



KOREA'S ECONOMIC GROWTH PROSPECTS UNDER THE INCOME-LED STRATEGY

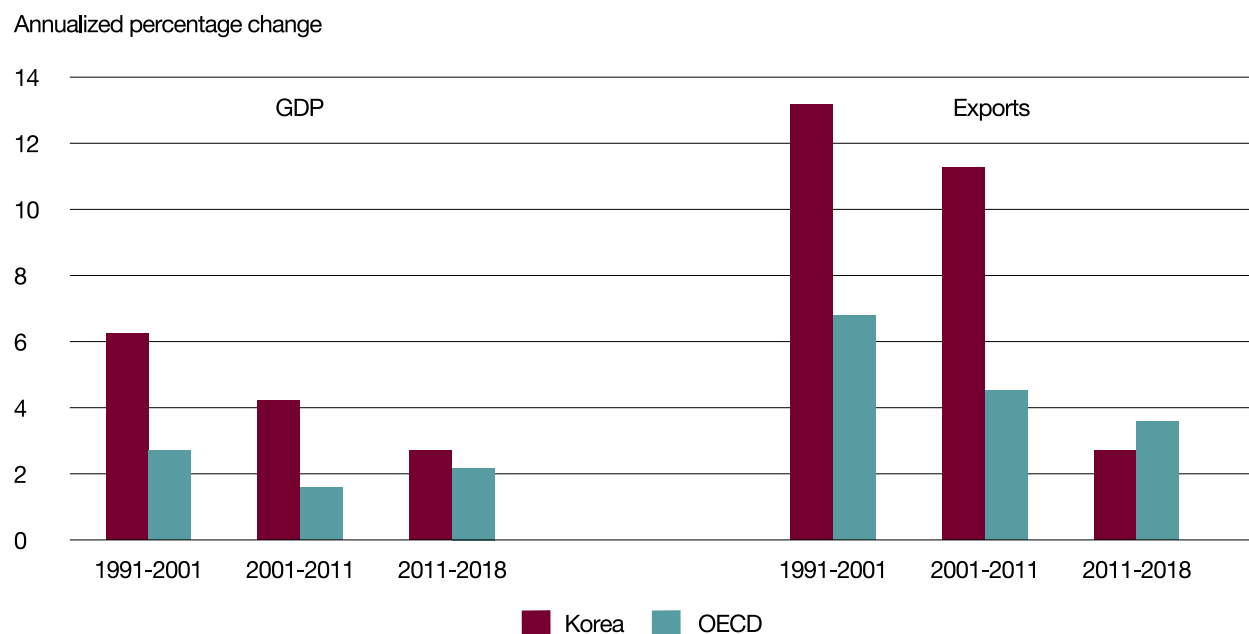
By Randall S. Jones

Korea is pursuing a bold strategy in an effort to achieve a paradigm shift that results in a fair economy. Some of its major initiatives – notably sharp increases in public employment and social spending and a hike in the corporate income tax rate – run counter to trends in the OECD area. In addition, the sharp hike in the minimum wage appears to have slowed employment growth. The success of the government's economic strategy depends on raising productivity from its relatively low level compared to the most advanced countries. This in turn requires a comprehensive strategy to narrow substantial productivity and wage gaps between large firms and small and medium-sized enterprises and between manufacturing and services. Narrowing such gaps would enable Korea to achieve inclusive growth.

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. Per capita income increased from 14 percent of the OECD average in 1970 to 86 percent in 2016. However, Korea's traditional model of growth led by exports of manufactures by large business groups, known as *chaebols*, appears to be faltering. Moreover, it has led to economic polarization and large productivity and wage gaps between large firms and small firms and between the manufacturing and service sectors. This in turn has increased income inequality (OECD, 2018). Although economic growth typically slows as countries approach the high-income economies, the sharp deceleration from an annual rate of 6.4 percent over 1991-2001 to 2.9 percent since 2011 (Figure 1), raises concerns. Moreover, export volume growth slowed from a double-digit annual pace over 1991-2011 to less than 3 percent since 2011, lagging behind global trade.

Figure 1

Korea's output and export growth has slowed sharply



Source: OECD Economic Outlook (database).

Given the weaknesses of the traditional model, Korea has tried various strategies to revive economic growth. When Lee Myung-bak was inaugurated as president in 2008, he proclaimed “Low Carbon/Green Growth” as the vision to guide Korea’s development during the next 50 years and in 2009 introduced the National Strategy for Green Growth (2010 *OECD Economic Survey of Korea*). President Park Geun-hye aimed to shift Korea’s economic paradigm to a “creative economy” in which innovation is led by new start-ups and venture businesses. It was to be accompanied by greater emphasis on achieving inclusive growth through higher social spending and a roadmap to boost employment (2014 *OECD Economic Survey of Korea*).

Following his inauguration in 2017, President Moon Jae-in launched a strategy of “income-led growth” driven by job creation: “We need an economic paradigm shift from the idea that jobs are created as the result of growth to the idea that growth occurs when jobs increase” (Korea.net, 2017). In order to get quick results, “the public sector needs to make the first move”. In addition to expanding public employment, household income is to be boosted by a sharp rise in the minimum wage and increased social spending. After a brief look at recent economic developments and outlook, this article will examine the challenges and prospects of Korea under the income-led growth strategy.

