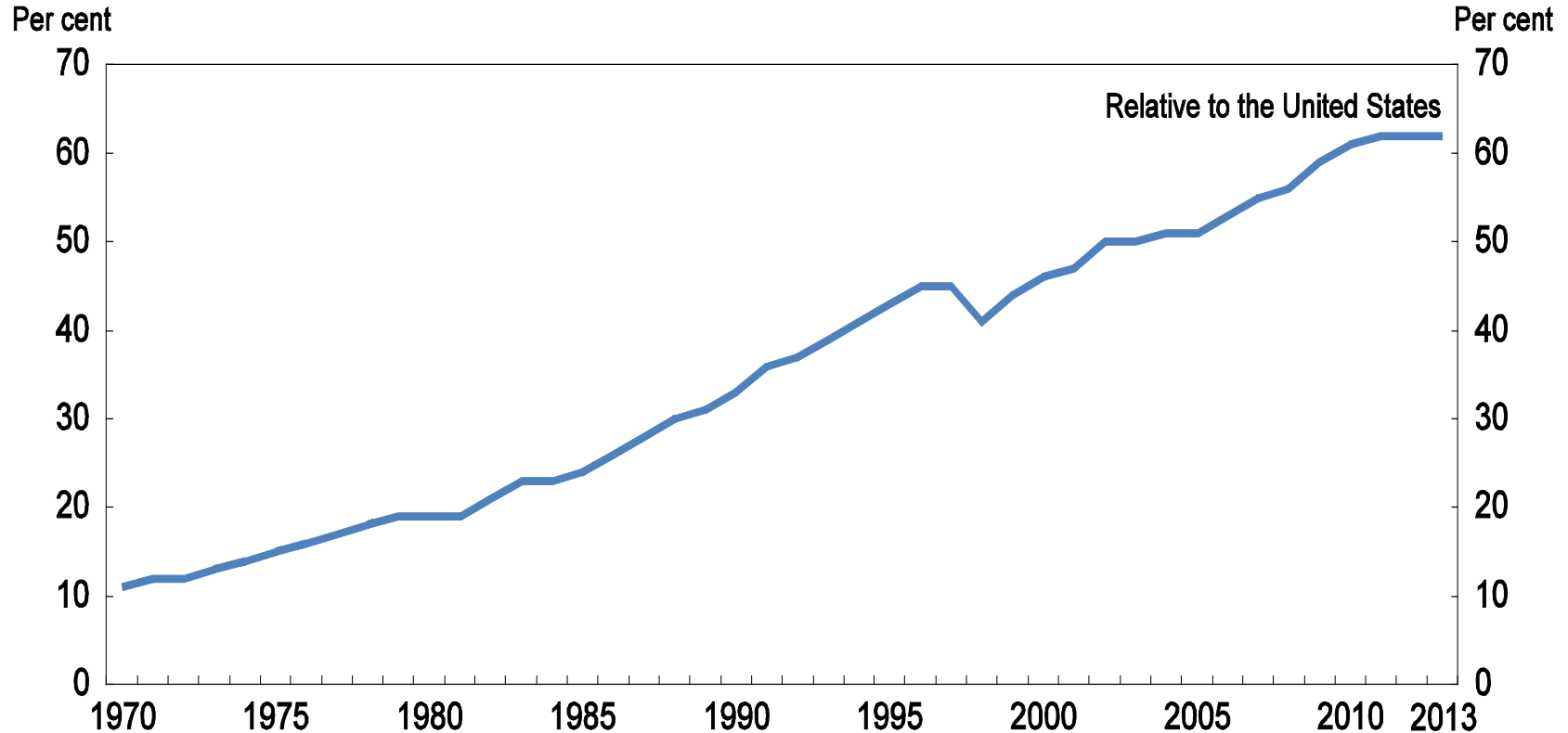


1. Korea's short-term economic outlook.
2. A new economic paradigm for Korea: Fostering a creative economy.
3. Promoting social cohesion and well-being.



Korea has achieved rapid economic development

Korea's per capita income as a share of that in the United States¹



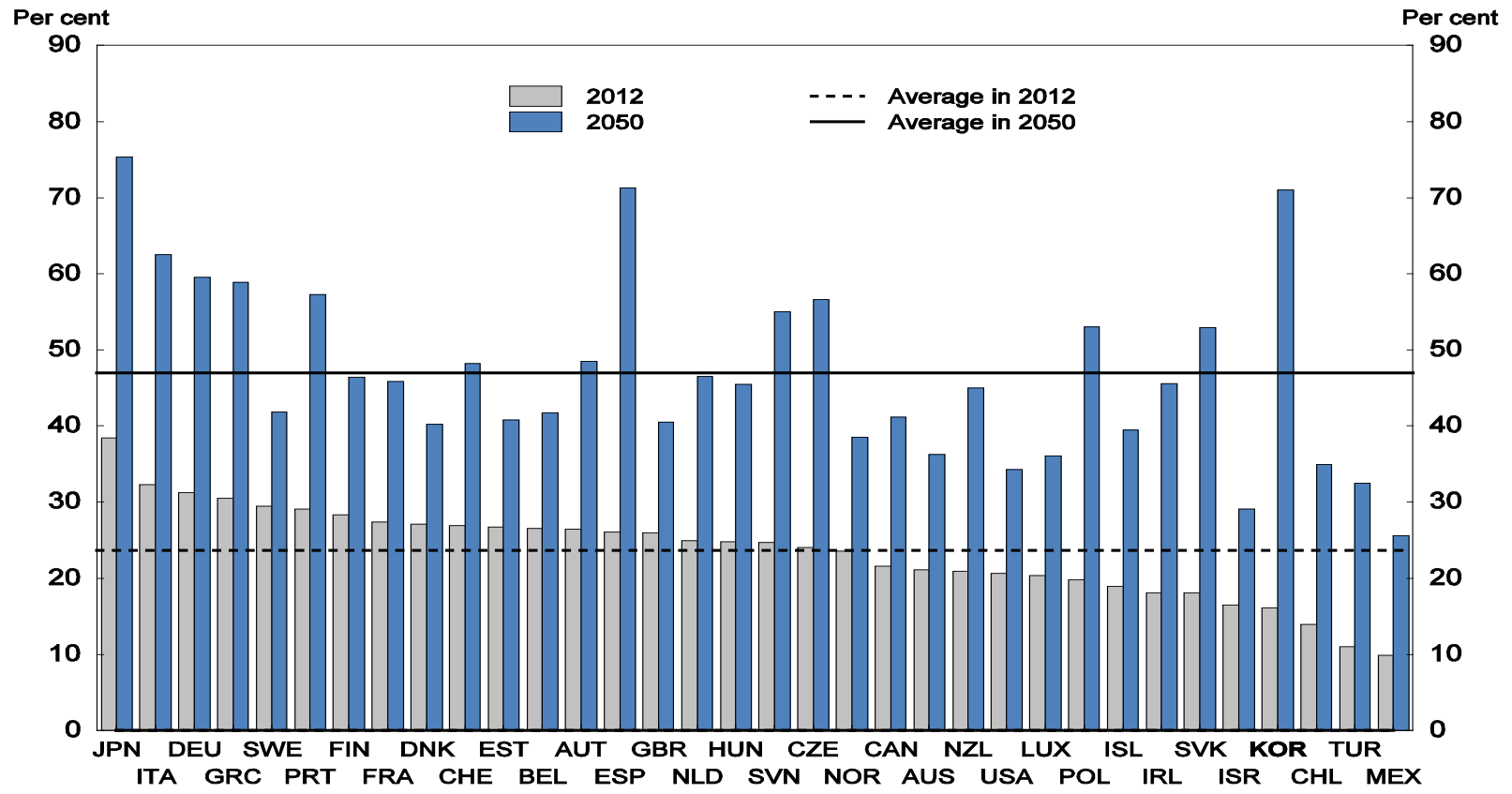
1. GDP per capita, converted at 2005 purchasing power parity exchange rates. The data for Korea are based on SNA1993, as SNA2008 data are not available prior to 2000, while those for the United States are based on SNA2008. Using SNA2008 for Korean GDP in 2013 would raise Korea per capita income from 62% of the US level to 68%.

Source: OECD National Accounts Database.



Population ageing in Korea is projected to be the fastest in the OECD area

Population aged 65 and over as a share of the population aged 15 to 64



Source: OECD Demography and Population Database.



Comparison of North and South Korea in 2012

	(A) North Korea	(B) South Korea	Ratio (B/A)
Population (millions)	24.4	50.0	2.0
GNI (trillion won)	33.5	1 279.5	38.2
GNI per capita (million won)	1.3	25.6	18.7
Total trade (billion US\$)	6.8	1 067.5	157.0
Exports	2.9	547.9	188.9
Imports	3.9	519.6	133.2
Of which: inter-Korean exports ¹	1.1	0.9	0.8
Industrial statistics (2012)			
Power generation (billion kWh)	21.5	509.6	18.6
Steel production (million tonnes)	1.2	69.1	56.5
Cement production (million tonnes)	6.4	46.9	7.3
Agricultural production (2012)			
Rice (million tonnes)	1.9	4.9	2.6
Fertiliser (million tonnes)	0.5	2.6	5.4

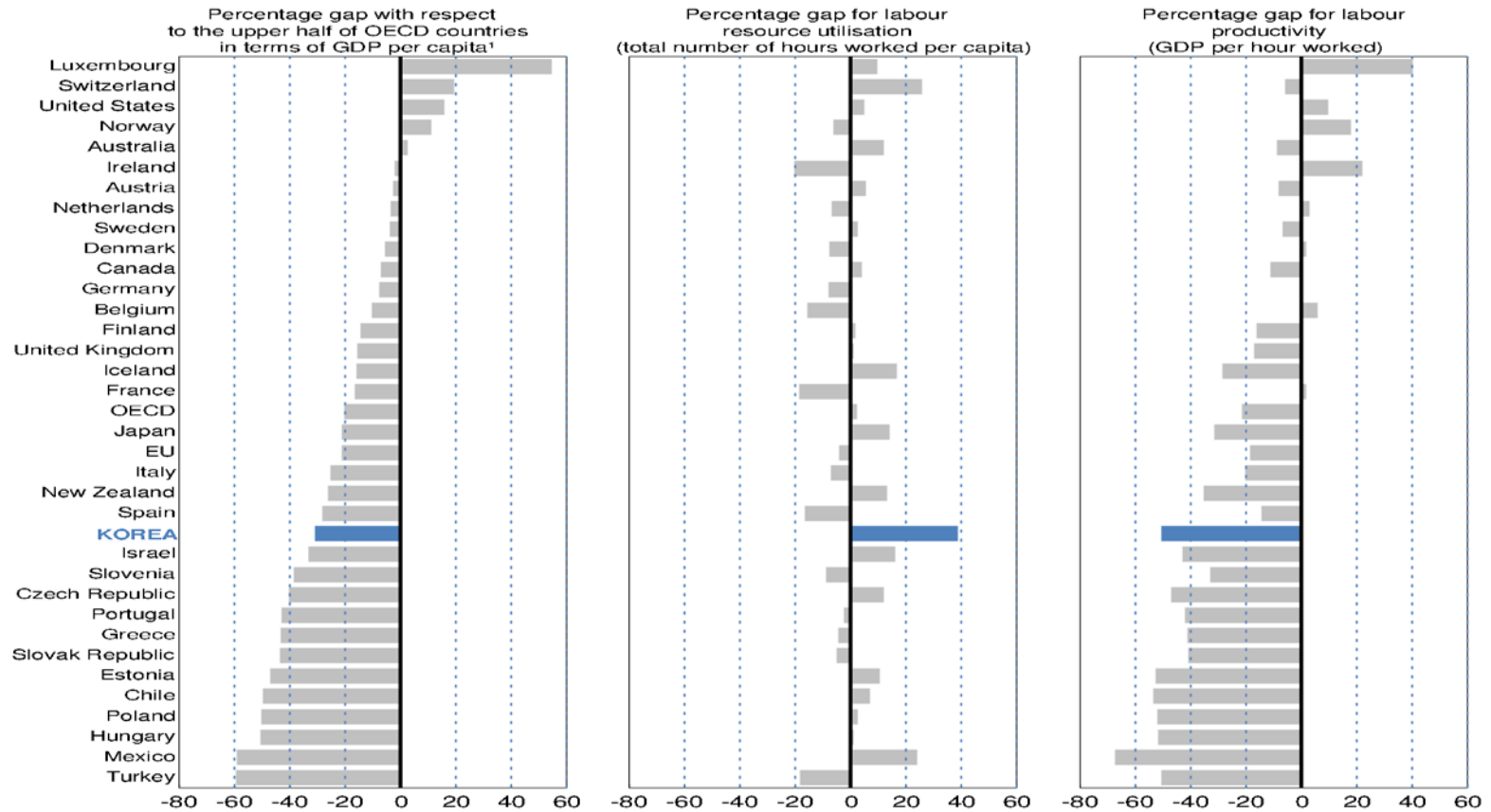
1. North Korean exports to the South in column Panel A, and South Korean exports to the North in column B.

Source: Statistics Korea.



Explaining differences in income

In 2012



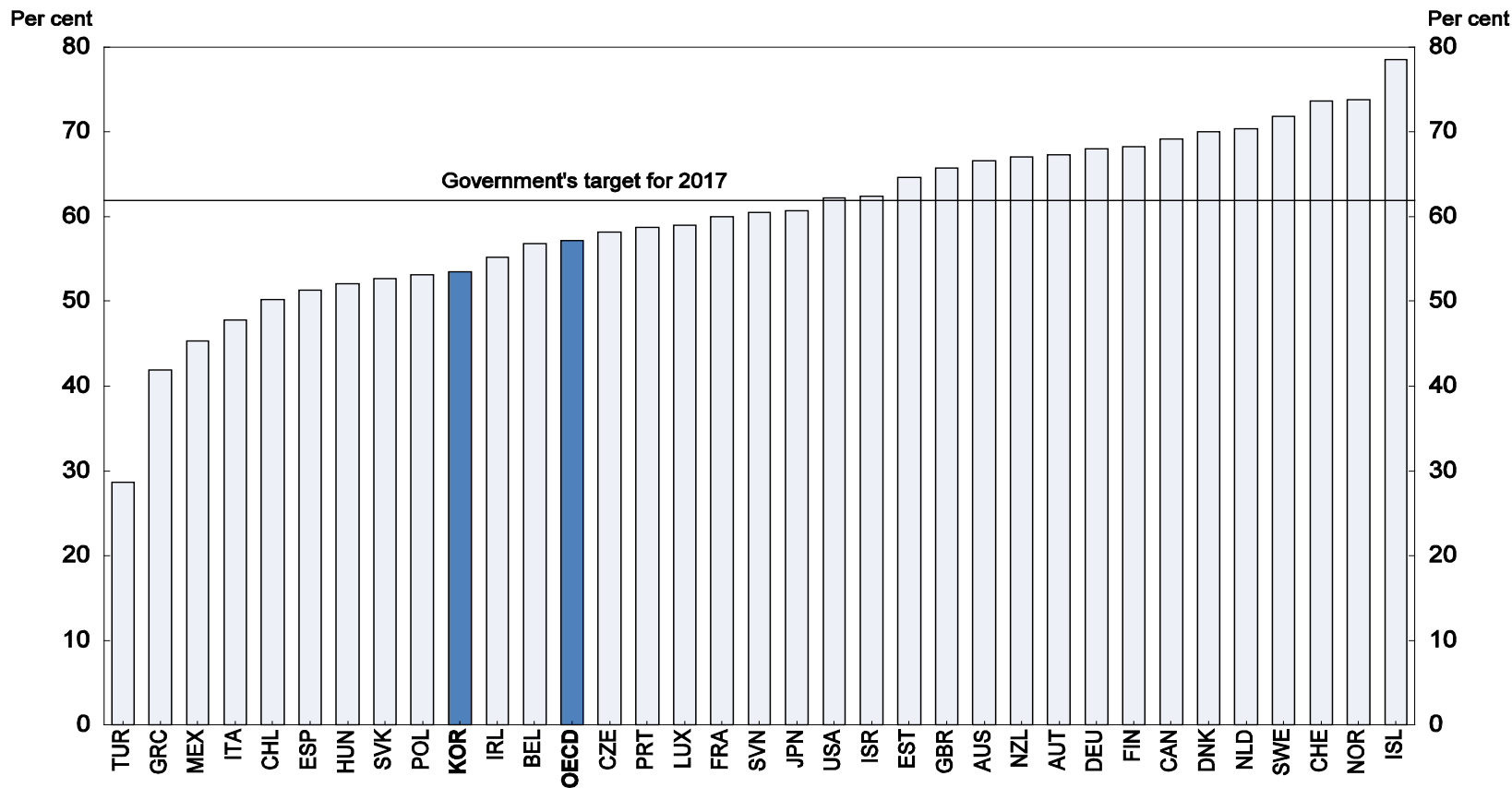
1. Using 2012 PPP exchange rates.

Source: OECD (2014), *Going for Growth 2014*.



The government plans to increase the female employment ratio

As a per cent of the working-age population in 2012



Source: OECD Employment Outlook 2013.



