



2018 OECD ECONOMIC SURVEY OF KOREA

Achieving a new paradigm for inclusive growth

Sejong, 20 June 2018

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Growth is projected to remain steady at of around 3% a year in 2018 and 2019

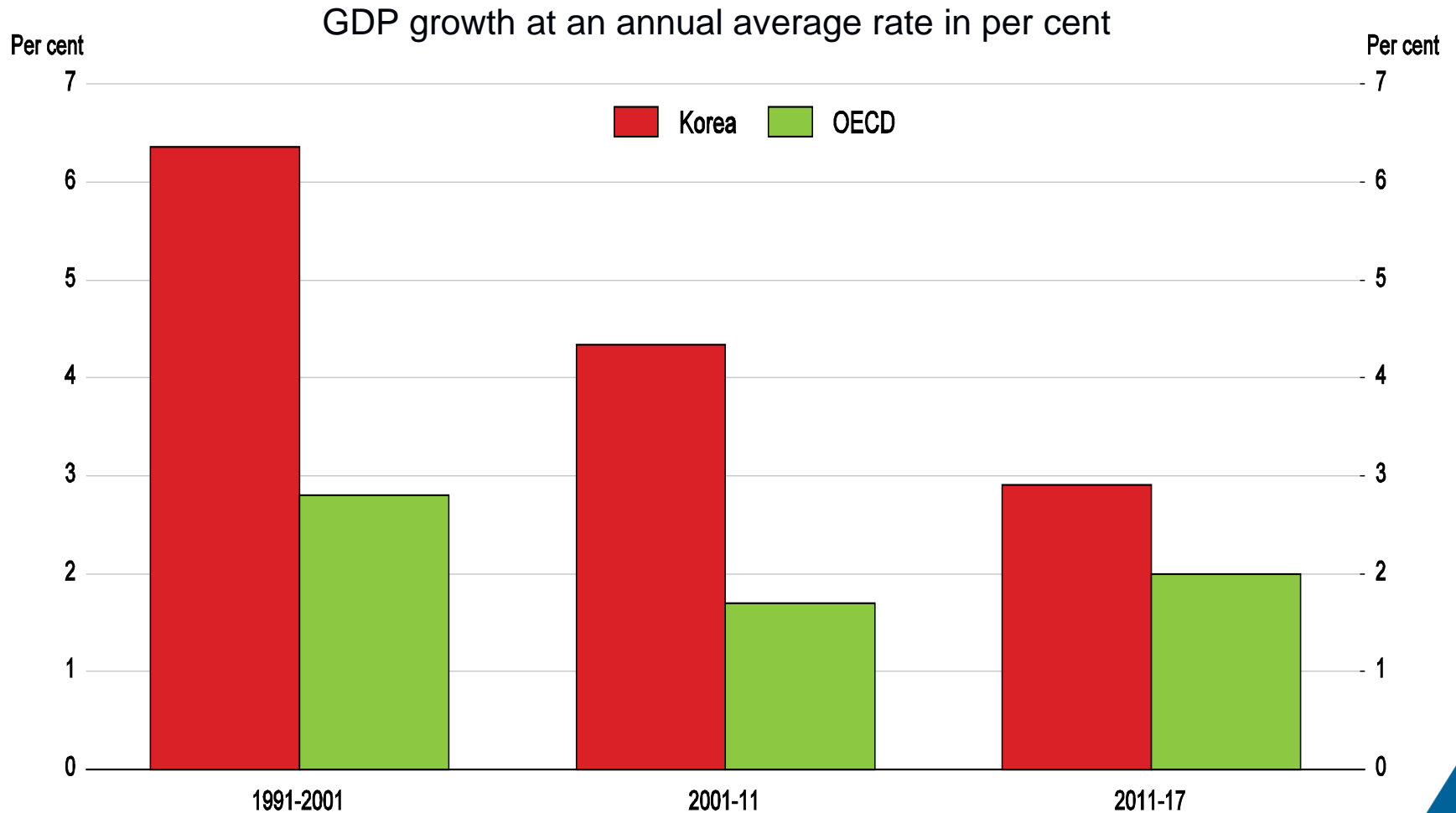
Annual percentage change unless specified otherwise, volumes at 2010 prices