Korea's short-term economic outlook

Economic growth fell to 2.7 percent in 2018, reflecting a slowdown in fixed investment and employment (Table 1). With employment growth dropping from 1.2 percent in 2017 to 0.4 percent in 2018 (Figure 2), the unemployment rate reached 4.4 percent in January 2019, the highest rate in nine years, up from 3.6 percent a year earlier. The 16.4 percent hike in the minimum wage in 2018 and restructuring in manufacturing have negatively affected the labor market, although a pick-up in wage growth is limiting the impact on household income and private consumption. With the tightening of regulations on mortgage lending, residential property construction orders started to decline in mid-2018. Headline inflation fell to 0.5 percent in early 2019 in the context of sluggish domestic demand and government measures to reduce prices of healthcare and telecommunications and a temporary tax cut on oil. Exports have been declining since late 2018, as global trade and demand from China lost momentum. The downturn in the semiconductor market, which peaked in mid-2018, also had a negative impact, as Korea accounted for more than 60 percent of the world memory market in 2018.

The government is responding to weaker domestic demand with fiscal stimulus. Spending is to increase by more than 9 percent in 2019, including the supplementary budget. Social welfare

spending is the priority, along with outlays for job creation, which are set to rise 22 percent. In addition, the government aims to boost public employment by 34 percent over 2017-22. Despite increased spending, the general government budget will remain in surplus at around 0.6 percent of GDP in 2019, while government debt stays below 45 percent of GDP.

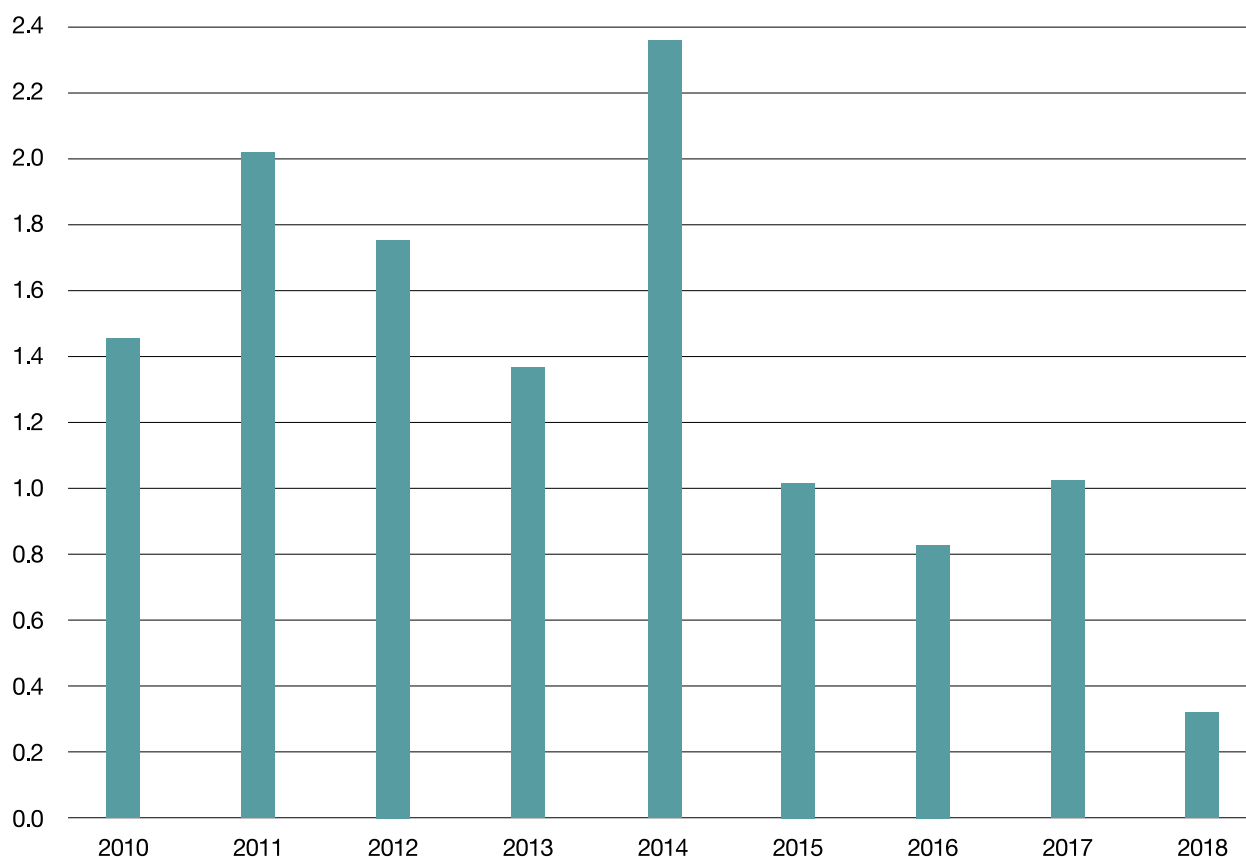
In November 2017, the Bank of Korea raised its benchmark interest rate – from 1½ percent to 1¾ percent -- for the first time in a year due to concerns about high consumer debt and financial imbalances. Household debt has risen from less than 50 percent of GDP in 2000 to 96 percent in the second quarter of 2018, making it a headwind to private consumption. The central bank governor also warned of growing financial imbalances as a result of a property boom in Seoul. With

consumer price inflation far below the 2 percent target, there is scope to lower interest rates.