The employment rate targets set by the roadmap

As a per cent of the working-age population

	2012	2017
Total	64.2	70.0
Women	53.5	61.9
Men	74.9	78.1
Youth (15 to 29)	40.4	47.7
Adults (30 to 54)	75.6	81.0
Older persons (55 to 64)	63.1	67.9



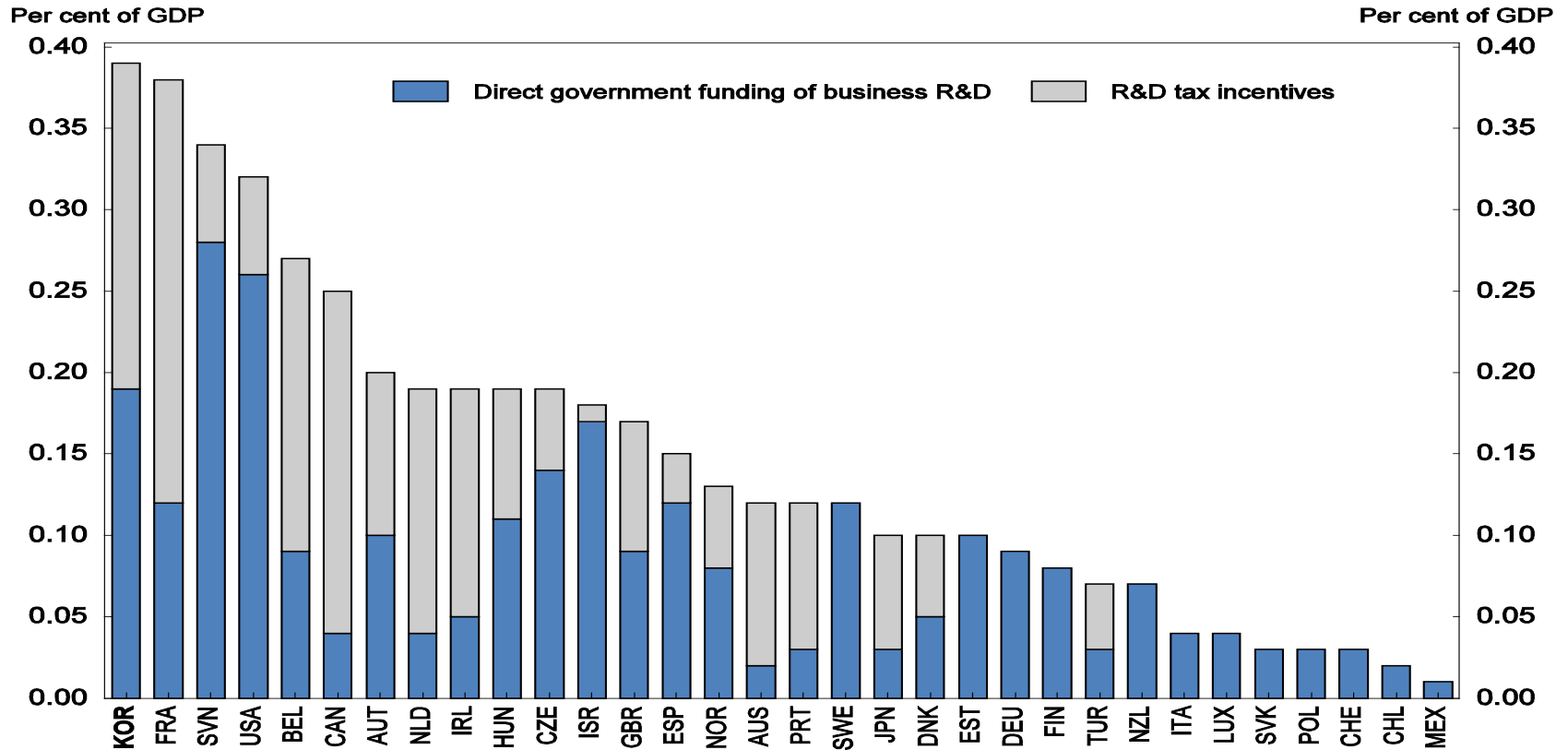
Fostering a creative economy

1. Improving the innovation system
2. Framework conditions to promote a creative economy
3. Promoting venture businesses and start-ups
4. Making the SME sector more dynamic



Government support for business-sector R&D is high in Korea

Budgetary impact as a percentage of GDP in 2011 or latest year available

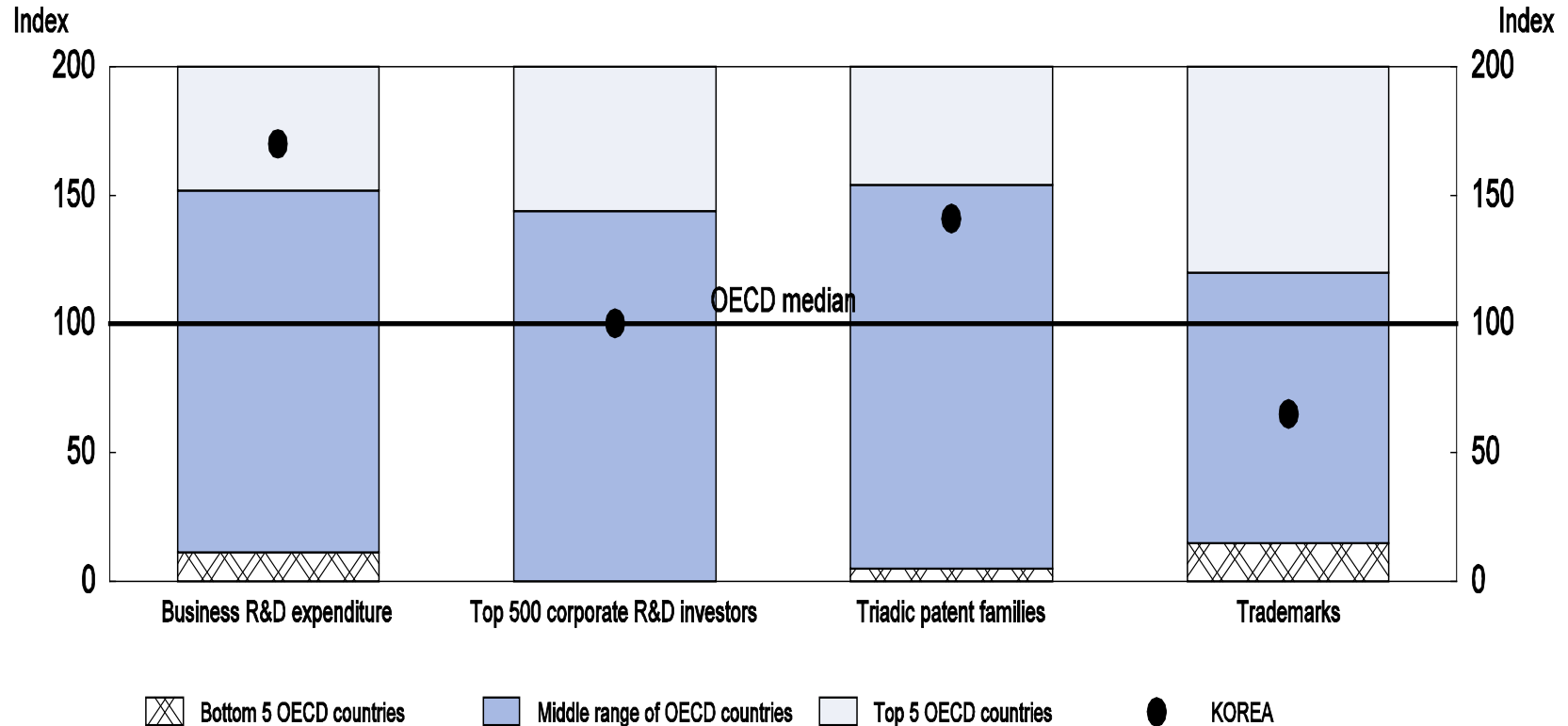


Source: OECD (2013), *Science, Technology and Industry Scoreboard 2013*.



Comparative performance of national science and innovation systems¹

Relative to GDP in 2011



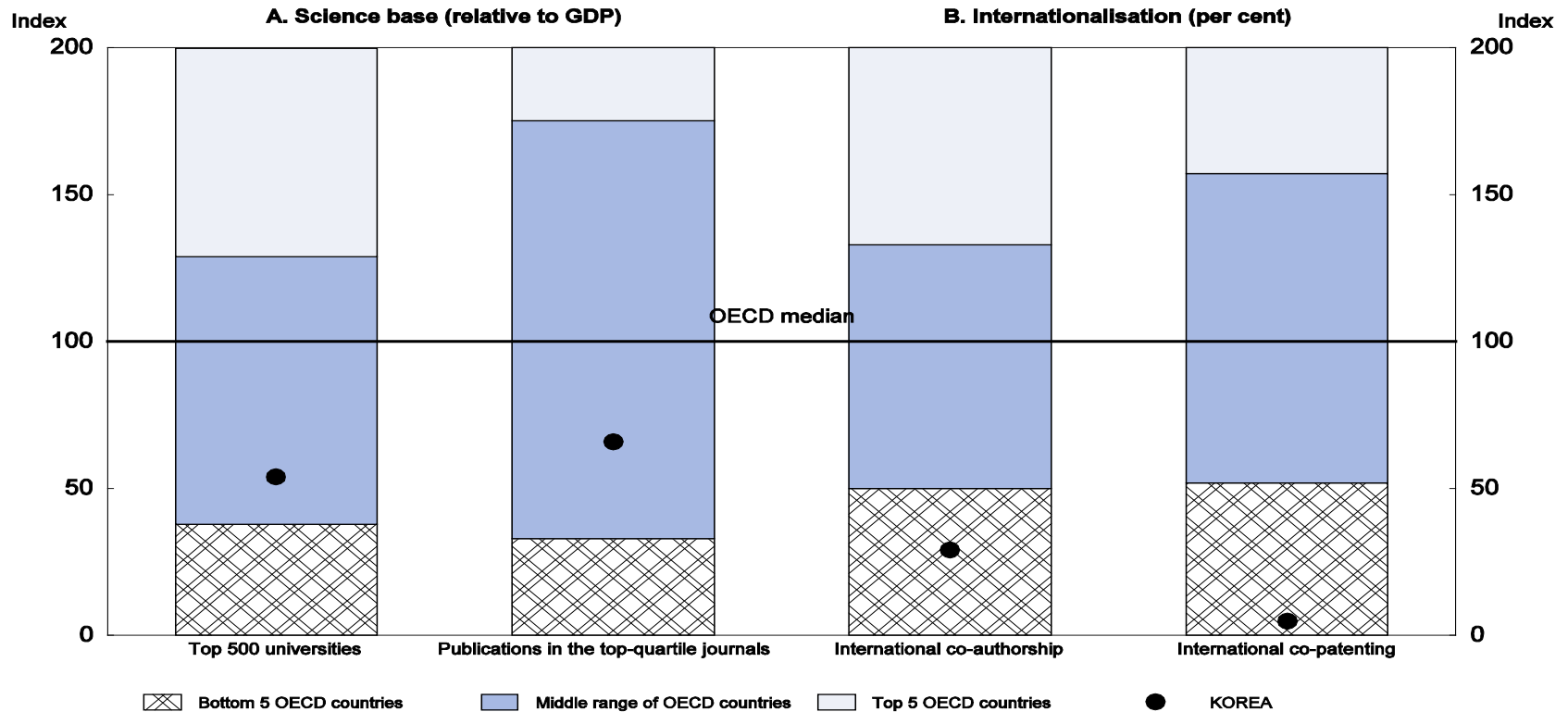
1. Normalised index of performance relative to the median values in the OECD, which are set at 100. The top performer is set at 200 and the lowest at zero. The figure shows the range of scores received by the top five performers and bottom five performers. For example, the fifth-highest performer in the case of the “Top 500 universities” had a score of 129 relative to the OECD median, while the fifth lowest had a score of 38. Korea, with a score of 54, was in the middle range.

Source: OECD Main Science and Technology Indicators Database.



Comparative performance of national science and innovation systems¹

In 2011



1. Normalised index of performance relative to the median values in the OECD, which are set at 100. The top performer is set at 200 and the lowest at zero. The figure shows the range of scores received by the top five performers and bottom five performers. For example, the fifth-highest performer in the case of the “Top 500 universities” had a score of 129 relative to the OECD median, while the fifth lowest had a score of 38. Korea, with a score of 54, was in the middle range.

Source: OECD Main Science and Technology Indicators Database.



Flows of R&D funds in 2011

		Allocation between R&D actors¹			
		Government	Universities	Business enterprises	Total
Business enterprises	73.7	1.2	1.5	97.3	100.0
Government	24.9	49.0	32.6	18.4	100.0
Universities	0.7	3.7	92.2	4.1	100.0
Non-profit institutes	0.4	53.7	42.8	3.6	100.0
Foreign sources	0.2	39.2	17.8	43.1	100.0

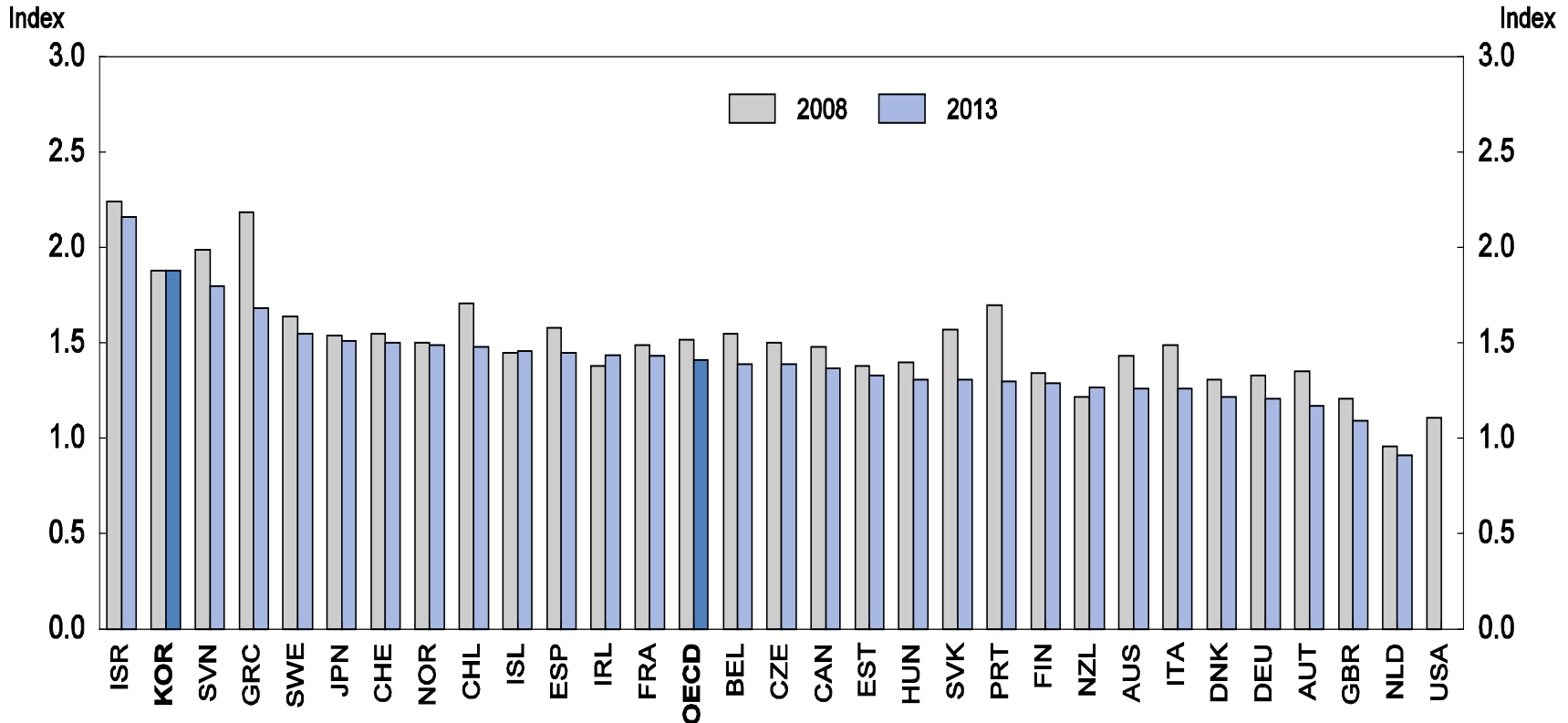
1. By which sector performs the R&D.

Source: OECD R&D Statistics Database.