	2017	2018	2019
Gross domestic product	3.1	3.0	3.0
Private consumption	2.6	2.9	2.7
Gross fixed capital formation	8.6	4.0	2.3
Exports	1.9	3.5	4.3
Imports	7.0	5.5	3.7
Unemployment rate	3.7	3.8	3.7
Consumer price index	1.9	1.6	2.0
Current account (% of GDP)	5.1	4.0	4.5

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



Growth has slowed toward the OECD average

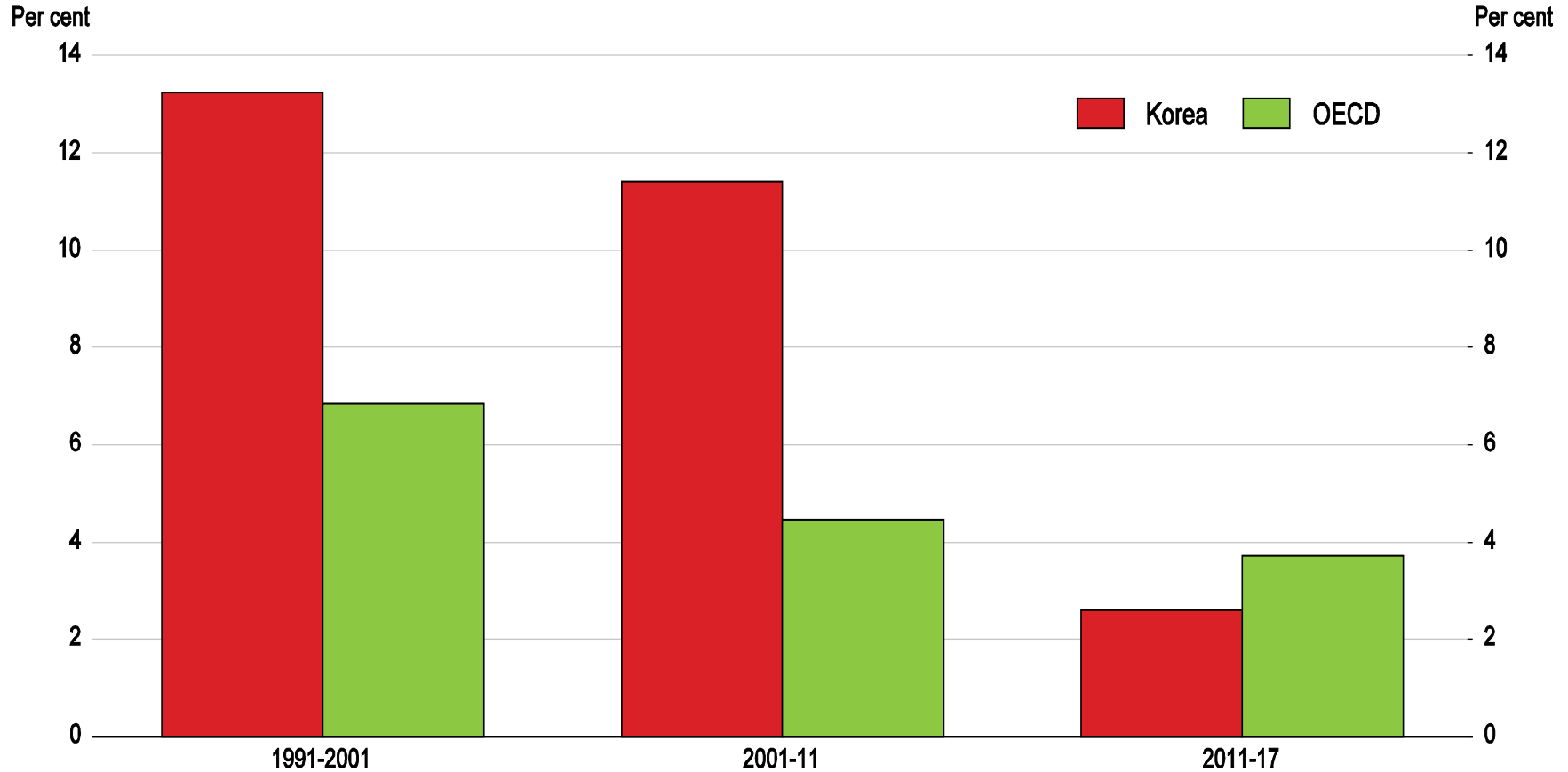


Source: OECD Economic Outlook: Statistics and Projections (database).