Output growth is projected to slow to around 2½ percent in both 2019 and 2020, reflecting weakness in domestic demand and international trade. Restructuring in the manufacturing sector and sluggish employment growth, partly as a result of a hike in the minimum wage by a further 10.9 percent in 2019, are holding back job creation. Trade protectionism is an important downside risk to Korea's outlook: with intermediate goods accounting for four-fifths of Korea's exports to China, its largest trading partner, Korea is vulnerable to higher import barriers on Chinese exports to the United States. Progress with structural reforms to raise productivity in lagging sectors would boost output growth.

Figure 2 Employment growth has slowed sharply

Y-o-Y % Changes



Source: Korea Statistics, *Economically Active Population Survey*.

Table 1

Korea's macroeconomic indicators and projections¹

	2016	2017	2018	2019	2020
Gross domestic product	2.9	3.1	2.7	2.8	2.9
Private consumption	2.5	2.6	2.8	2.7	2.8
Government consumption	4.5	3.4	5.2	6.5	5.6
Gross fixed investment	5.6	8.6	-2.2	-0.6	2.1
Public	7.3	5.6	-2.2	3.1	3.4
Residential	20.3	14.9	-2.0	-3.0	0.4
Business	1.9	7.7	-2.2	-0.8	2.2
Final domestic demand	3.8	4.7	1.5	2.2	3.1
Stockbuilding ²	0.0	0.4	0.0	-0.2	0.0
Total domestic demand	3.8	5.1	1.6	2.1	3.1
Exports of goods and services	2.6	1.9	4.7	4.5	3.4
Imports of goods and services	4.7	7.0	1.9	3.1	4.1
Net exports ²	-0.7	-1.7	1.3	0.8	-0.1
Other indicators					
Potential GDP	3.2	3.2	3.1	2.8	2.7
Output gap ³	-1.5	-1.6	-2.0	-2.0	-1.9
Employment	0.9	1.2	0.3	0.2	0.5
Unemployment rate ⁴	3.7	3.7	3.9	4.0	4.0
GDP deflator	2.0	2.3	0.7	2.0	2.1
CPI	1.0	1.9	1.6	1.9	1.9
Core CPI ⁵	1.9	1.5	1.2	1.6	1.9
Household saving ratio, net ⁶	8.7	8.8	9.0	8.6	8.4
Current account ⁷	7.0	5.1	5.2	5.5	5.4
General government financial balance ⁷	2.4	2.8	2.7	2.1	1.6
General government primary balance ⁷	2.1	2.4	2.2	1.4	1.8
Underlying government primary balance ³	2.6	3.0	3.0	2.3	1.9
Gross government debt ⁷	45.1	44.5	43.3	43.3	43.8

¹ Annual percentage change, volume, unless otherwise specified.

² Contribution to GDP growth (percentage points).

³ As a percentage of potential GDP.

⁴ As a percentage of the labor force.

⁵ Excludes food and energy.

⁶ As a percentage of household disposable income.

⁷ As a percentage of GDP.

Source: OECD (2019).

The income-led growth strategy

Hiking the minimum wage

Korea raised its minimum wage from 29 percent of the median wage in 2000 to 53 percent in 2017, close to the OECD average. The large hikes in the minimum wage in 2018 and 2019 were aimed at addressing worsening income inequality, guaranteeing a decent living for low-income workers and realizing income-led growth.

According to an OECD study, “at reasonable levels, increases in the minimum wage are unlikely to cause substantial job loss” (OECD, 2015). However, Korea’s 29% percent increase in the minimum wage over 2018-19 was exceptionally large, making it difficult to predict its impact. The sharp slowdown in employment growth in 2018 suggests that the effect is significant (Figure 2). Already in July 2018, Kim Dong-yeon, who was serving as Minister of Economics and Finance, said that, “there are signals that the minimum wage hike is exerting a visible impact on the employment of specific age groups and job clusters” (*Korea Herald*, 16 July 2018). The largest job declines were in low-wage, labor-intensive sectors. For example, employment in accommodation, food and wholesale and retail trade, which accounts for nearly a quarter of total employment, fell 2.3 percent (year-on-year) in the fourth quarter of 2018. A second factor was a 1.9 percent decline in the manufacturing sector, which accounts for 16 percent of total employment, which also reflects restructuring in key industries.

The rapid increase in the minimum wage appears to be particularly detrimental thus far to workers in small firms. Following the announcement of the 10.9 percent hike in the minimum wage in 2019, the Korea Federation of Micro Enterprise said that it cannot accept the decision and called for a “moratorium” on its implementation (*Reuters*, 15 July 2018). It added that, “Small business owners are at a crossroads where they cannot help but choose either business shutdowns or staff cuts,” even though the government is providing significant support. For firms with less than 30 workers, the government covers the difference in wages between the 2018 minimum wage hike and the average rise in the minimum wage over the past five years (7.4 percent) and subsidizes social insurance premiums. In addition, the government cut credit card fees and is reducing the burden of the value-added tax for small firms to cushion the impact of the minimum wage hike. Companies with 30 or more workers will also be provided with “job stability funds” if they employ certain types of employees, such as security guards or janitors. Overall, the government introduced 76 compensation measures to offset the impact of the minimum wage hike. The large number of measures introduces new distortions that may slow economic growth.