International comparison of product market regulation¹

Overall product market regulation

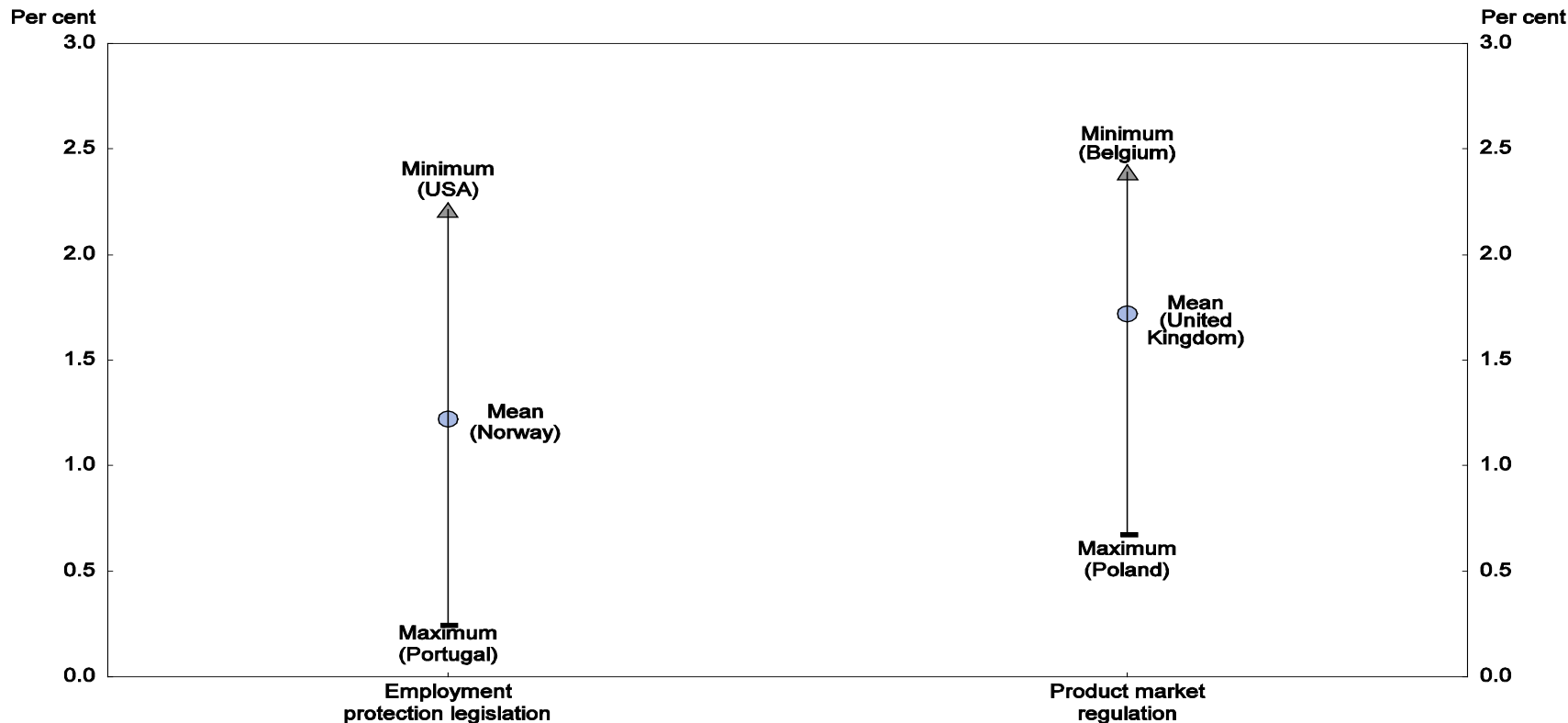


1. The OECD Indicators of Product Market Regulation are a comprehensive and internationally-comparable set of indicators that measure the degree to which policies promote or inhibit competition. Empirical research shows that the indicators have a robust link to performance. The indicator, which ranges from zero (most relaxed) to three (most stringent), is available for 30 OECD countries. The overall indicator is based on more than 700 questions.
 Source: OECD Product Market Regulation Database and Koske et al. (2014).



Impact of the stringency of regulation on resource allocation

Additional labour attracted by a firm with a 10% increase in its patent stock over 2002-10¹

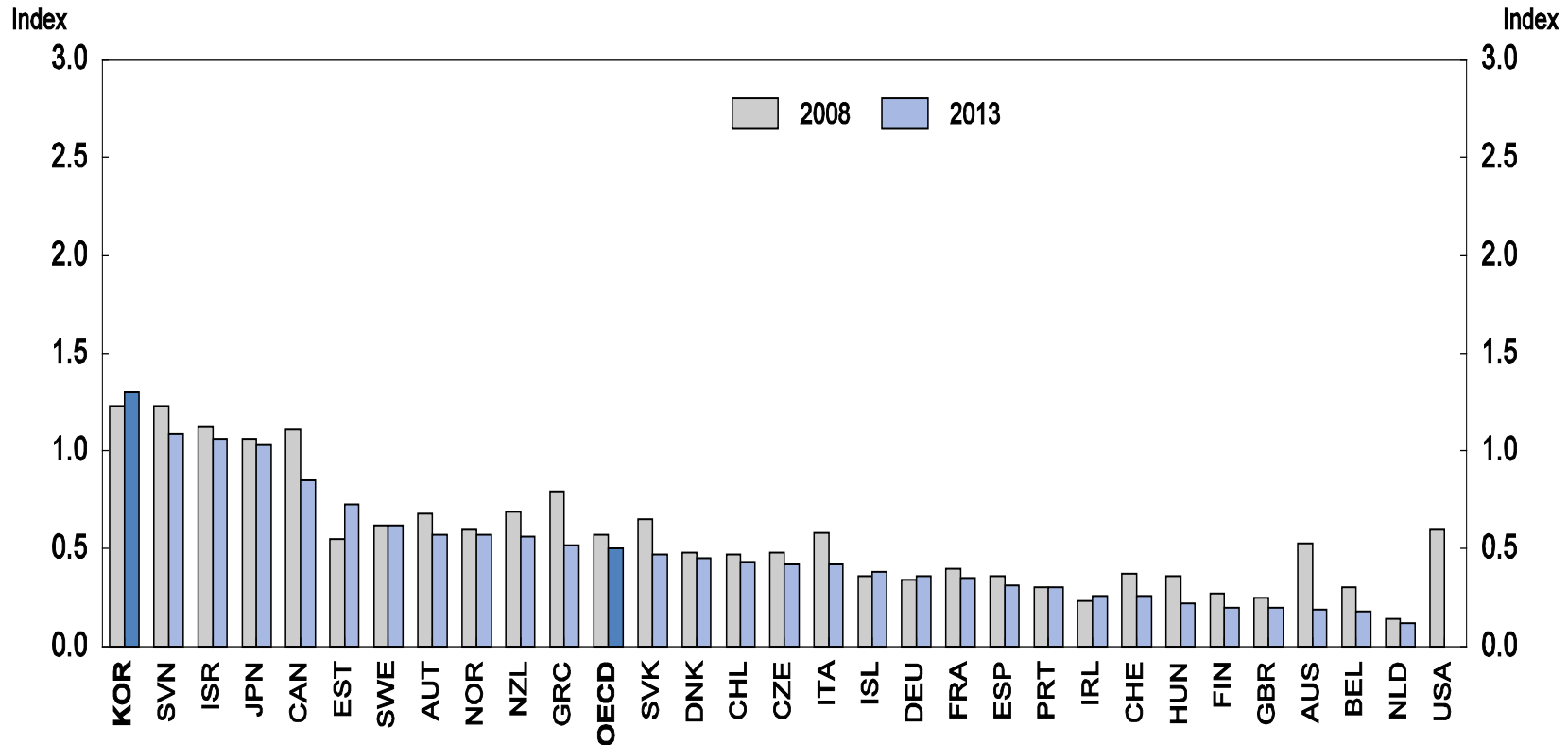


1. For each category of regulation, "minimum" refers to the country that is least restrictive (for example, Belgium in the case of PMR), while "maximum" refers to the country that is most restrictive.

Source: Andrews *et al.* (2014).



International comparison of barriers to trade and investment¹



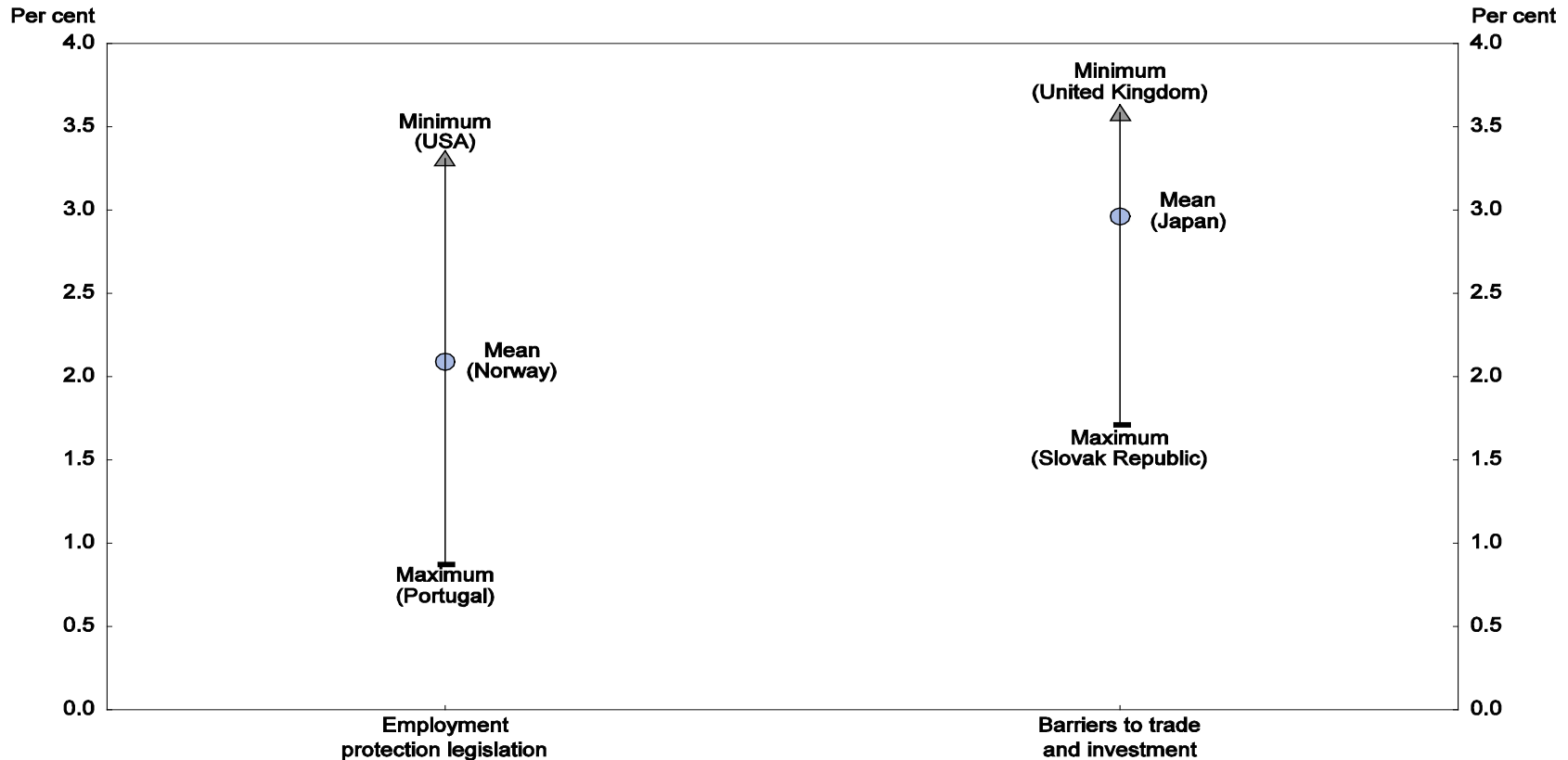
1. The OECD Indicators of Product Market Regulation are a comprehensive and internationally-comparable set of indicators that measure the degree to which policies promote or inhibit competition. Empirical research shows that the indicators have a robust link to performance. The indicator, which ranges from zero (most relaxed) to three (most stringent), is available for 30 OECD countries. The overall indicator is based on more than 700 questions.

Source: OECD Product Market Regulation Database and Koske et al. (2014).



Impact of the stringency of regulation on resource allocation

Additional capital attracted by a firm with a 10% increase in its patent stock over 2002-10¹



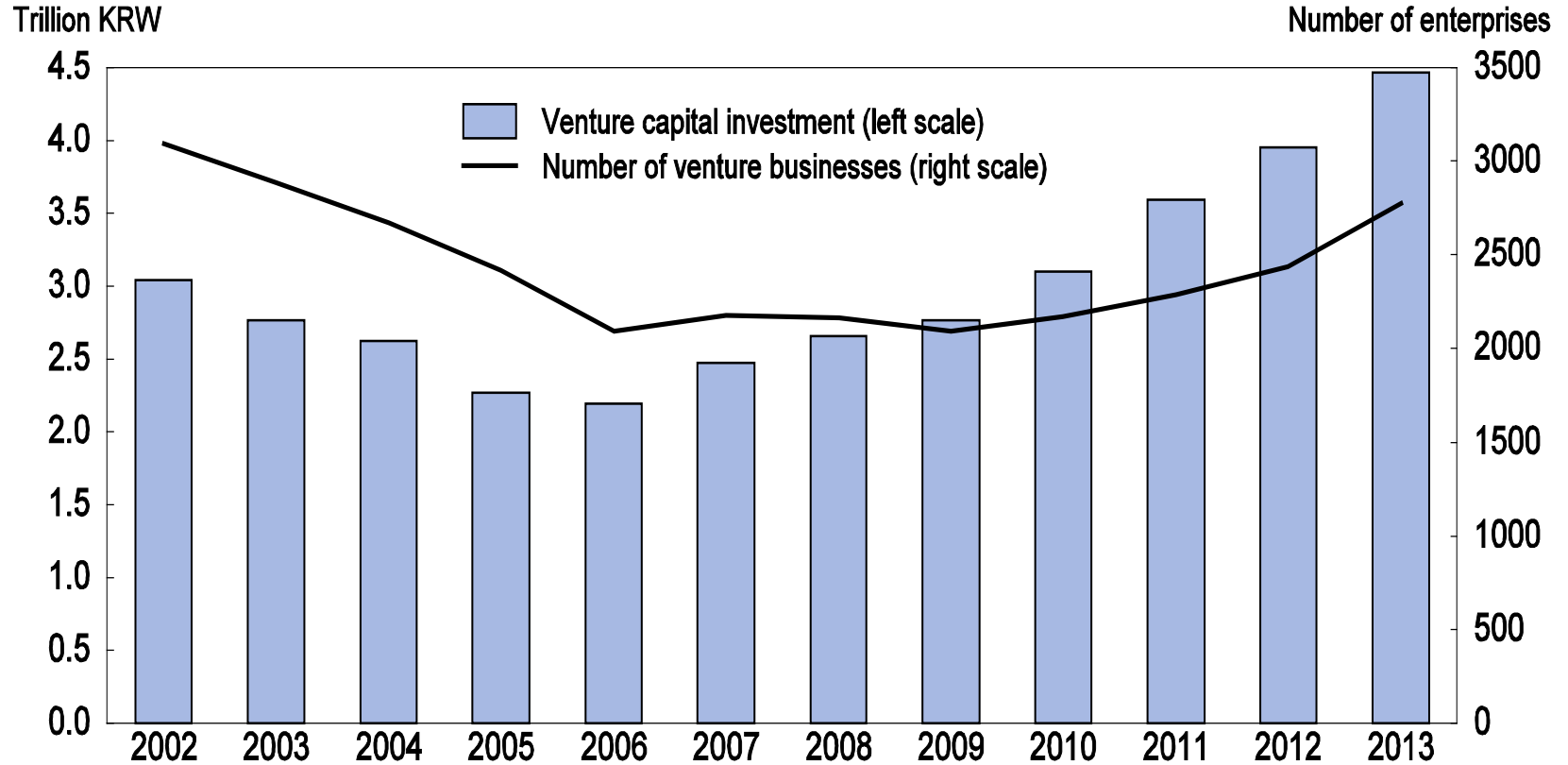
1. For each category of regulation, "minimum" refers to the country that is least restrictive (for example, Belgium in the case of PMR), while "maximum" refers to the country that is most restrictive.

Source: Andrews et al. (2014).



Korea's venture capital market has rebounded in recent years

Cumulative amount of venture capital investment and number of firms that received such investment



Source: SMBA and Korean Venture Capital Association (2013).



Sources of SME financing

As a per cent of the total¹

Year	Banks	Non-banks	Bonds and equities	Venture investment	Government guarantees	Other government	Total
2004	61.1	22.7	0.6	1.2	13.6	0.8	100.0
2006	64.0	22.7	0.8	0.8	11.0	0.7	100.0
2008	68.0	21.0	0.8	0.7	8.9	0.6	100.0
2009	64.7	21.0	1.0	0.7	11.7	1.0	100.0
2010	64.5	20.7	0.7	0.8	12.3	1.1	100.0
2011	67.8	17.2	0.5	0.9	12.3	1.4	100.0

1. Government guarantees are assumed to cover bank lending. Some of the lending by government institutions is reported as loans by banks and non-banks.
 Source: Sohn and Kim (2013).



Policies to promote the venture business sector and new start-ups

1. Activate the market for M&As by addressing the obstacles that have kept it small.
2. Avoid excessive public funding of venture capital investment that would crowd out private investment, rely on a "fund-of-funds" approach and focus public support on the early stage of a firm's development when attracting private investors is most difficult.
3. Develop the demand side of the venture capital market, in part by using public institutions to enhance the quality of investment projects.
4. Foster an environment that allows failed entrepreneurs to have second chances to launch start-ups.
5. Make the new KONEX a key player in funding start-ups, while ensuring adequate investor protection in KONEX and for crowd-funding.