Export growth has decelerated sharply

Export growth at an annual average rate in per cent



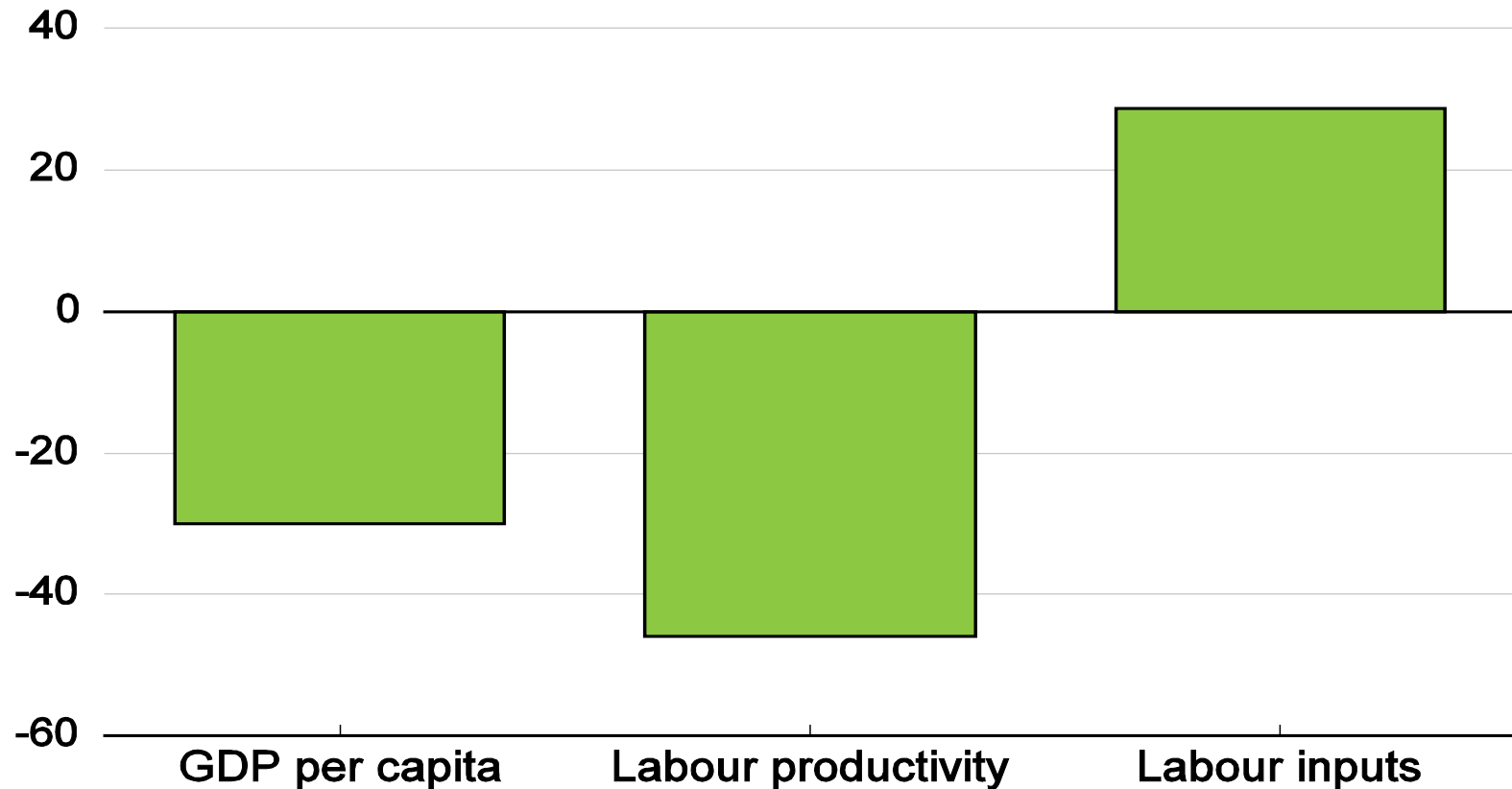
Source: OECD Economic Outlook: Statistics and Projections (database).