In sum, minimum wage hikes should be moderated to limit negative effects on employment and economic growth. Large hikes in the minimum wage also affect the pay of higher-

income employees in order to maintain the relative wage structure in firms. Further large increases in the minimum wage could push inflation above its target and weaken Korea’s international competitiveness, unless it were matched by large gains in productivity. Finally, minimum wages may not be the most effective policy to reduce poverty. According to a study by the Korea Development Institute, measures that target low-income households, such as the earned income tax credit, are more effective in reducing poverty than policies that target low-income workers, such as the minimum wage (Yun, 2016).

Expanding public employment

The Moon administration also set a target of creating 814,000 public-sector jobs by 2021, which would increase public employment by 34 percent over four years. More than two-fifths of the new jobs are to be in social services. Public-sector jobs accounted for 8 percent of employment in Korea in 2015, far below the OECD average of 18 percent. Job creation in the public sector should respond to clearly defined needs and weighed against the long-term cost. A sharp increase in employment in the public sector could exacerbate the labor shortage in small and medium-sized enterprises (SMEs) in the context of Korea’s falling working-age population and create wage pressures. Already more than 80 percent of SMEs report that they face labor shortages. The permanent increase in public employment will tend to ratchet up government spending and make it harder to cope with the costs of population aging.

Increasing public social spending

Public social spending in Korea was 11.1 percent of GDP in 2018, the third lowest among OECD countries and far below the 20 percent OECD average, in part due to Korea’s relatively young population. However, it has risen at an 11 percent annual rate (adjusted for inflation) since 1990, the fastest in the OECD area. The government projected in 2016 that under the current framework, public social spending will reach 25.8 percent of GDP by 2060, exceeding the current OECD average of 21 percent.

The Fiscal Management Plan for 2017-21 shifts spending priorities from economic activities to social welfare. Social welfare spending is set to rise at a 9.3 percent annual rate over 2017-21 (Table 2), boosting its share of total spending to 28.7 percent. Social welfare spending will be boosted in part by new subsidies, such as KRW 100,000 (\$88) per month for parents with a child up to age five and KRW 300,000 per month for unemployed young people. Expenditures on employment are set to rise at a 14.5 percent annual rate over 2017-21. In contrast, spending on economic activities and the environment will fall. In particular, infrastructure investment is set to drop from 5.5 percent of total spending to 3.2 percent over 2017-21, while R&D outlays decline from 4.9 percent to 4.0 percent. While greater social spending is needed to promote inclusive growth, it is important not to neglect spending programs that support Korea’s growth potential.

Spending increases should be matched by revenue hikes to ensure fiscal sustainability. The corporate income tax rate on large firms was raised from 22 percent to 25 percent in 2018, but this will not generate significant revenue. Pension outlays by the National Pension System (NPS) are expected to rise by nearly 7 percent of GDP by 2060 under its current parameters. The large surplus generated by the NPS, currently around 3½ percent of GDP on a general government basis, is keeping the budget in surplus (Table 1) and building up government assets. The shift in the NPS balance to a deficit of around 4 percent of GDP by 2060 in the absence of measures to raise pension contributions would have serious implications for fiscal sustainability in Korea (OECD, 2018).

Raising productivity is the key to sustaining economic growth

In 2017, Korea's real per capita income was nearly a quarter below the top half of the 36 countries that are members of the OECD (Figure 3). Korea stands out for labour inputs that are the second largest (relative to population) among OECD

countries. This reflects long working hours, which at 2,024 hours per year in 2017, were 16 percent above the OECD average. Long working hours have adverse implications for the labor participation of women, the quality of life and the fertility rate, which was the lowest among OECD countries at below 1.0 in 2018. In addition, long working hours have a negative impact on productivity. Indeed, labor productivity in Korea was 40 percent below the top half of OECD countries.

Looking ahead, Korea's population, which was the fourth youngest in the OECD in 2015, is projected to be the second oldest after Japan in 2050 (Figure 4). Consequently, Korea faces the most rapid population aging among OECD countries. Korea's working-age population (15-64) began to decline in 2017. If labor force participation rates were to remain at their current levels for each age group and gender, the labor force would peak in 2022 and then fall by 20 percent by mid-century. In addition, the government aims to reduce working time to around 1,800 hours per year by 2022. In 2018, the government lowered maximum working hours from 68 hours a week to 52 hours. It is important to mitigate the impact of