Central government programmes to support SMEs

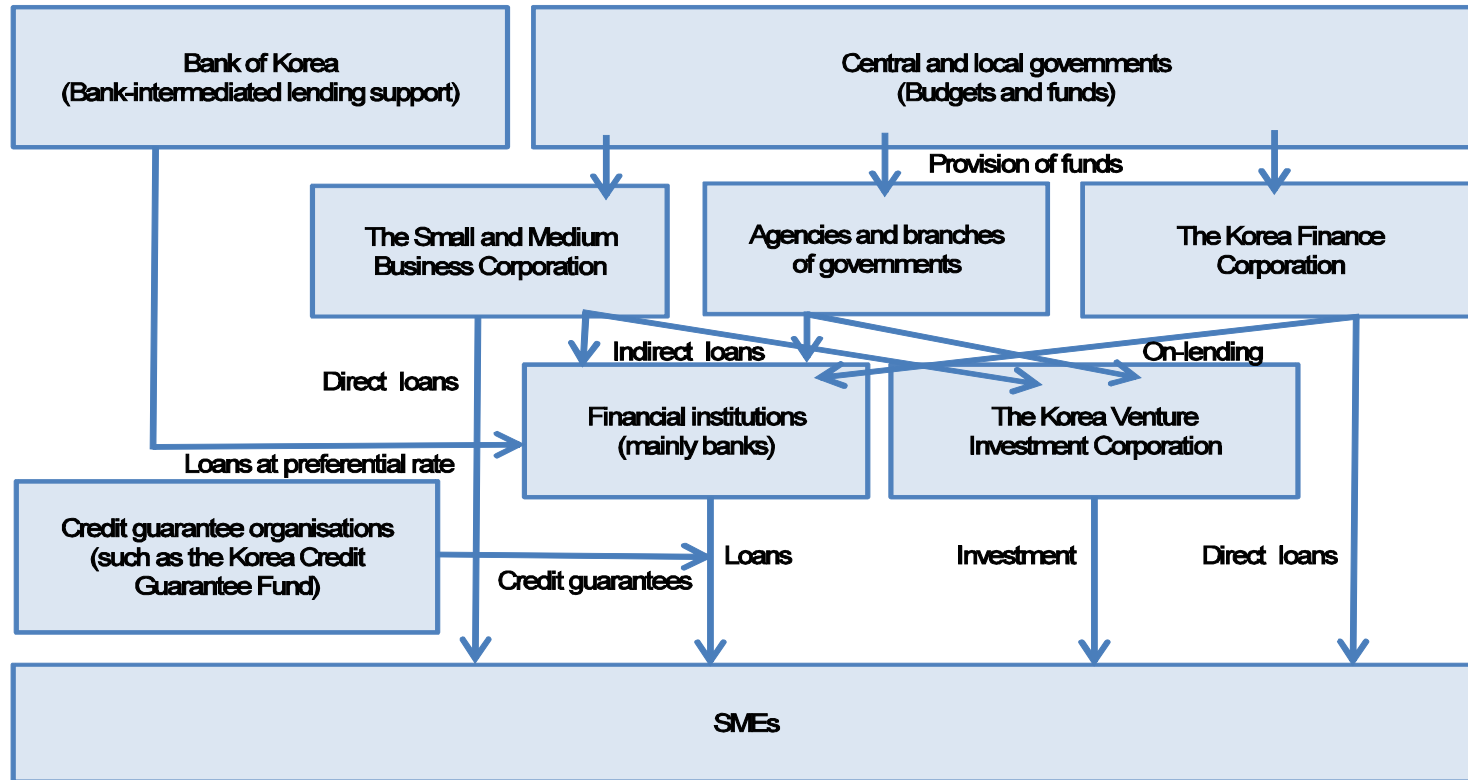
In billion KRW in 2011

	Outlays	Per cent of total	Number of programmes
SME financing	5 387	55.3	39
Establishing new firms and ventures	244	2.5	10
Marketing and exports	154	1.6	27
Human resources	576	5.9	21
Innovation	1 662	17.1	43
Co-operation with large companies	291	3.0	8
Other	1 433	14.7	53
Total	9 746	100.0	201

Source: KDI et al. (2011).



The framework of SME financing support in Korea



Source: The Board of Audit and Inspection (2012).



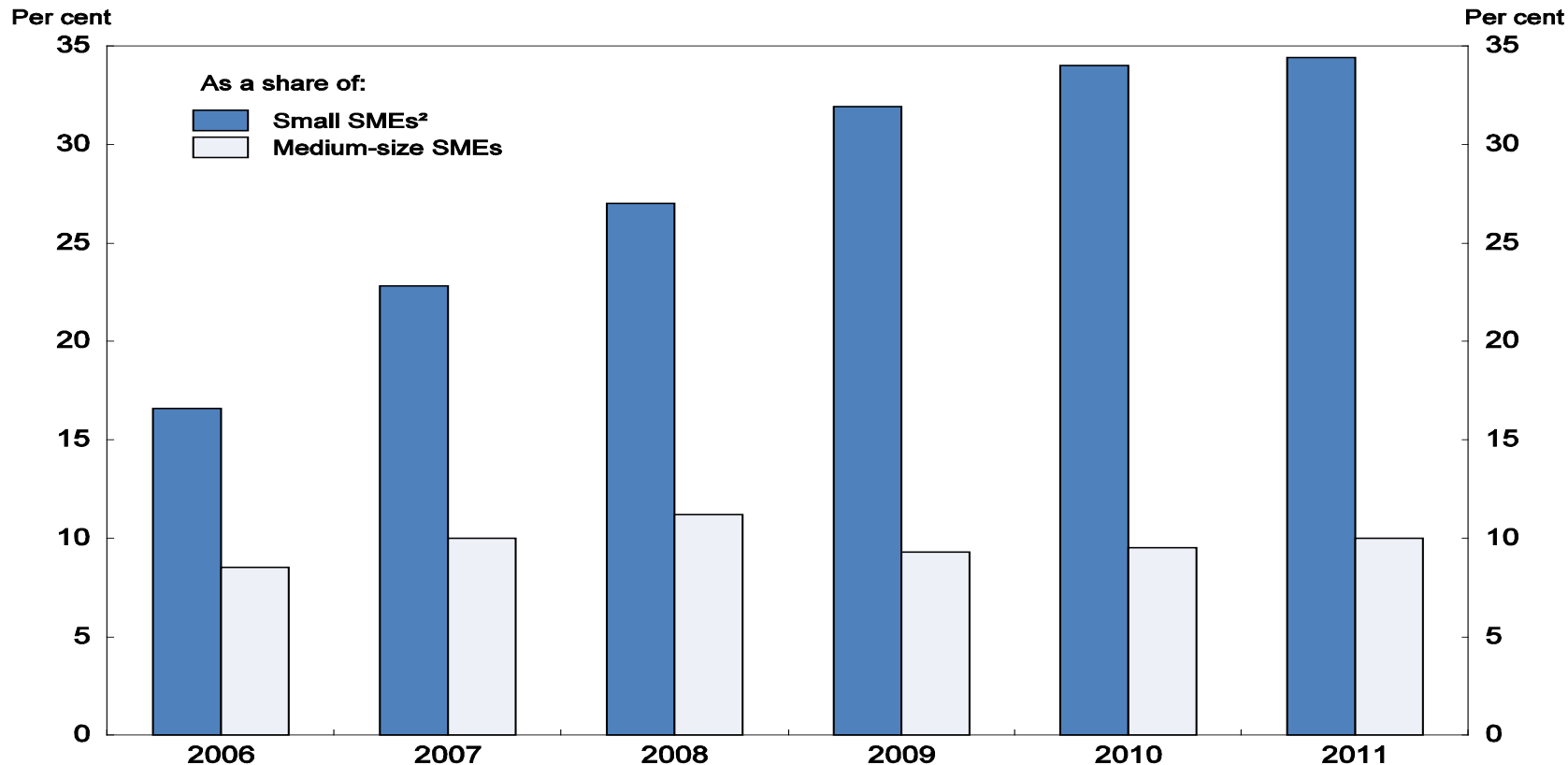
The negative side effects of government support for SMEs

1. It hinders financial market development by reducing financial institutions' incentives to develop credit evaluation and risk management skills and instead encourages them to rely on credit guarantees.
2. It delays the restructuring of SMEs.
3. The high leverage of SMEs raises financial-sector risks.
4. The generosity and long duration of public support encourages SMEs to remain small, thereby foregoing the efficiency gains and economies of scale associated with growth.
5. It has little impact on firm performance, failing to boost profits and sales.



The performance of small SMEs in Korea has been deteriorating

The share of SMEs with an interest coverage ratio below 100% or negative operating cash flows¹



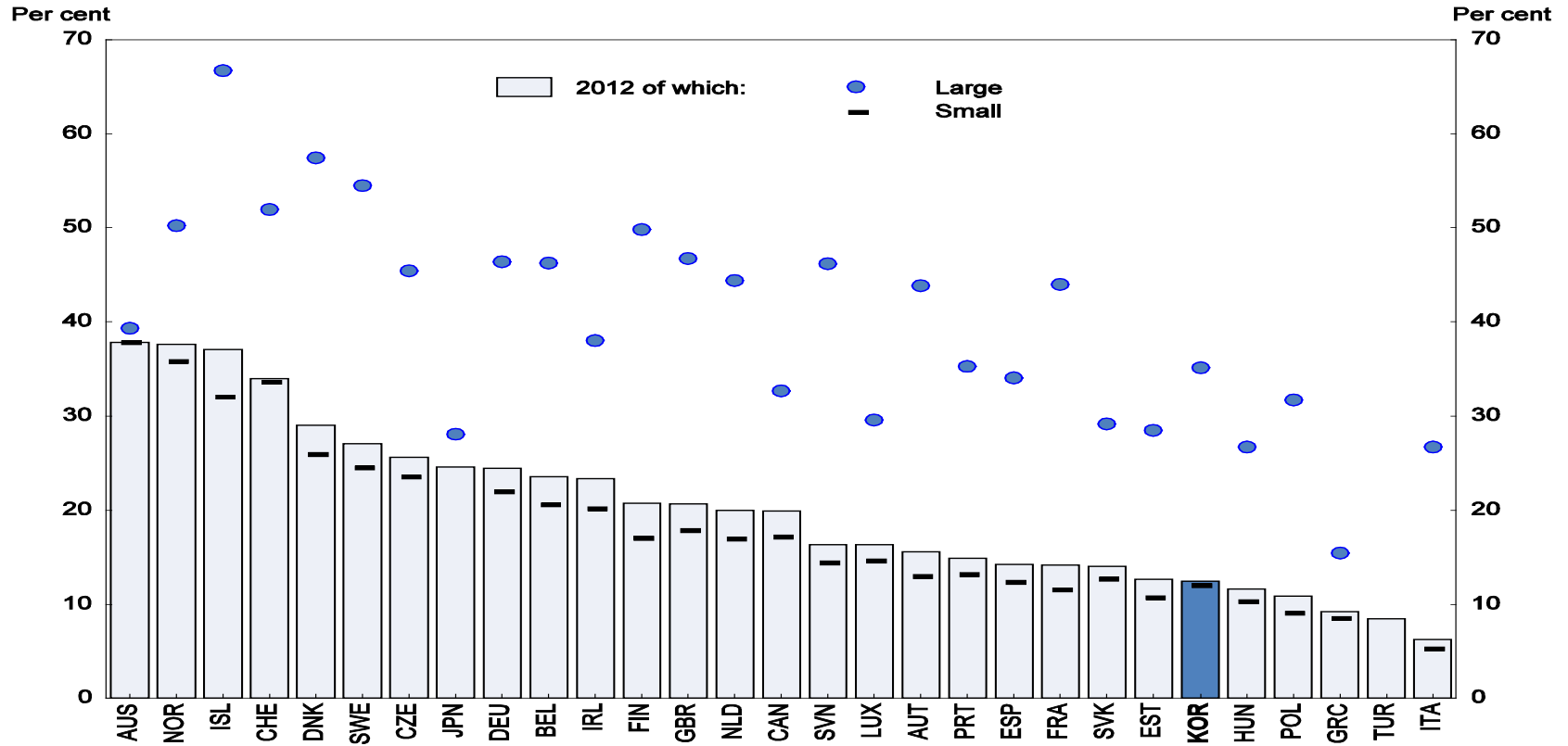
1. During the preceding three years.

2. Firms with annual sales of less than 10 billion KRW (\$9.6 million)

Source: Bank of Korea



Share of companies that sell their goods and services on the Internet

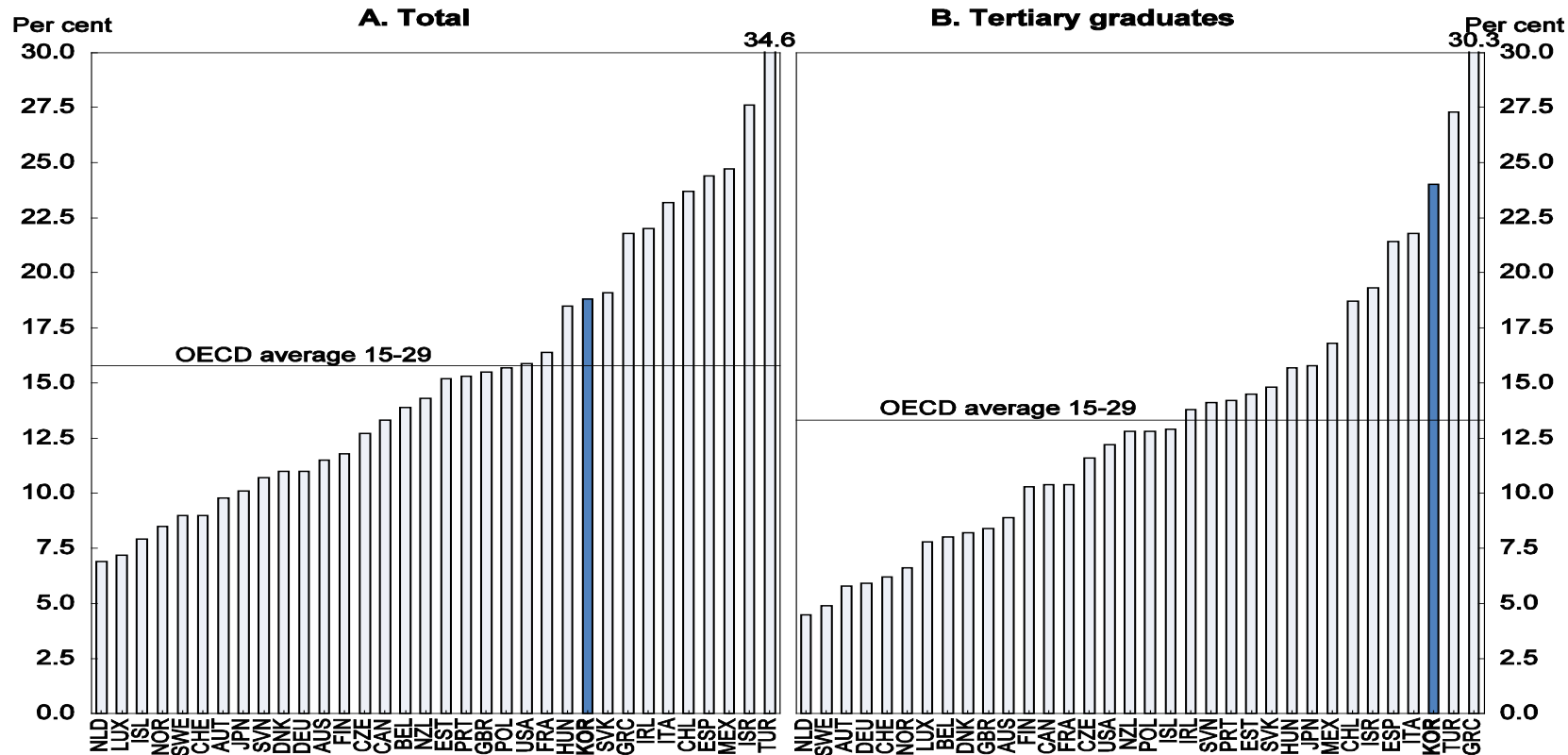


Source: OECD (2013), "The Internet Supporting SMEs and Entrepreneurship".



Korea has a high share of youth who are neither in employment nor in education or training

Per cent of youth 15-29 years old in 2011¹



1. Data on the category ISCED4 are not available for Korea. The NEET population thus includes some people who are in training for employment or for tertiary education exams.

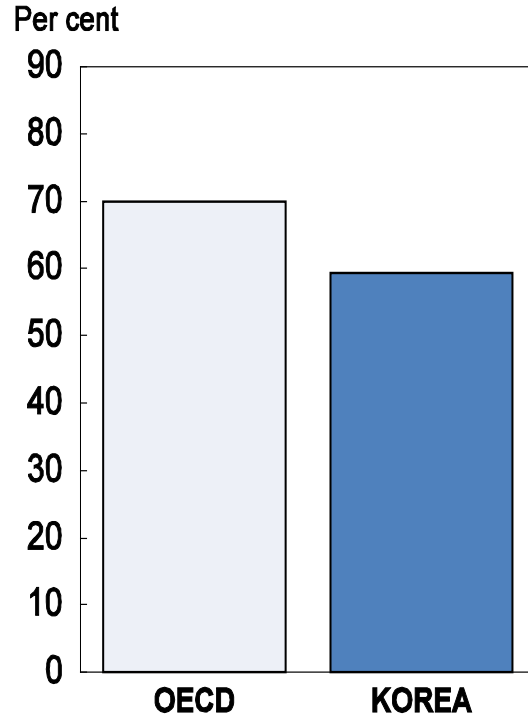
Source: OECD (2013), *OECD Education at a Glance*.