Labour productivity is low and labour inputs¹ are high

Korea relative to the top half of OECD countries in 2016

% difference



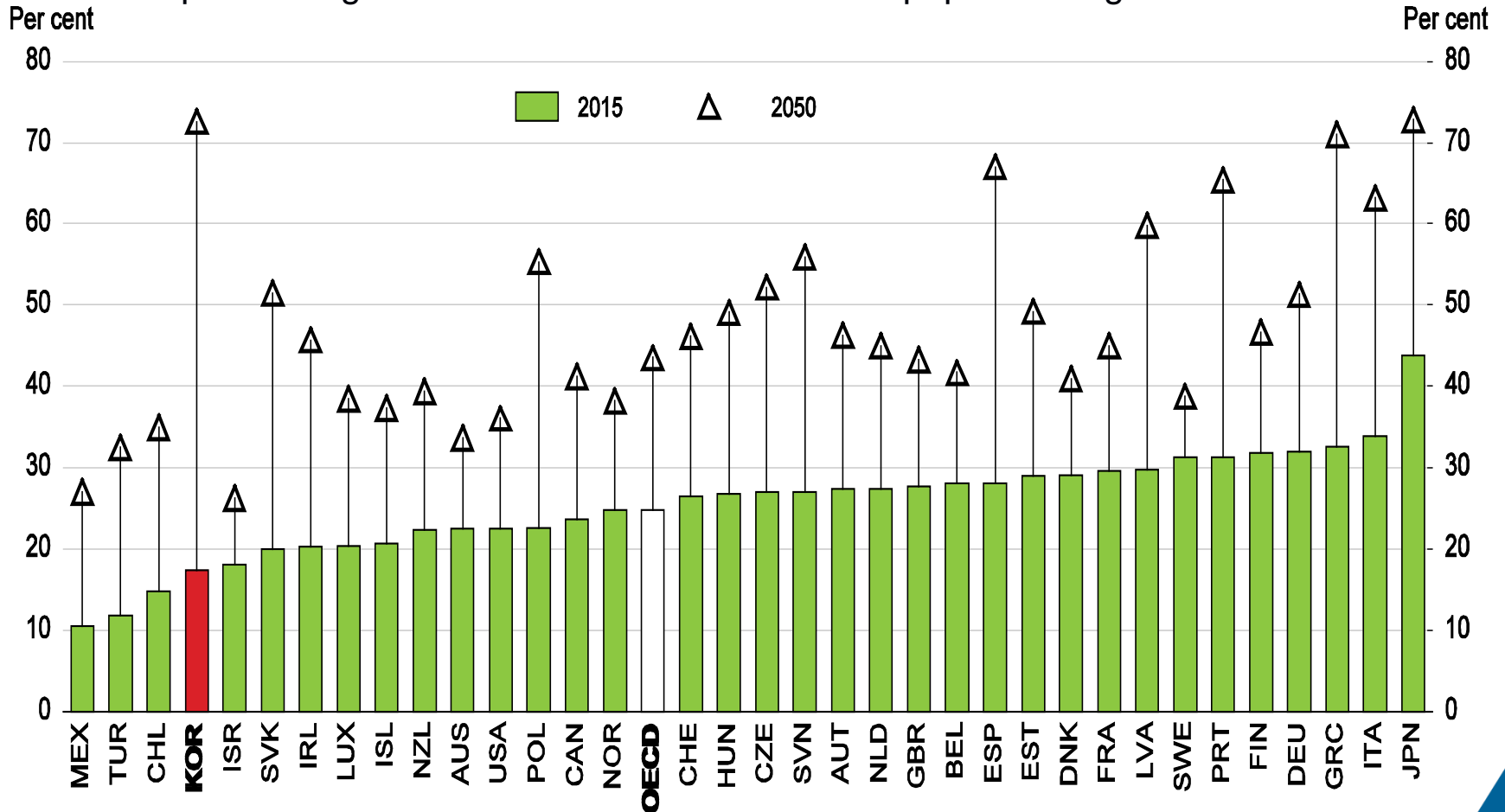
1. Labour resource utilisation is measured as the total number of hours worked per capita.