Table 2

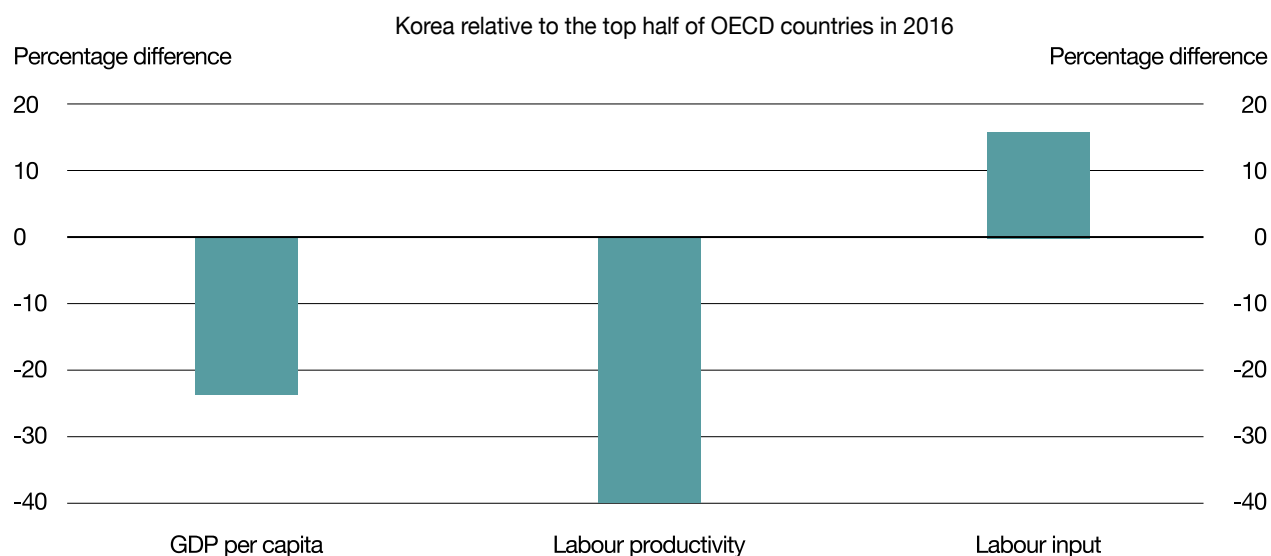
Spending priorities are shifting from economic activities to social welfare

Share of spending by category and average annual growth rate of nominal expenditures, 2017-21						Annual average growth rate over 2017-21 (%)
	2017	2018	2019	2020	2021	
Social welfare	25.1	26.0	27.0	27.7	28.7	9.3
Employment	4.6	5.5	5.6	5.9	6.3	14.5
Health	2.6	2.5	2.6	2.6	2.6	5.8
Education	14.3	14.3	14.3	14.3	14.3	7.0
Culture, sports and tourism	1.7	1.5	1.4	1.4	1.3	-1.0
R&D	4.9	4.6	4.3	4.2	4.0	0.7
Industry, SMEs and energy	4.0	3.7	3.5	3.2	3.0	-1.5
Infrastructure investment	5.5	4.1	3.8	3.5	3.2	-7.5
Agriculture, forestry, fishery and food	4.9	4.6	4.3	4.1	3.8	-0.5
Environment	1.7	1.6	1.5	1.4	1.3	-1.6
National defense	10.1	10.0	10.0	10.0	10.1	5.8
Diplomacy and reunification	1.1	1.1	1.1	1.0	1.0	2.3
Social order and safety	4.5	4.4	4.2	4.0	3.9	1.9
Public administration and local government	15.8	16.2	16.4	16.3	16.2	6.5
Total expenditure	100.0	100.0	100.0	100.0	100.0	5.1

Source: Ministry of Strategy and Finance.

Figure 3

Labor productivity is low in Korea and labor inputs are high



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

a falling working-age population and decreased working hours by removing obstacles to employment of groups under-represented in the labor force, notably women and young people. Indeed, the employment rate of the 15-29 age group is only 42 percent, well below the 51 percent OECD average.

Raising productivity is crucial for sustained economic growth in Korea. Fortunately, Korea has a number of strengths that suggest significant potential for higher productivity. *First*, Korea's investment in R&D was the second highest in the OECD at 4.2 percent of GDP in 2016. *Second*, Korea has made education a priority. Korea ranks consistently near the top in the OECD's Program for International Student Assessment (PISA), which tests 15-year-olds in science, math and reading in more than 80 countries. In addition, the share of young adults (25-34) with a university education in Korea is the highest among OECD countries. While investment in innovation is essential, Korea needs policy reforms to fully leverage these investments by achieving appropriate framework conditions, improving the innovation system, enhancing human capital and boosting dynamism among SMEs. Key reforms are discussed below.