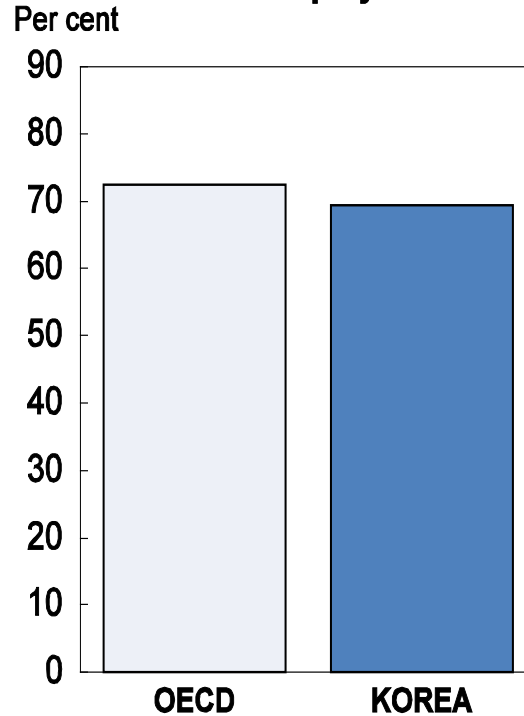
Service sector productivity is low in Korea

In 2012

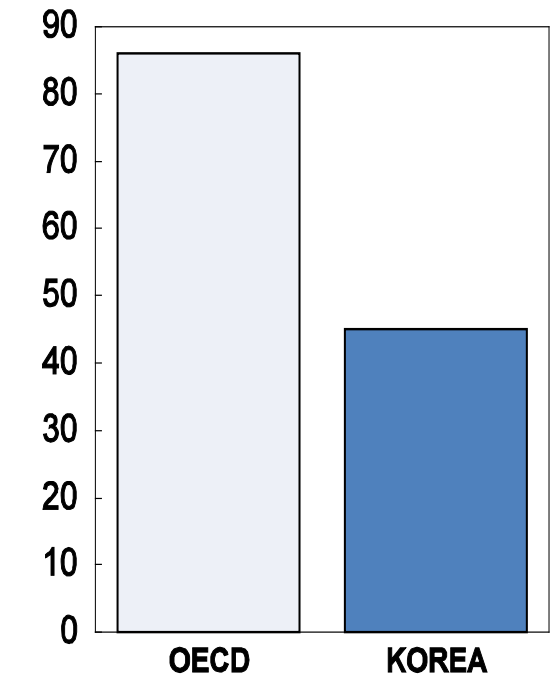
A. Share of GDP¹



B. Share of employment² C. Productivity relative to manufacturing



C. Productivity relative to manufacturing



1. Gross value-added at basic prices received by producers.

2. Including self-employed.

Source: OECD National Accounts Database and OECD STI Database.



Policies to make SMEs part of the creative economy

Improve the financing of SMEs

- Target public loans and credit guarantees on young firms and startups.
- Introduce a graduation system to prevent firms from receiving long-term support.
- Reduce public credit guarantees to firms with a credit rating high enough to obtain market financing by themselves.
- Strengthen the market orientation of SME programmes by: *i*) raising interest rates on public SME loans closer to market levels; and *ii*) lowering the coverage ratio of the guarantees.
- Improve the selection of SMEs that receive public support.

Strengthen the infrastructure for market-based SME financing

- Expand the role for local non-bank financial institutions, such as saving banks and credit unions.
- Develop the infrastructure for using non-tangible collateral, including intellectual property.

Reduce the number of government programmes for SMEs

- Reduce the generosity of SME support to weaken the disincentives for small firms to grow.
- Gradually reduce the number of SME programmes through stronger *ex post* evaluation.
- Use the "Comprehensive Management System" to co-ordinate SME programmes between ministries.

Enhance the competitiveness of SMEs

- Improve SMEs' human resources by reducing labour market mismatches.
- Facilitate the use of the Internet to enhance the growth of SMEs.
- Enforce fair trading rules to avoid unfair treatment of SMEs by *chaebols*.
- Phase out restrictions that reserve certain sectors to SMEs.

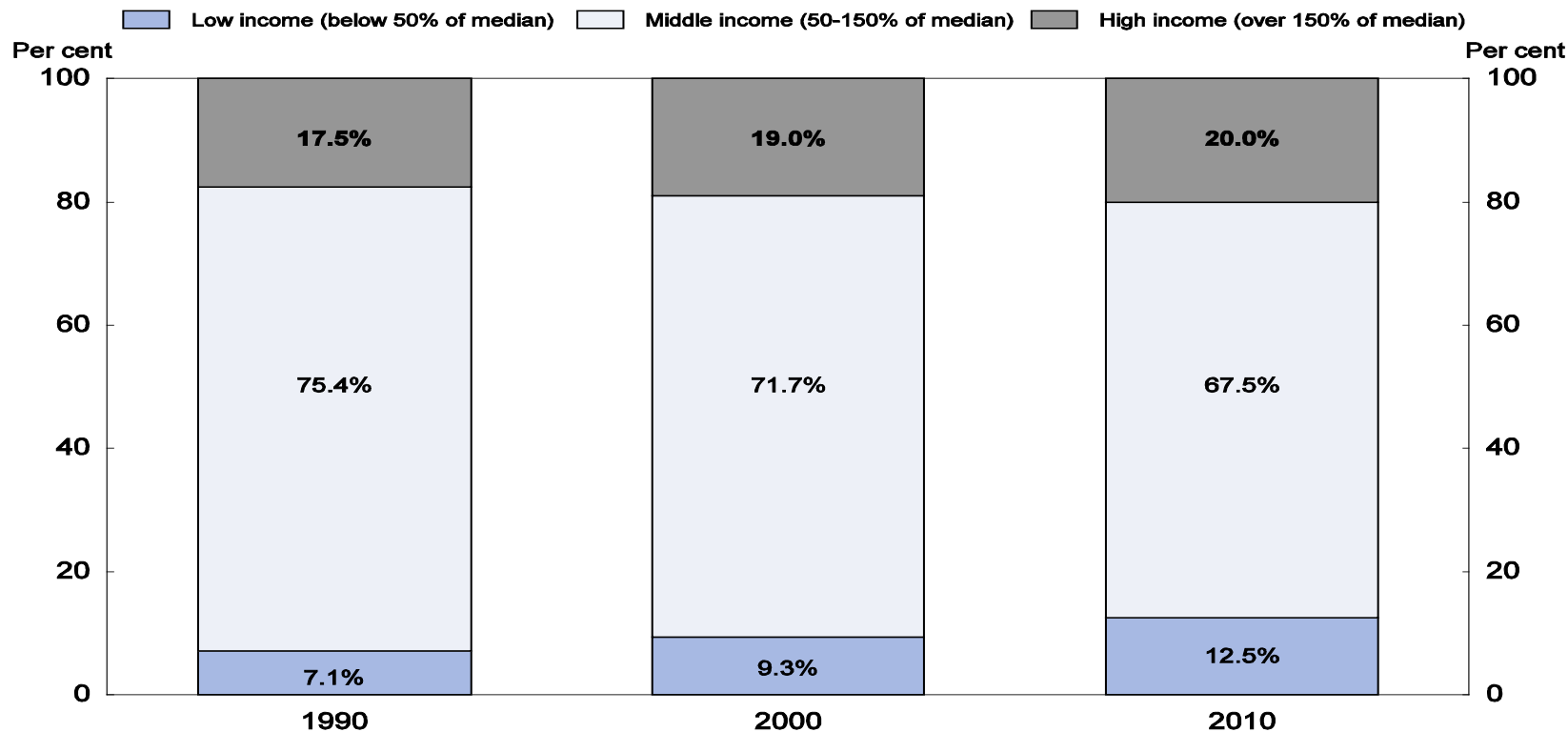


1. Korea's short-term economic outlook.
2. A new economic paradigm for Korea:
Fostering a creative economy.
3. Promoting social cohesion
and well-being.



Increased income inequality has squeezed the middle class

The middle class is defined as those with an income between 50% and 150% of the national median

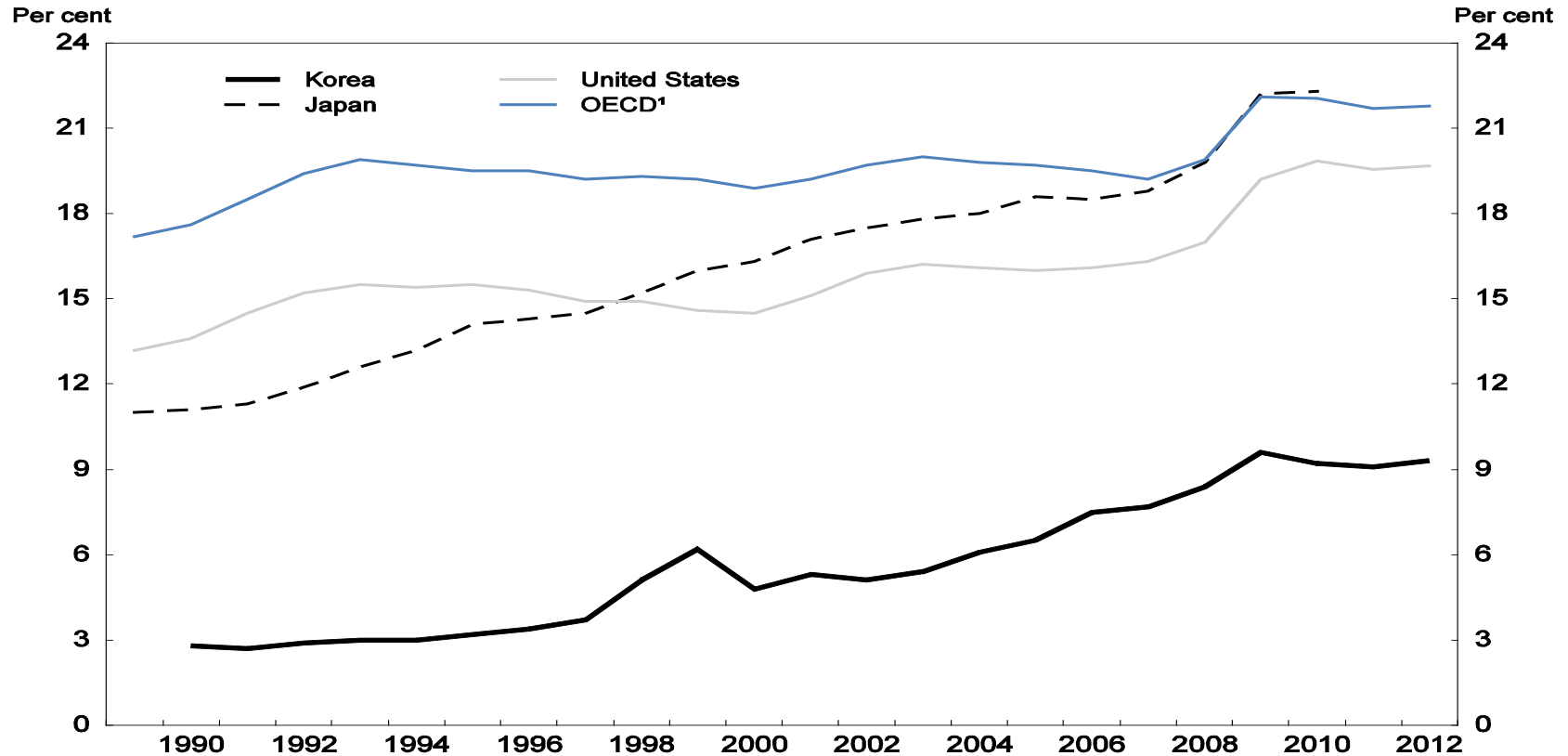


Source: Korea Institute of Health and Social Affairs.



Public social spending in Korea is relatively low

Per cent of GDP



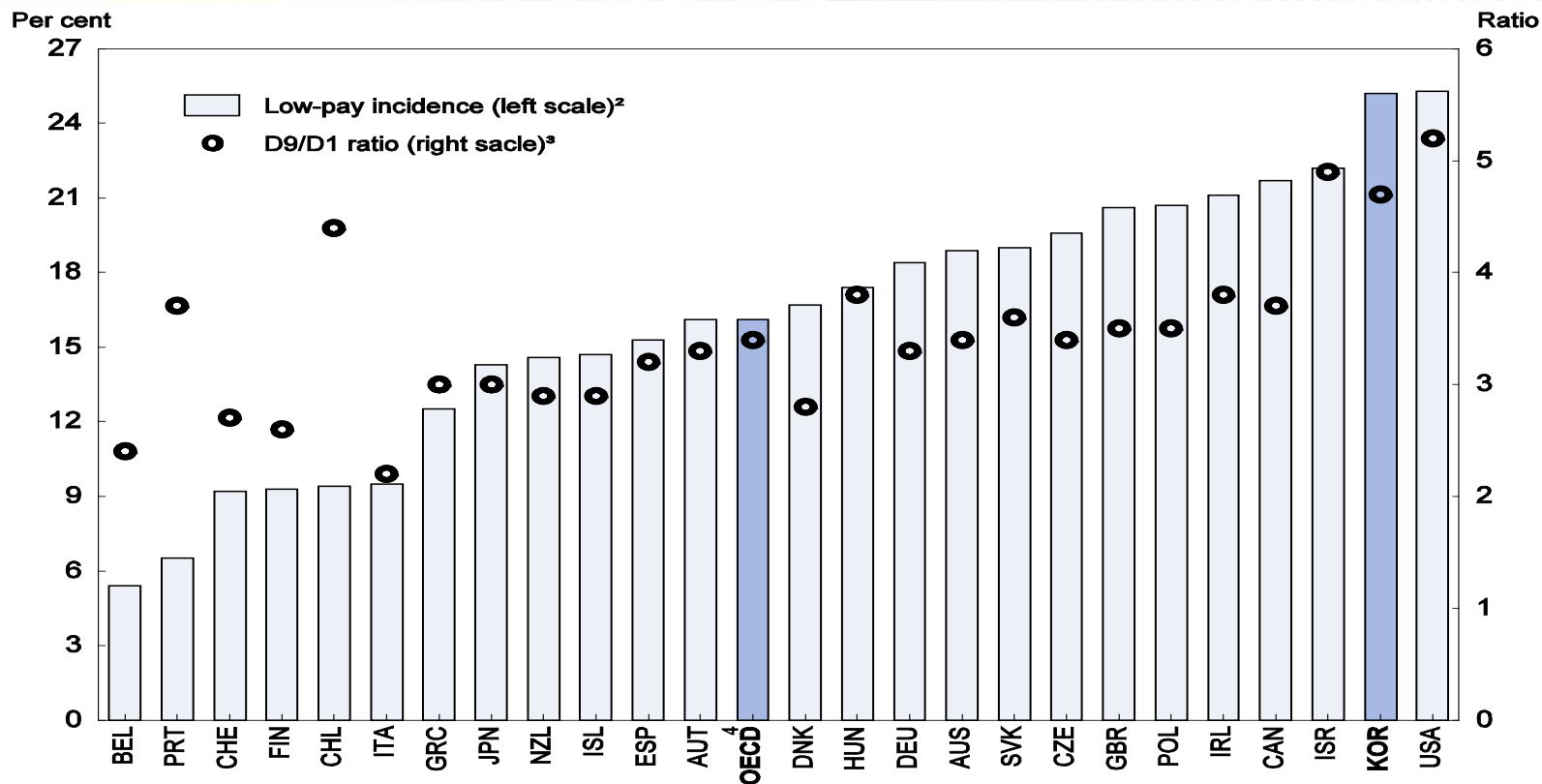
1. Unweighted average. Data are available for 34 OECD countries from 2000. Data prior to 2000 have been interpolated backwards to calculate an average for 23 OECD countries.

Source: OECD Social Expenditure Database.