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



Population ageing will be the fastest among OECD countries

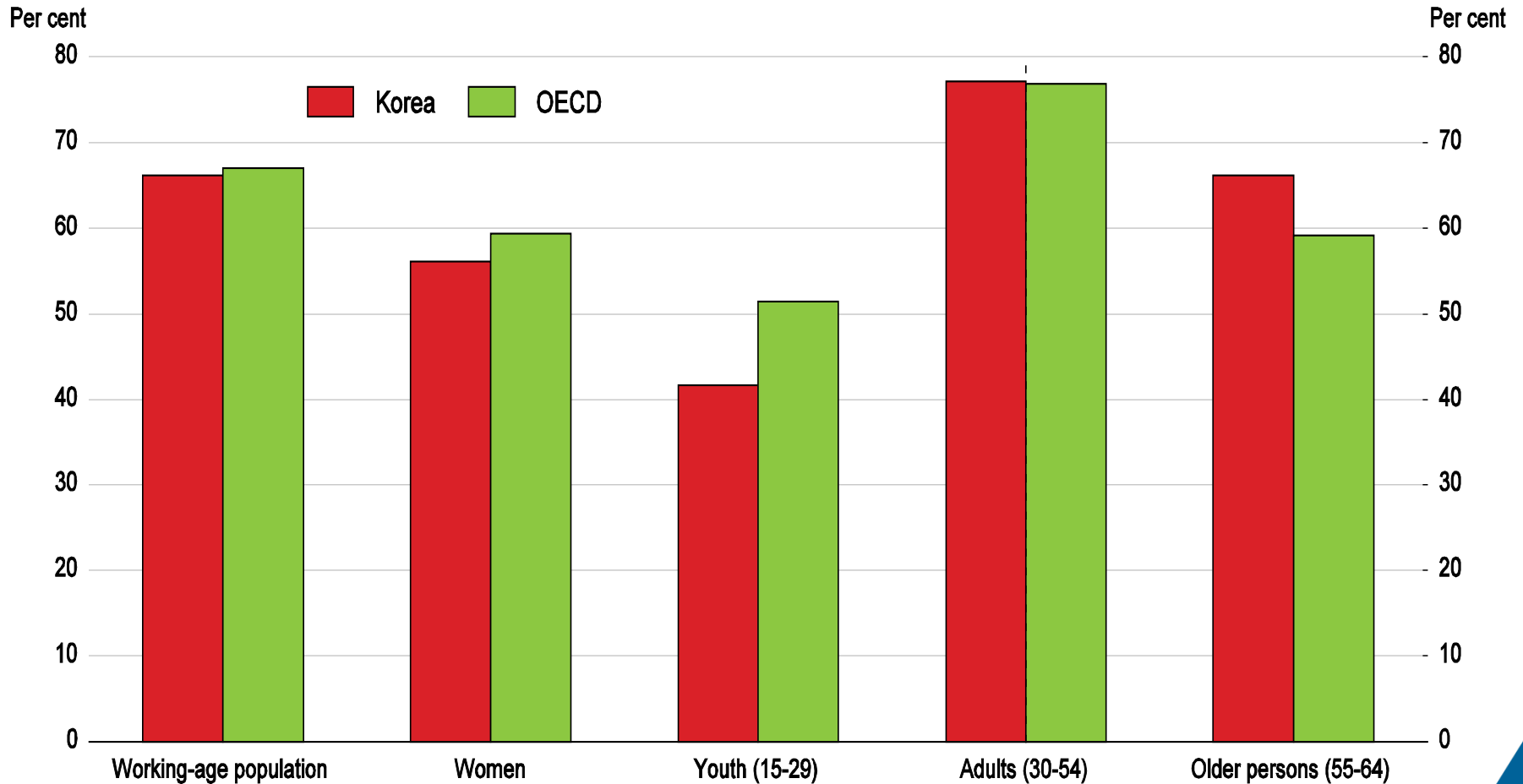
Population aged 65 and over as a share of the population aged 15 to 64



Source: OECD Demography and Population (database).