Ensuring appropriate framework conditions to boost productivity

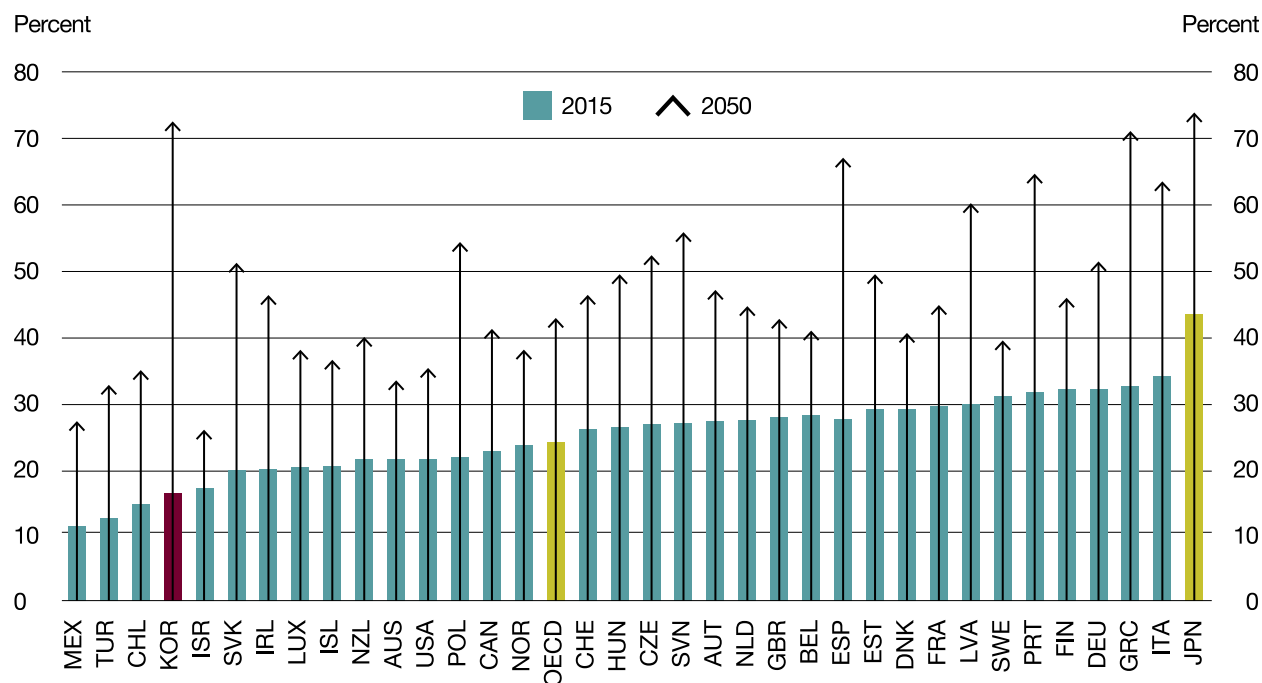
The widening gap between Korea's large firms, which include many major exporters and world leaders, and small firms suggests a problem of diffusion and resource reallocation.

Indeed, productivity growth depends as much on improved resource allocation as on technological progress and innovation (Andrews et al., 2015). Productivity is increased by the expansion or entry of high-productivity firms and the contraction or exit of low-productivity ones. Creative destruction and resource reallocation can be impeded by regulations. It is supported by competition, including from overseas, and labor mobility.

Korea's product market regulation (PMR) indicator was the fourth most stringent in the OECD in 2013. The PMR has a significant relationship with aggregate productivity across OECD countries, with more restrictive regulation leading to lower aggregate productivity (Koske et al., 2015). The service sector in Korea is more tightly regulated; by 2013, it was subject to four times more regulations than the manufacturing sector (Park et al., 2014), reducing productivity in services. In 2017, output per worker in services in Korea was only 44 percent of that in manufacturing, compared to an OECD average of 84 percent (Figure 5). Reducing Korea's PMR through regulatory reform would stimulate private investment in innovative activities, the diffusion of knowledge, improved managerial performance and entry by new firms. To reduce the regulatory burden, Korea is introducing a comprehensive negative-list regulatory system and allow firms in new technologies and industries to test their products and business models without being subject to all existing legal requirements (i.e. a regulatory sandbox).

Figure 4

Korea faces the most rapid population aging in the OECD



Note: Population aged 65 and over as a per cent of the population aged 15 to 64. Source: OECD Demography and Population (database).

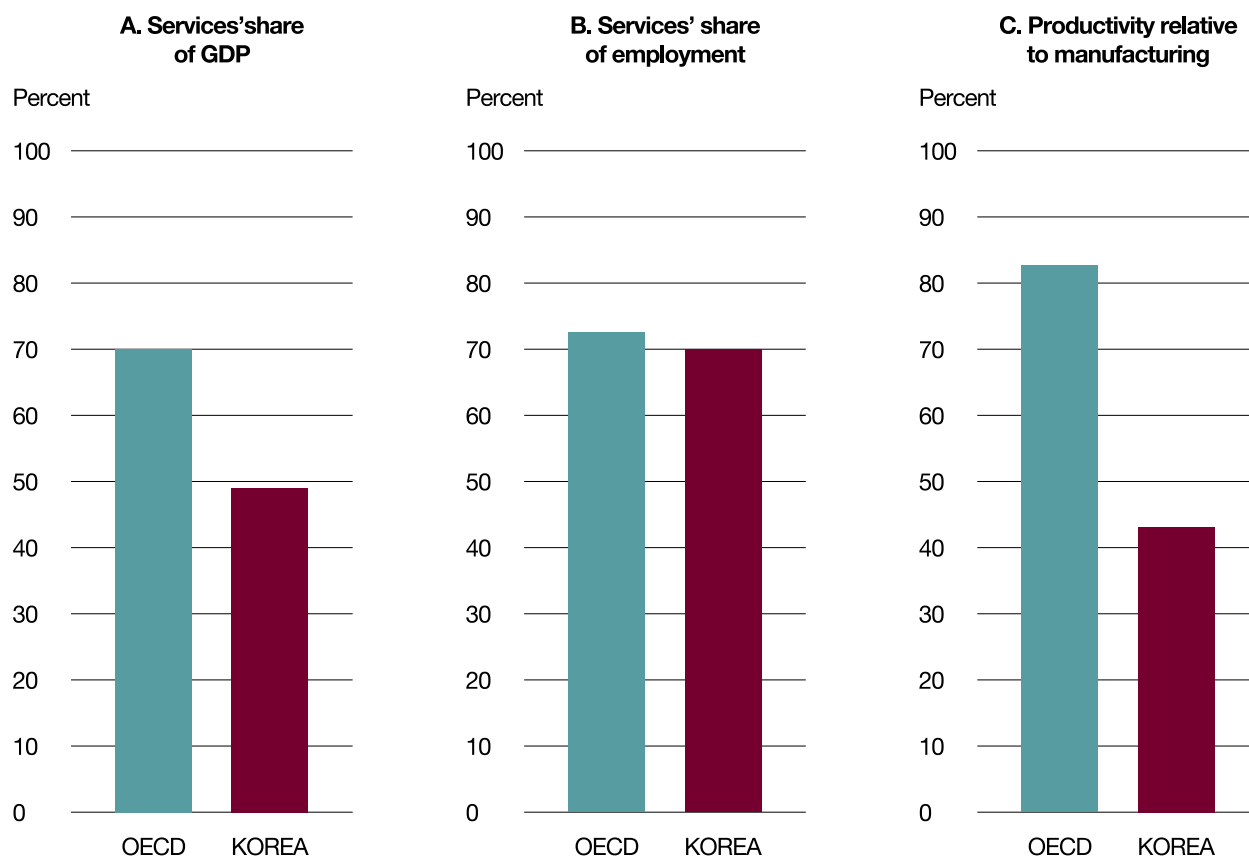
Strengthening competition through international openness also boosts productivity. Although Korea has pursued trade liberalization through free trade agreements, notably with the European Union (2011), the United States (2012), Australia (2014), Canada (2014), New Zealand (2014), China (2015) and Vietnam (2015), Korea's index of barriers to trade and investment in the PMR indicator was the second highest in the OECD area in 2013. Relaxing trade barriers in key service and network industries would yield significant productivity benefits, in part by encouraging inflows of foreign direct investment (FDI), which is very low in Korea. Indeed, the stock of inward FDI amounted to only 12 percent of GDP in 2016, the second lowest in the OECD after Japan. Allowing more foreign workers would also be beneficial by mitigating the projected decline in the labor force. The share of the foreign-born population in Korea in 2017 was the fifth lowest in the OECD.