Korea has a wide wage dispersion and a high share of low-wage workers

In 2012 or latest year available¹



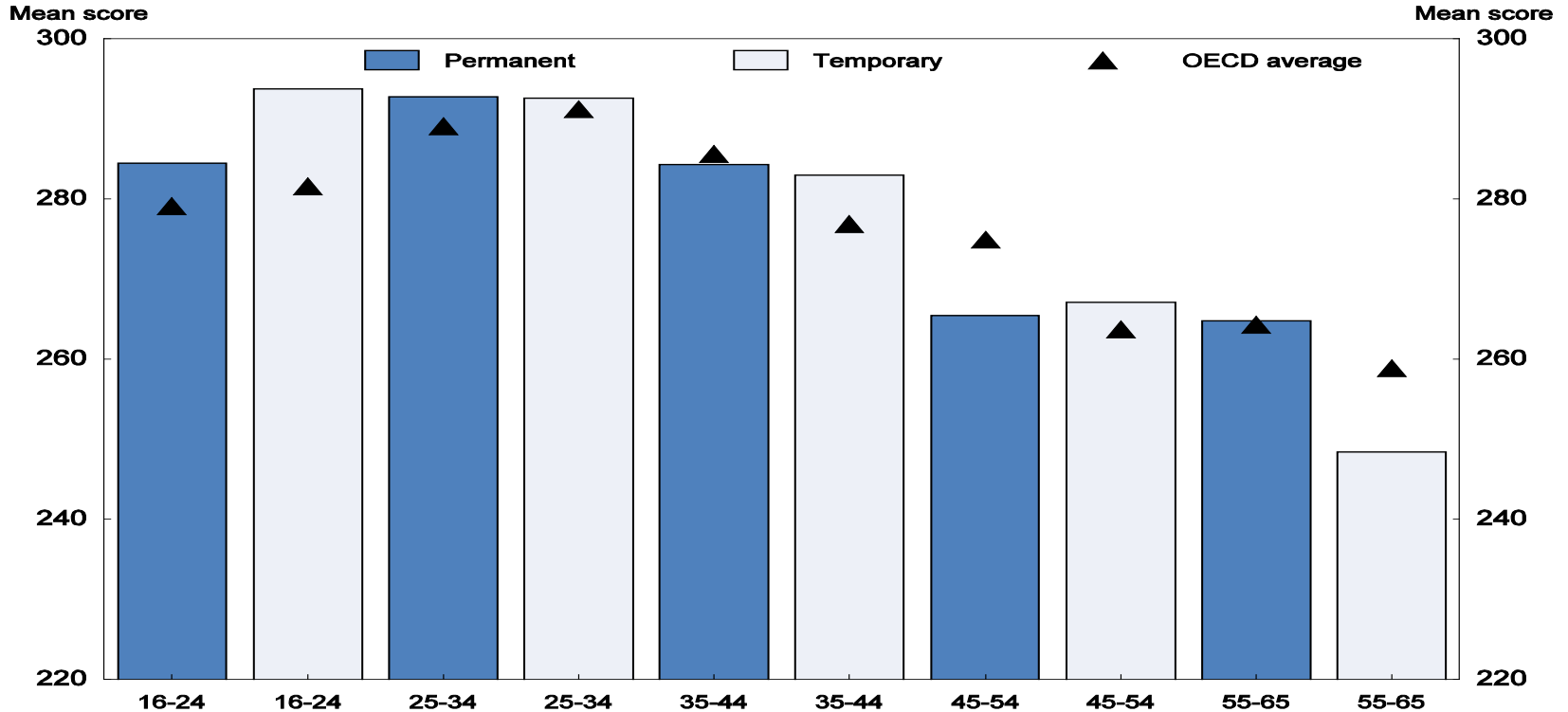
1. Includes only those countries for which both indicators are available.
2. The share of full-time workers earning less than two-thirds of median earnings, including bonuses.
3. The ratio of the upper bound value of the 9th decile to the upper bound value of the 1st decile for full-time workers.
4. Unweighted average of the countries shown above.

Source: OECD Earnings Distribution Database.



Skills of temporary workers in Korea match those of permanent workers

Mean literacy proficiency level by type of contract and age group in 2012¹



1. The results for numeracy skills are similar to those for literacy, while the third category -- problem-solving -- shows smaller gaps by age group and type of contract.

Source: OECD (2013), *The Survey of Adult Skills*.

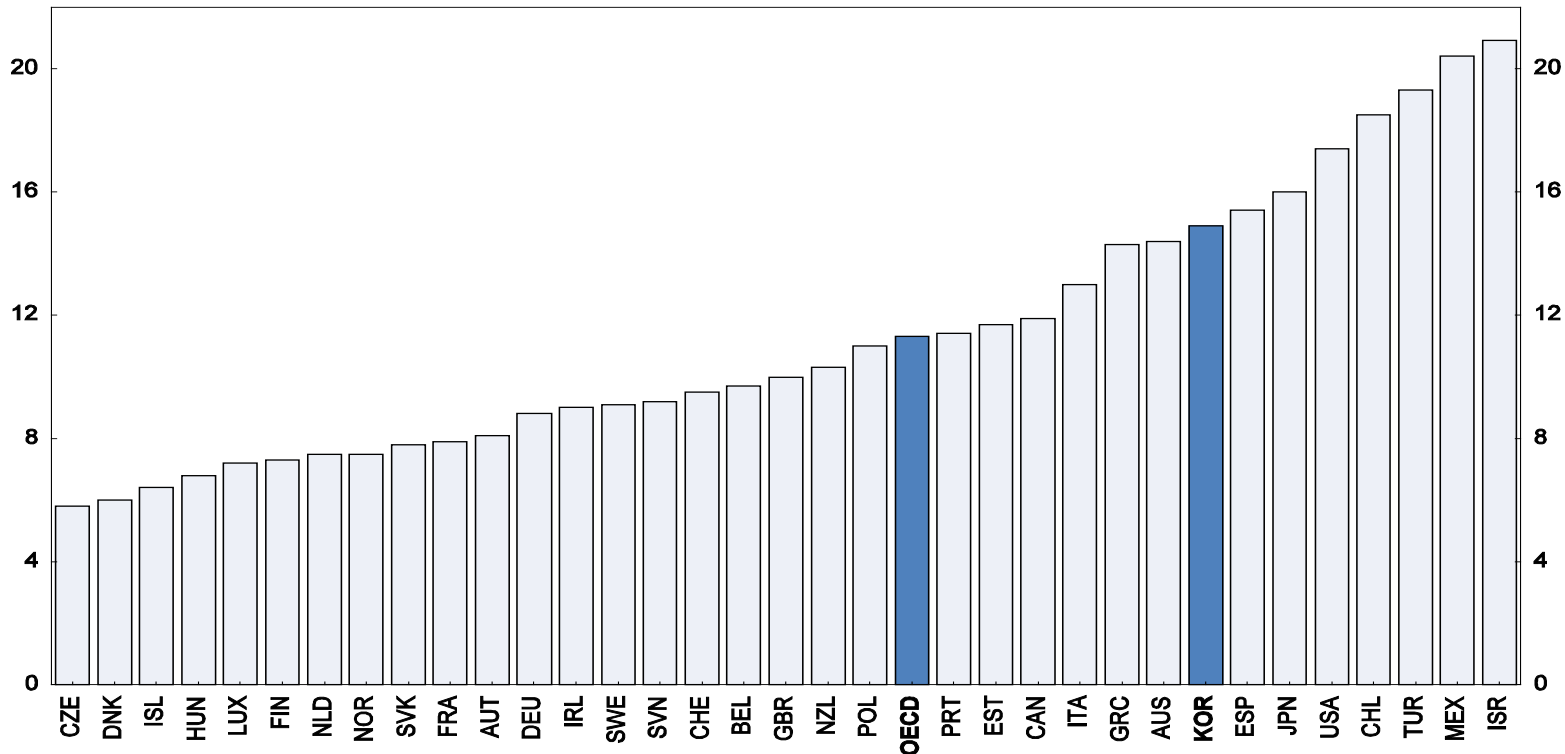


Relative poverty rates¹ in Korea are above the OECD average

In 2010 or latest year available

Relative poverty rates

Relative poverty rates



1. The poverty threshold is set at 50% of the median for the entire population.

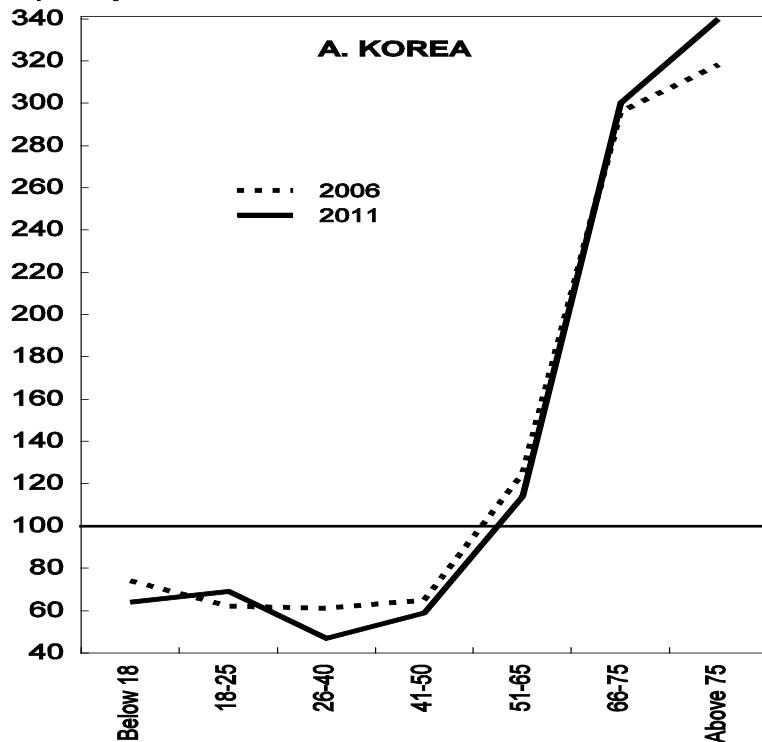
Source: OECD Database on Income Distribution and Poverty.



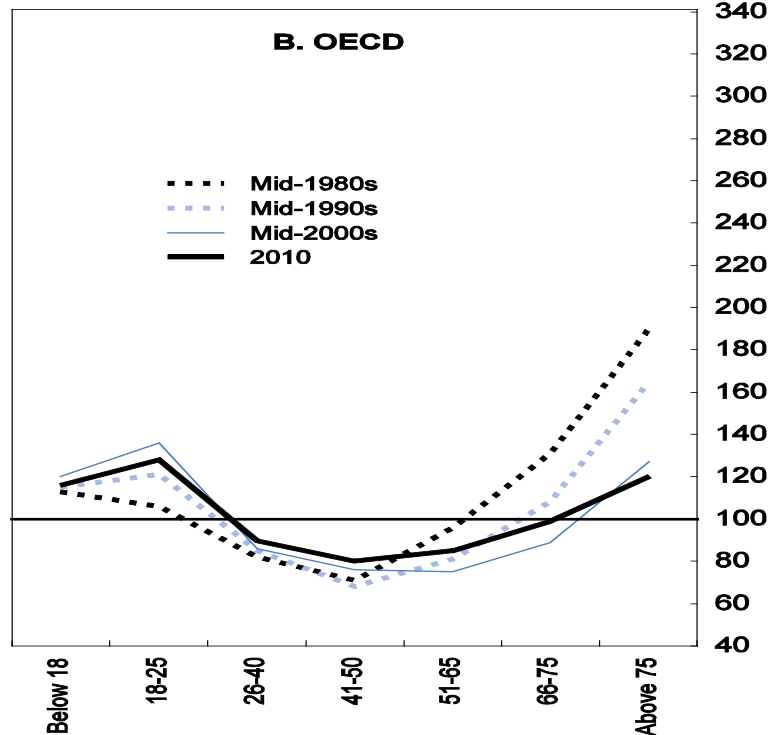
Relative poverty rates by age group¹

In 2010 or latest year available

Total poverty rate = 100



Total poverty rate = 100



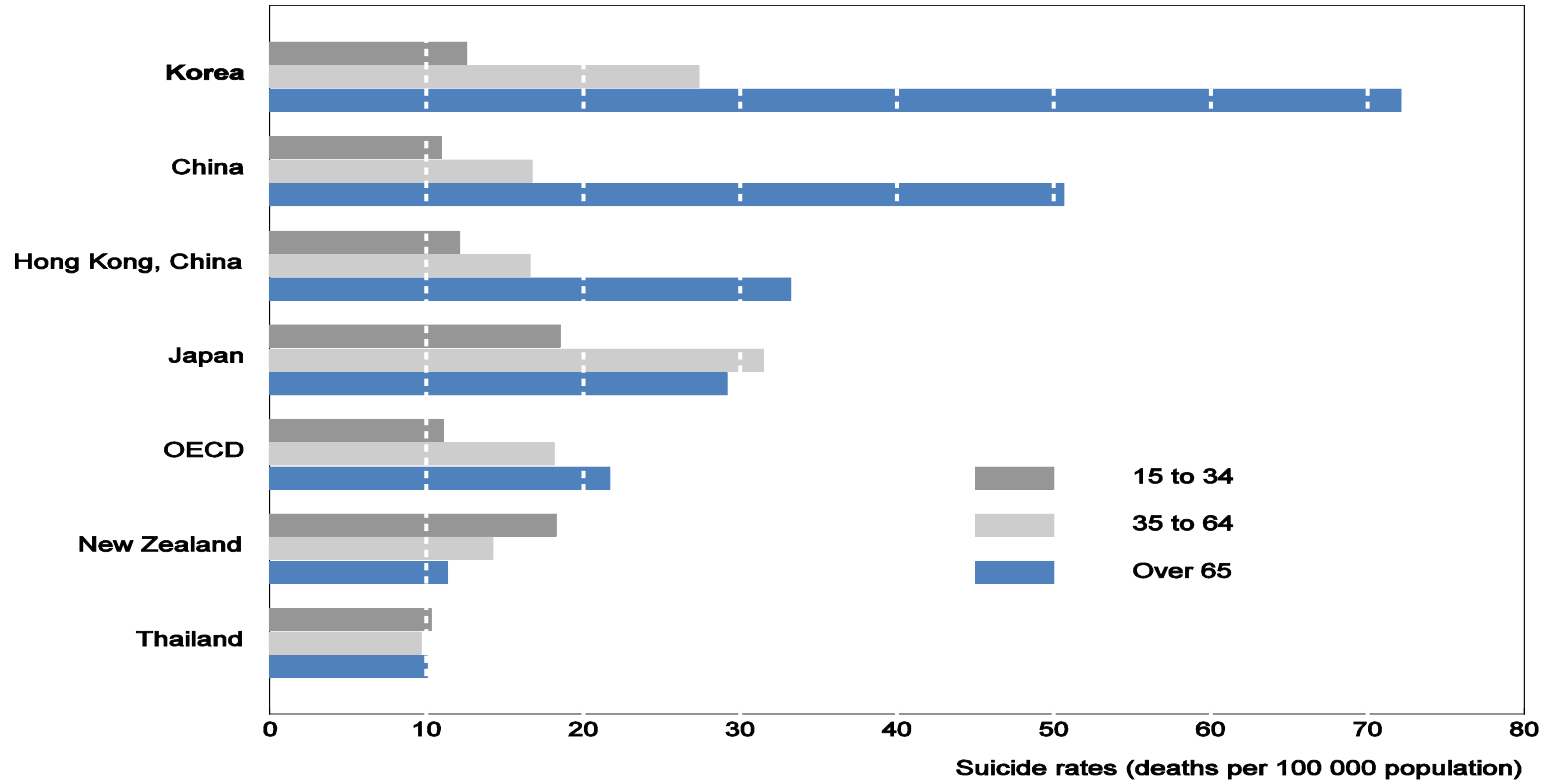
1. The figure shows the poverty rate for each age group using an index, with the rate for the entire population set at 100. The poverty threshold is set at 50% of median income of the entire population. The OECD average includes 20 member countries.

Source: OECD Database on Income Distribution and Poverty.



The suicide rate of the elderly in Korea is the highest in the OECD area

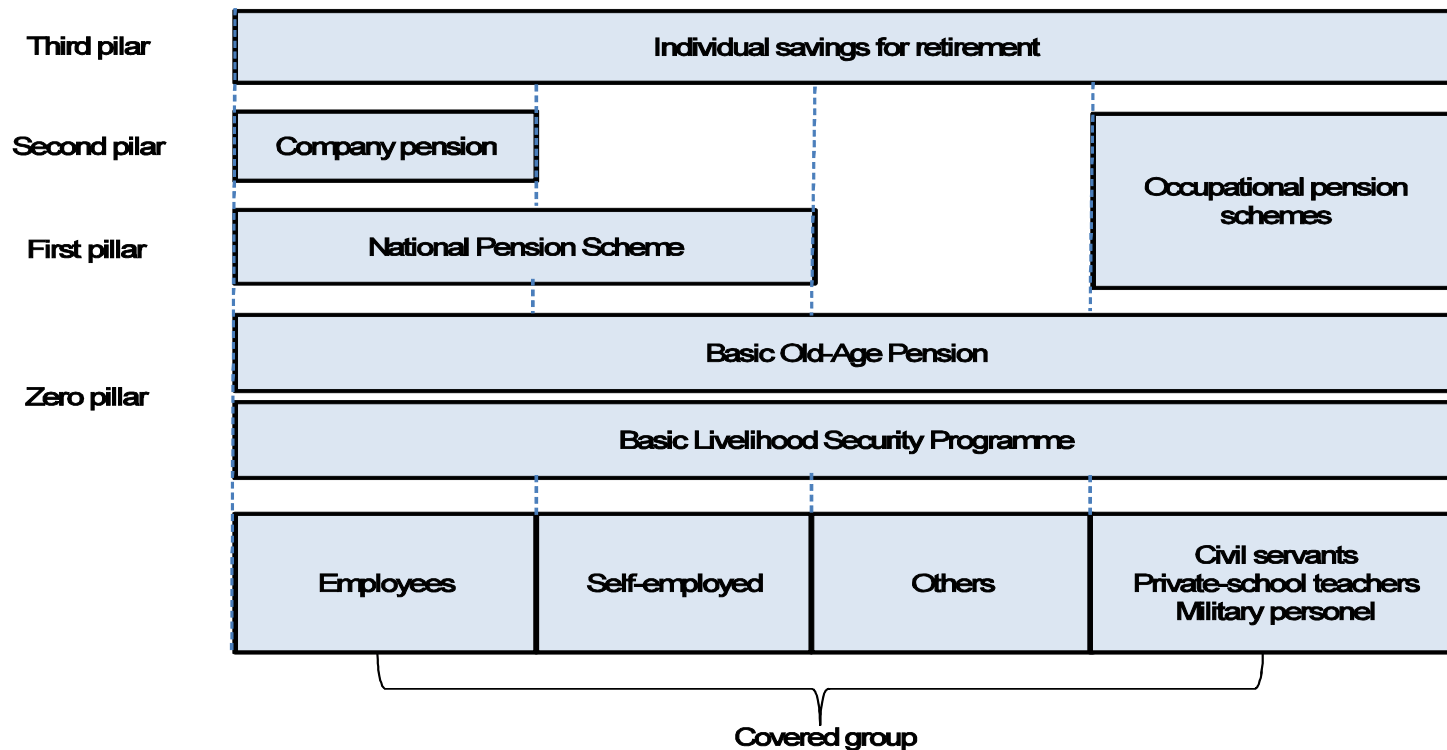
In 2010 or latest year available



Source: OECD.



Korea's elderly income support system has multiple pillars



Source: Kim (2013).

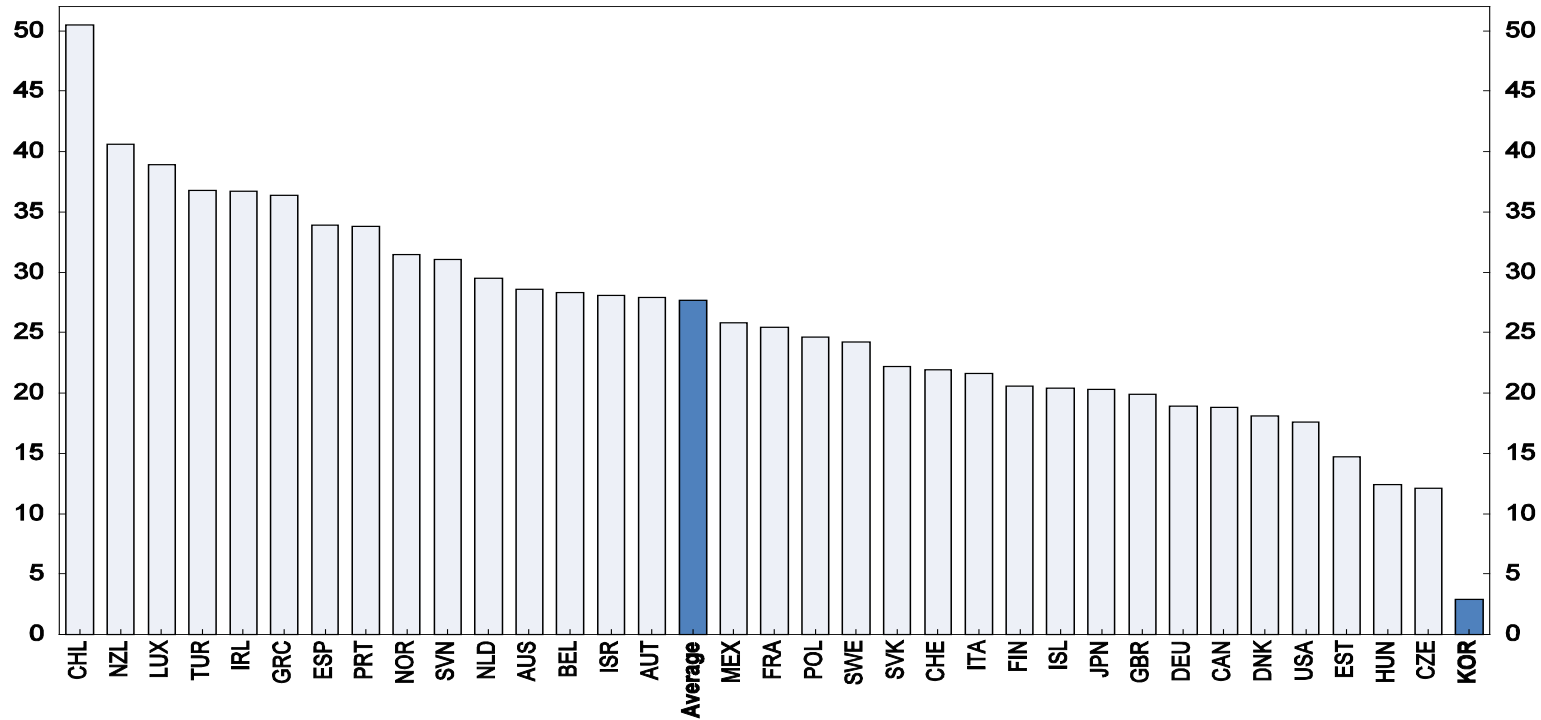


Basic, non-contributory pensions in OECD countries

Amount of non-contributory, basic pension benefits¹ in 2012

Per cent of average earnings

Per cent of average earnings



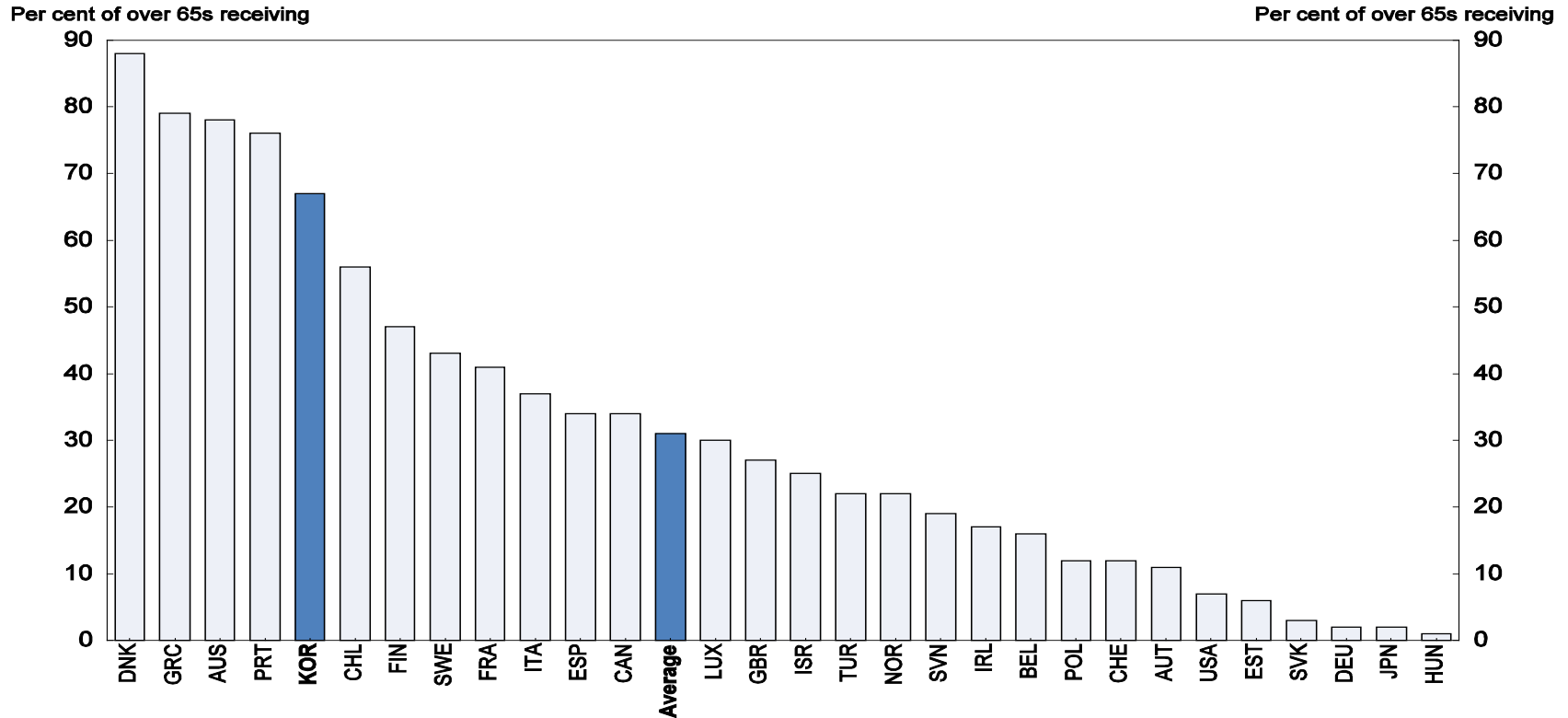
1. As a per cent of economy-wide average earnings.

Source: OECD (2013), *Pensions at a Glance*.



Basic, non-contributory pensions in OECD countries

Coverage of non-contributory, basic pension¹ in 2012

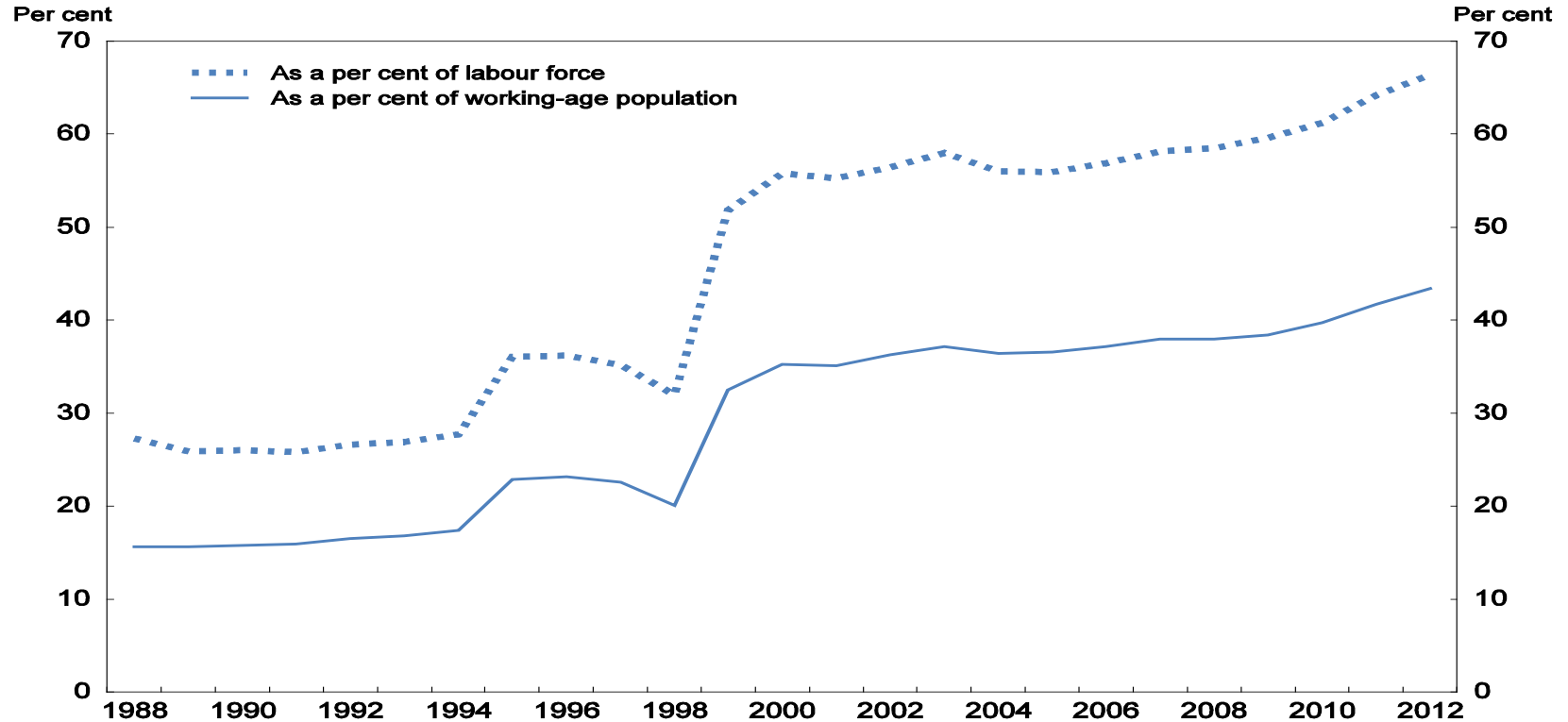


1. As a per cent of the population aged 65 and over.
Source: OECD (2013), *Pensions at a Glance*.



The coverage of the National Pension Scheme is low

Number of contributors

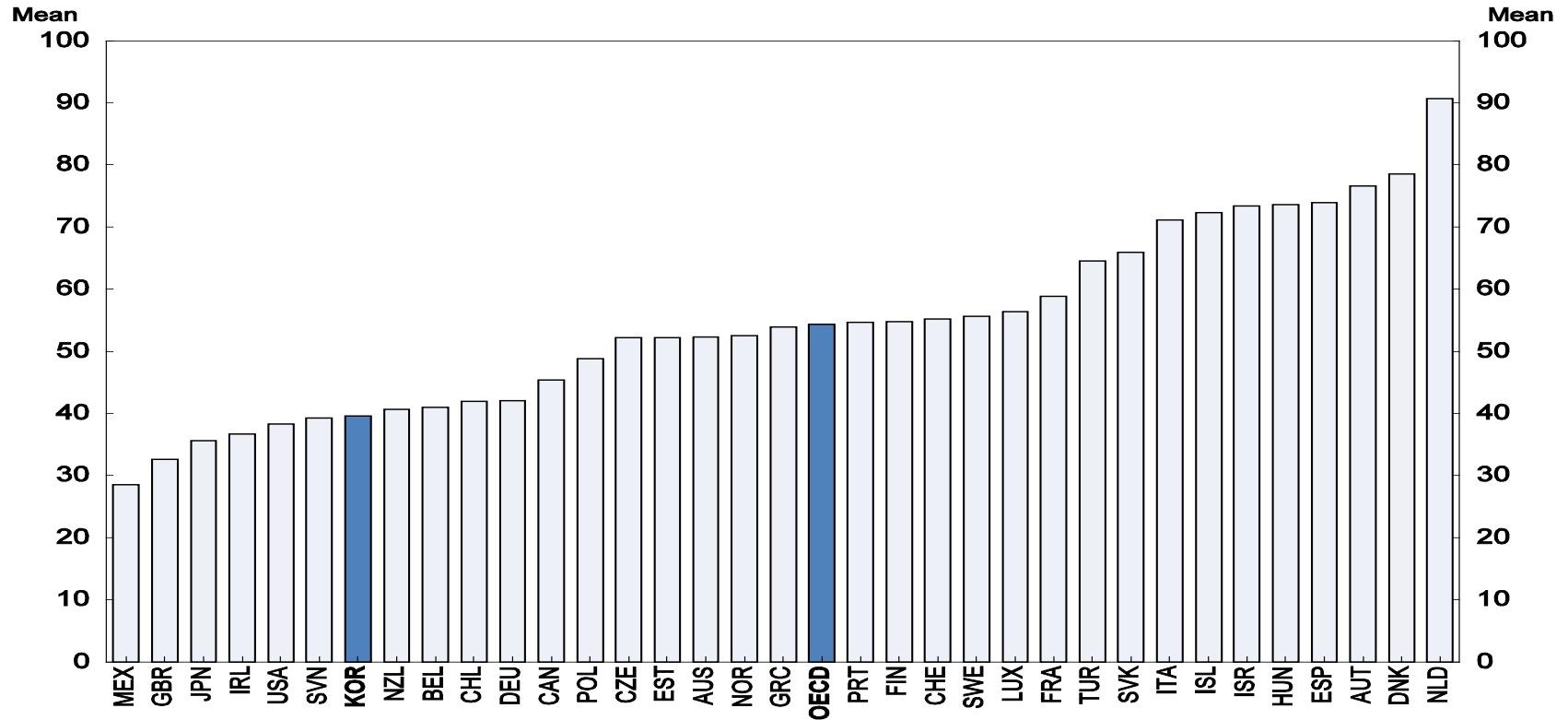


Source: National Pension Service and Statistics Korea.