Innovation requires continuous reallocation of labor and other resources within and across firms and sectors. There is considerable evidence that employment protection has a major negative impact on labor flows (Martin and Scarpetta, 2012). Low levels of protection allow resources to flow to their most productive uses, benefiting firms that undertake innovations that require large employment adjustments. In contrast, employment protection has negative impacts on innovation:

- It lowers R&D expenditure, particularly in innovative sectors (Andrews and Criscuolo, 2013).
- It reduces the ability of innovative firms to attract the resources needed to implement and commercialize new ideas (Andrews et al., 2014).
- It discourages investment in technologically advanced innovation by multinational enterprises.

The 2018 *World Economic Forum Global Competitiveness Report* ranked Korea 87th in the world in flexibility in hiring and firing (World Economic Forum, 2018). Relaxing employment protection would increase R&D investment in innovative sectors and enable innovative firms to attract the resources necessary to commercialize new ideas, thereby promoting higher productivity and output growth. In addition, it would reduce the number of non-regular temporary workers, thus encouraging firm-based training and human capital accumulation that would enhance innovation. Breaking down labor market dualism and lowering the number of non-regular workers would also reduce income inequality and relative poverty, given that non-regular workers earn about one-third less on average than regular workers and receive less coverage by social insurance.

Figure 5

Service sector productivity is low in Korea in 2017¹

¹ Based on 2010 prices for value added. Source: OECD National Accounts Statistics (database); OECD Structural Analysis Statistics (database).

Upgrading the innovation system

R&D by the business sector in Korea was the highest among OECD countries at 3.2 percent of GDP in 2016, underpinned by generous government support. However, it is concentrated in large manufacturing firms, while only 8 percent was in services, well below the OECD average of 38 percent. This contributes to the large productivity gap between manufacturing and services (Figure 5). Moreover, SMEs play only a minor role in R&D, reflecting their weak financial position and the limited technological capacity of their workers. A number of measures are needed to improve the innovation network. First, government research institutes (GRIs) should be used to strengthen research efforts in services. Second, policies are needed to improve links between GRIs, universities and industry. Third, international R&D links should also be strengthened. Only 0.7 percent of the R&D carried out in Korea in 2014 was financed from abroad and the levels of international co-authorship and co-patenting involving Korea are among the lowest in the OECD (OECD, 2016). As Korean firms approach the technological frontier, they need to better

connect to global science and innovation networks. Greater openness to trade and FDI would promote global R&D links.

Further developing human capital to raise productivity

As noted above, Korea consistently ranks near the top in international comparison of education. However, the gap between young adults and older persons is the largest in the OECD in terms of tertiary graduation rates and skill levels. The large difference illustrates the importance of lifelong learning. In Korea, the proportion of adults with weak skills who participate in adult education is below the OECD average. In addition, reducing labor mismatch is essential to make better use of human capital. Underskilled workers hold back productivity within firms, while trapping over-skilled resources in low-productivity firms makes it more difficult for more productive firms to attract skilled labor and gain market share (Adalet McGowan and Andrews, 2015). Moreover, Korea has an “over-education” problem, leaving SMEs with labor shortages and low employment rates among young people.