Korea's pension replacement rate is one of the lowest in the OECD

Gross pension benefits as a share of gross labour earnings for men with average earnings in 2012¹

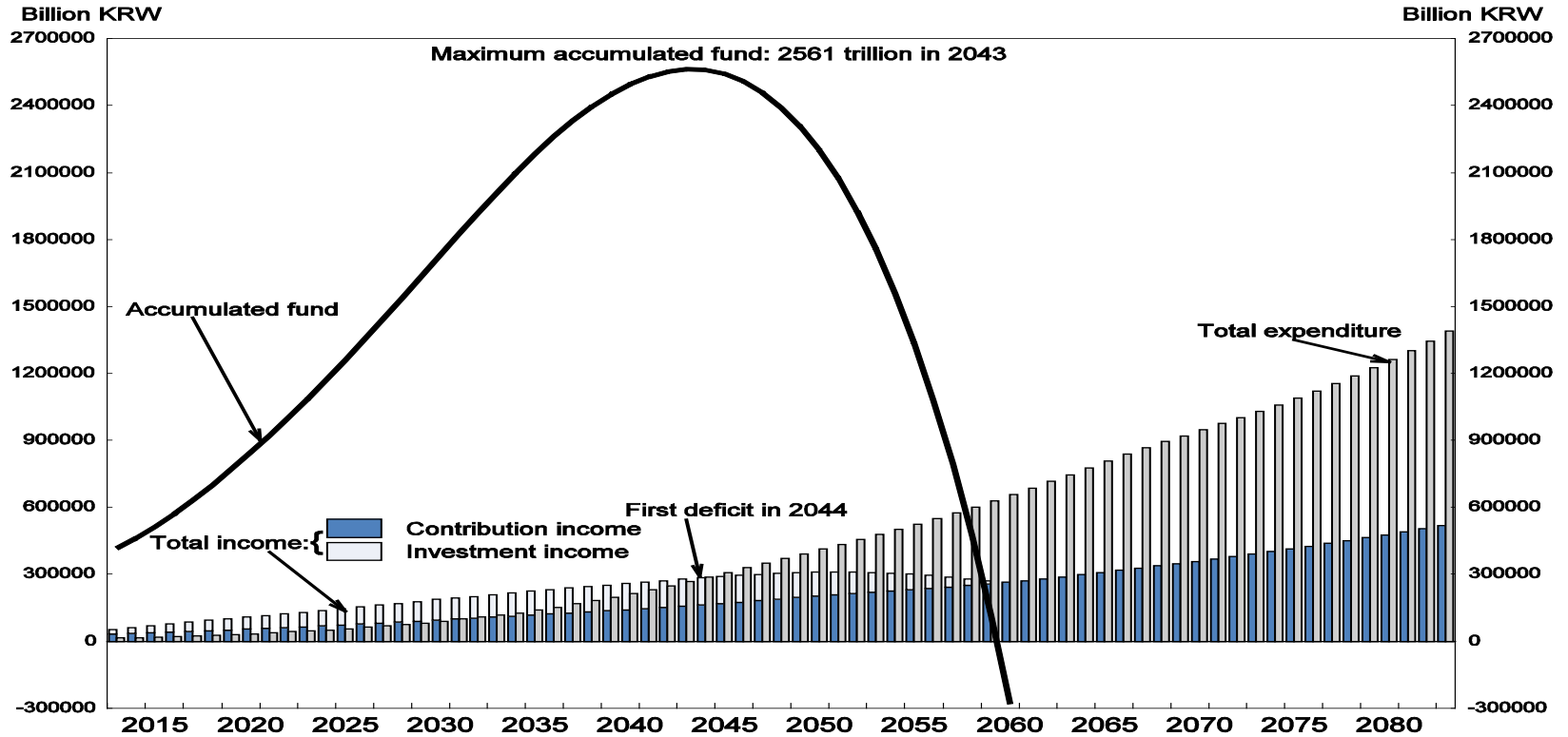


1. For mandatory pension schemes, public and private.

Source: OECD (2013), *Pensions at a Glance*.



The National Pension Scheme is projected to fall into deficit in 2024

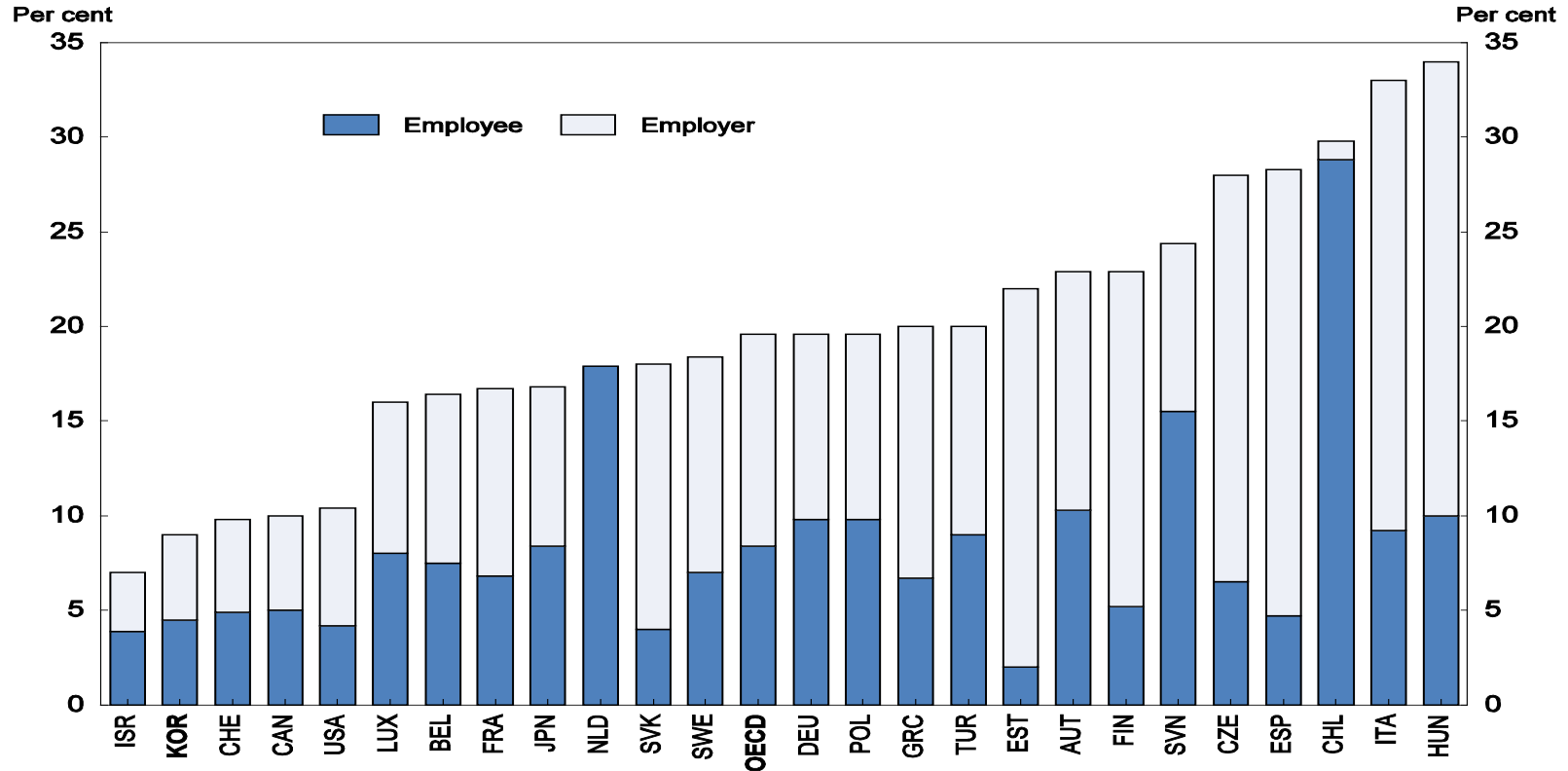


Source: National Pension Research Institute (2013).



International comparison of pension contribution rates

As a per cent of gross earnings in 2012¹



1. For 25 countries as some OECD countries have no separate pension contributions or private pensions only.

Source: OECD (2013), *Pensions at a Glance*.



Policies to reduce poverty among the elderly

Immediate priorities to address poverty

- Target the Basic Old-Age Pension on the lowest-income elderly to ensure that all escape from absolute poverty (40% of national median income).
- Use the Basic Livelihood Security Programme to top up the income of the elderly in relative poverty (50% of national median) by further relaxing eligibility requirements.

Policies to ensure the sustainability and effectiveness of the National Pension Scheme

- Make the NPS more effective in reducing elderly poverty by expanding its coverage, focusing on improved compliance among non-regular and self-employed workers, lengthening average contribution periods and maintaining the NPS replacement at around 50%, keeping it close to the OECD average.
- Begin as soon as possible to raise the NPS contribution rate to a level sufficient to ensure its long-run sustainability.

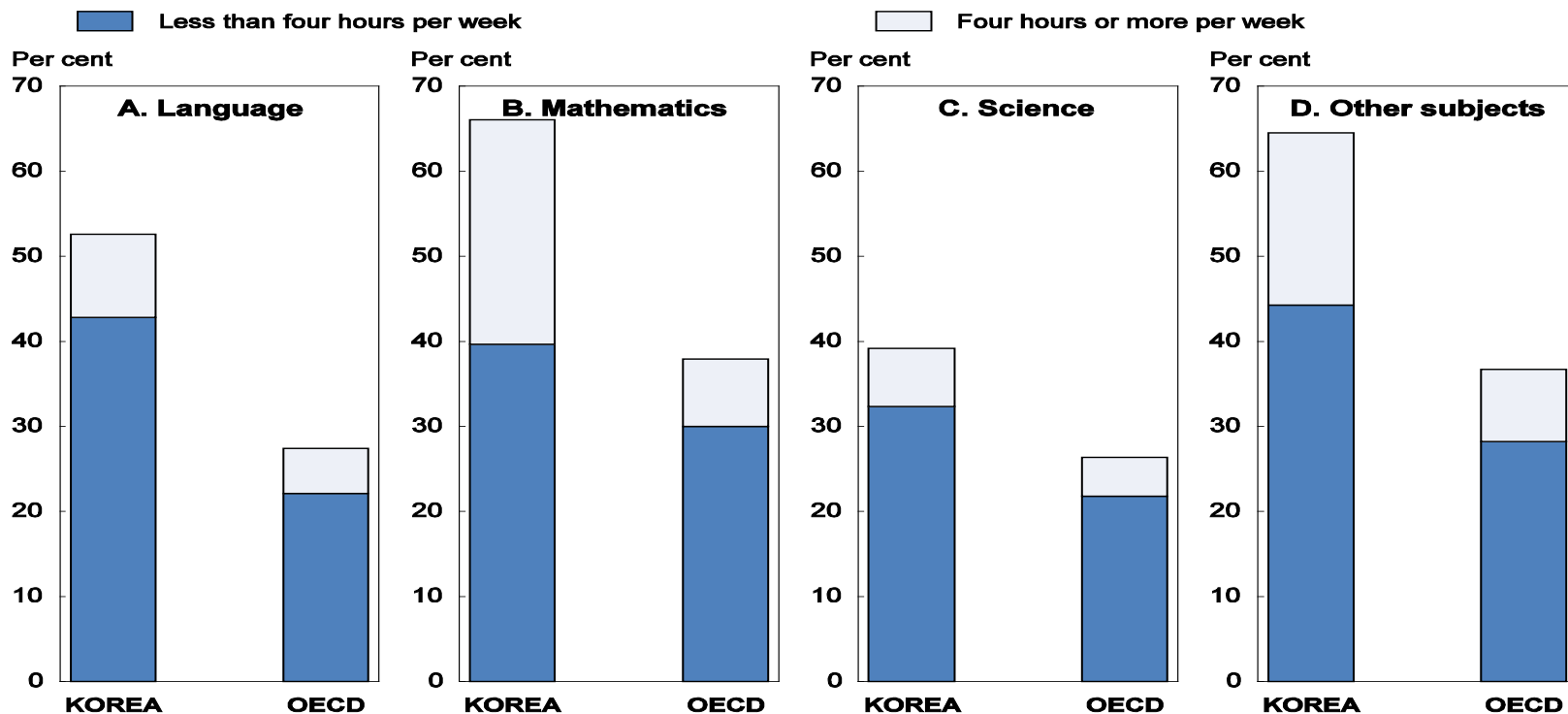
Encouraging private-sector saving for retirement

- Accelerate the introduction of company pensions.
- Make Individual Pension Accounts a more important source of retirement income by measures to discourage their premature termination and develop the market for reverse mortgages.



The percentage of students attending after-school lessons in Korea is exceptionally high

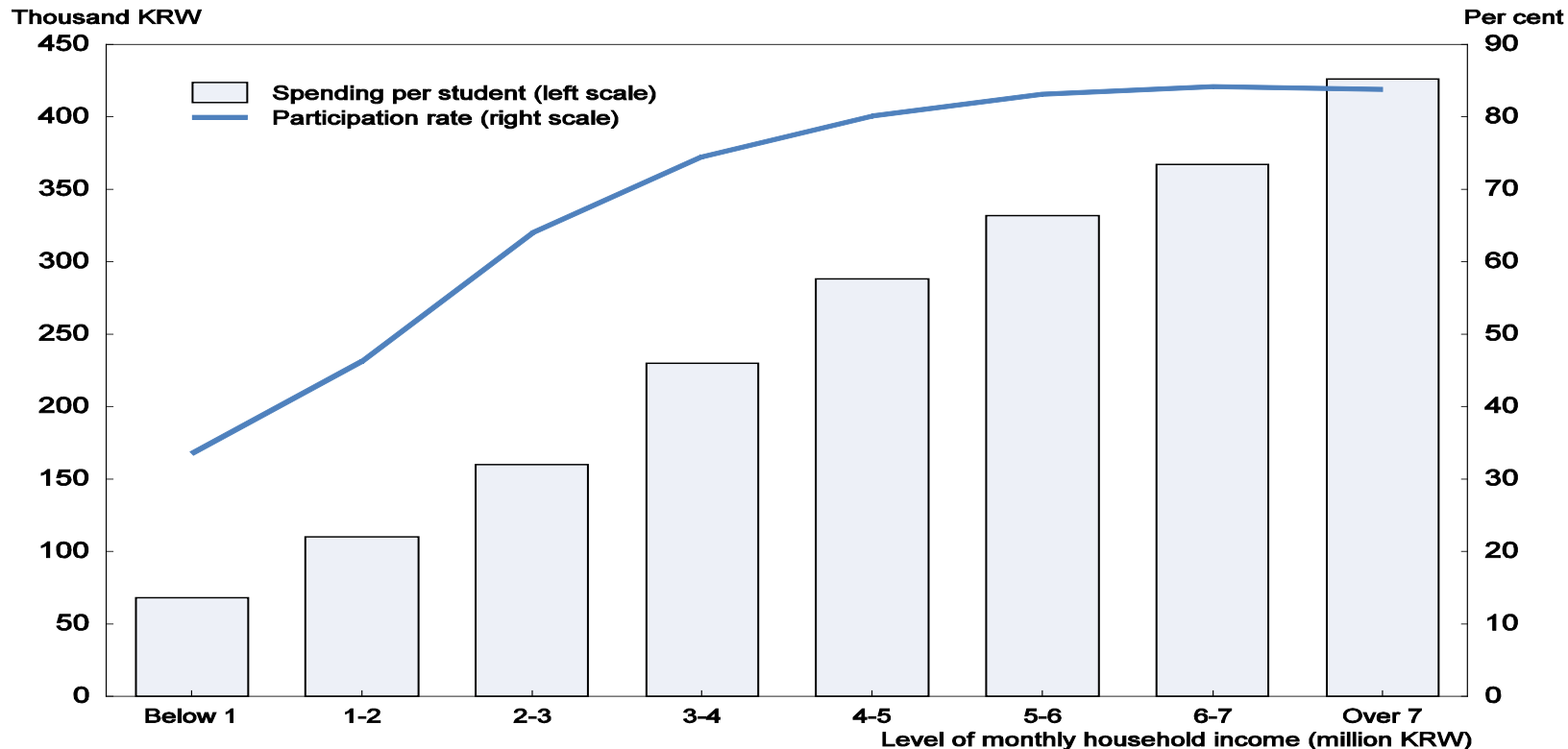
Percentage of students by hours per week in 2012



Source: OECD (2013), PISA 2012 Results: What Makes a School Successful (Volume IV).



Household income is closely linked with outlays and participation in private tutoring in 2011



Source: OECD (2014), *OECD Skills Strategy Diagnostic Report: Korea*.



OECD Economic Surveys

KOREA

SPECIAL FEATURES: FOSTERING A CREATIVE ECONOMY; REDUCING INCOME INEQUALITY AND POVERTY

Most recent editions

Australia, December 2012
Austria, July 2013
Belgium, May 2013
Brazil, October 2013
Canada, June 2012
Chile, October 2013
China, March 2013
Colombia, January 2013
Czech Republic, March 2014
Denmark, January 2014
Estonia, October 2012
Euro area, April 2014
European Union, April 2014
Finland, February 2014
France, March 2013
Germany, May 2014
Greece, November 2013
Hungary, January 2014
Iceland, June 2013
India, June 2011
Indonesia, September 2012
Ireland, September 2013

Israel, December 2013
Italy, May 2013
Japan, April 2013
Korea, May 2014
Luxembourg, December 2012
Mexico, May 2013
Netherlands, April 2014
New Zealand, June 2013
Norway, March 2014
Poland, March 2012
Portugal, July 2012
Russian Federation, January 2014
Slovak Republic, December 2012
Slovenia, April 2013
South Africa, March 2013
Spain, November 2012
Sweden, December 2012
Switzerland, November 2013
Turkey, July 2012
United Kingdom, February 2013
United States, June 2012

Consult this publication on line at http://dx.doi.org/10.1787/eco_surveys-kor-2014-en.

This work is published on the OECD iLibrary, which gathers all OECD books, periodicals and statistical databases. Visit www.oecd-ilibrary.org for more information.

Volume 2014/10
May 2014



ISSN 0376-6438
2014 SUBSCRIPTION (18 ISSUES)
ISSN 1995-364X
SUBSCRIPTION BY COUNTRY

ISBN 978-92-64-20694-6
10 2014 10 1 P



9 789264 206946

OECD Economic Surveys

Volume 2014/10

KOREA



May 2014



OECD Economic Surveys KOREA

MAY 2014