Policies to promote SME productivity through innovation

The share of workers employed at SMEs in Korea was the highest in the OECD at 88 percent in 2015, based on OECD definitions. Despite increasing government support, the growth of value added per worker in SMEs has been on a downward trend. Labor productivity in SMEs in manufacturing fell from 53.8 percent of that in large firms in 1988 to only 32.5 percent in 2014 (Figure 6). The productivity gap between large firms and SMEs is one of the biggest in the OECD. While data are not available for the entire service sector, labor productivity of small firms in services also appears to lag behind larger firms. Low productivity in SMEs may be related in part to weak investment, which has limited their role in the transition to technology and knowledge-intensive activities (Jones and Lee, 2018). In addition, the economic dominance of large business groups, which received generous government support during the high-growth era (Jones, 2018), has stifled opportunities for SMEs.

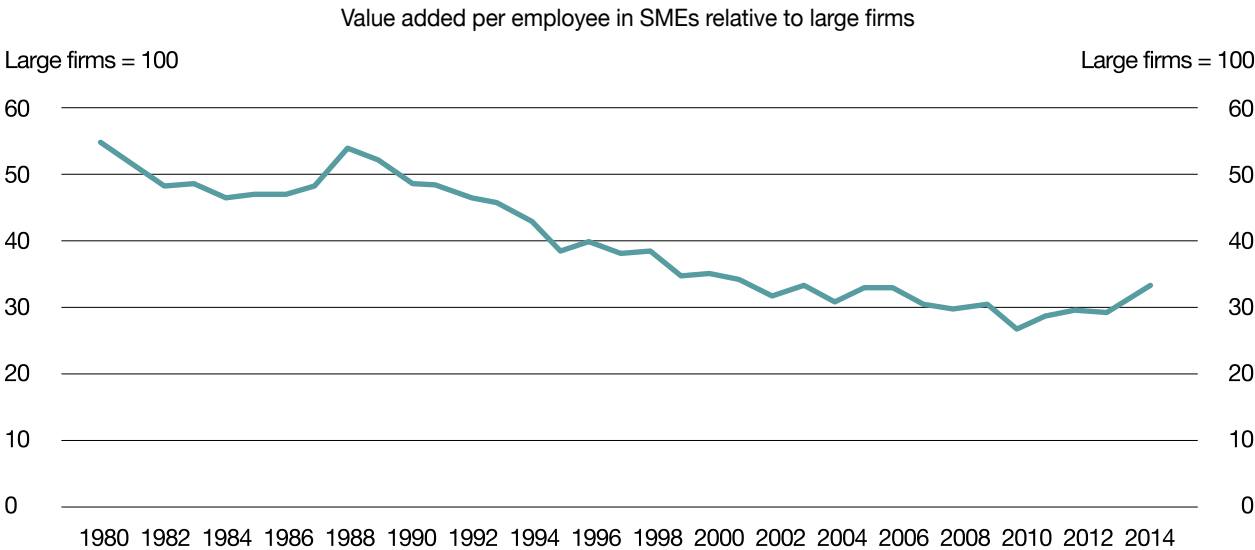
The government has long provided large-scale support to SMEs through public funds, credit guarantees and around 1,300 programs. Indeed, government guarantees for loans to SMEs in Korea were 3.8 percent of GDP in 2016, the second highest in the OECD after Japan. Moreover, they typically guarantee 85 percent of the loan, thereby discouraging financial institutions from actively monitoring the credit risk of outstanding loans. In addition, SMEs are assisted through: *i*) preferential treatment in public procurement; *ii*) lower tax rates

at both the central and local government levels; *iii*) protection from actions by the Korea Fair Trade Commission against market power abuses; *iv*) the right to hire foreign workers; and *v*) discounted prices for water and electricity. However, there is considerable evidence that government support does not improve SME performance, although it does increase their survival rates (Jones and Lee, 2016).

Government policies that increase survival rates of low-productivity firms are detrimental to long-run efficiency. Policy should instead focus on increasing productivity in SMEs to promote long-term growth (Chang, 2016). This requires correcting market failures, such as information asymmetries and abuses of market power. Moreover, it is necessary to set limits on the number, duration and size of government SME programs to encourage the self-reliance of SMEs. High levels of government support and its long duration discourage companies from expanding and thereby achieving economies of scale (the so-called “Peter Pan syndrome”).

In the new paradigm envisaged by the Moon government, SMEs and start-ups will replace large firms as drivers of innovation. This will require developing venture capital and other forms of capital-market financing. In addition, it is important to reduce barriers to entrepreneurship in Korea, which were the seventh highest in the OECD area in 2013. Entry barriers impede the creativity that is needed to boost productivity. Reducing entry barriers raises employment and total factor productivity growth.

Figure 6 The productivity gap between SMEs and large firms has gotten larger



Source: Statistics Korea; OECD.

Conclusions

Korea's traditional model of growth led by exports produced by large business groups, known as *chaebols*, is losing steam. Real GDP growth is slowing toward the OECD average, while Korea's real per capita income is one-third below the top half of OECD countries, reflecting low labour productivity in Korea. The government has launched an ambitious plan to achieve "income-led growth" driven by job creation. Public employment is to be boosted by around a third and the composition of government spending will shift in favour of social welfare and public employment, while that on investment in infrastructure and R&D falls. Sharp increases in the minimum wage – 29 percent over 2017-19 – were intended to boost household income. However, sustaining growth depends fundamentally on boosting productivity through a comprehensive approach, including appropriate framework conditions, upgrading the innovation system, further developing human capital and making the SME sector more dynamic. An emphasis on productivity is even more important given that Korea's working-age population has begun to decline.

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