Employment rates are low for women and youth¹

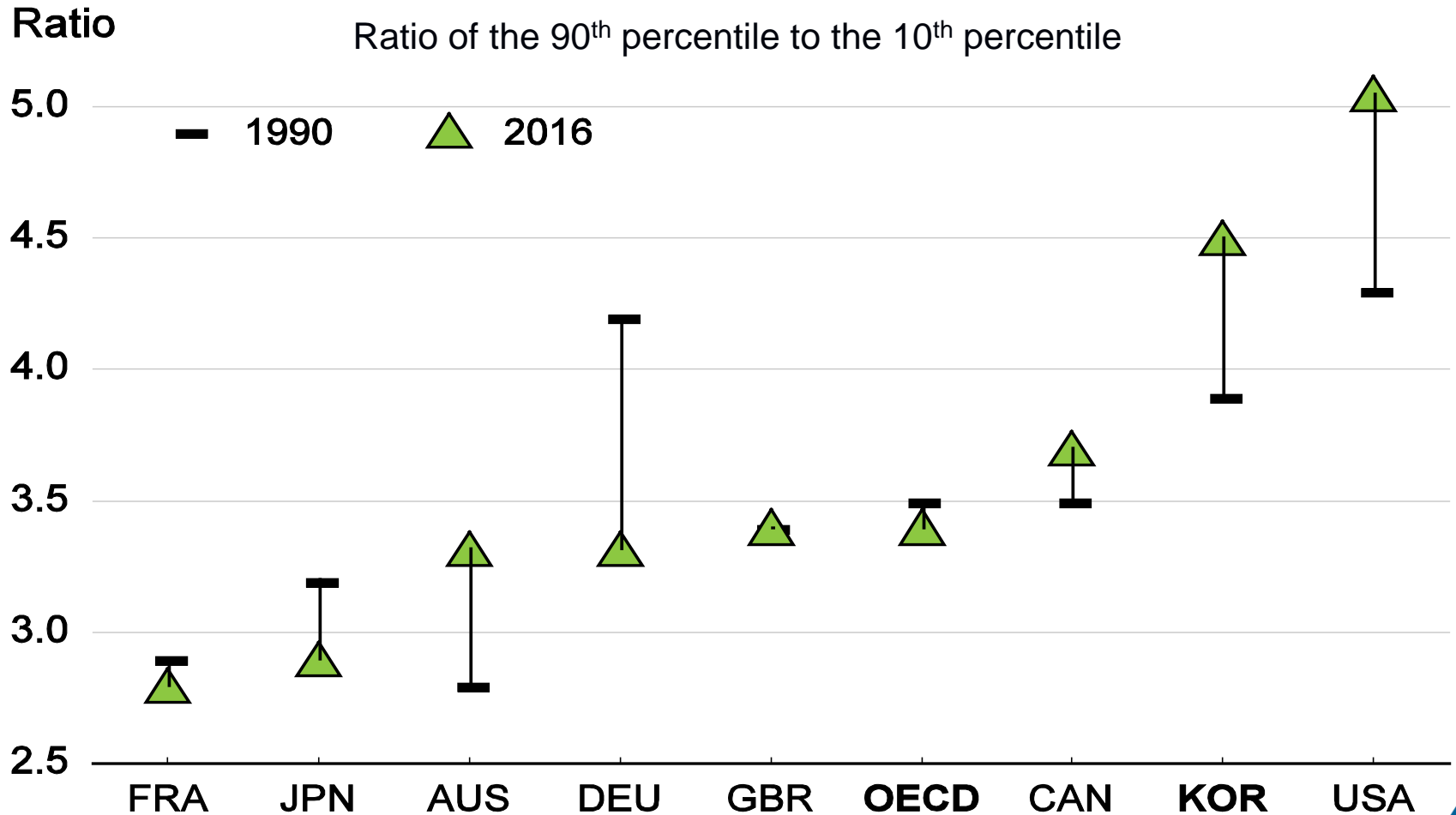


¹ In 2016.

Source: OECD Employment and Labour Market Statistics (database).



Wage inequality is high and increasing

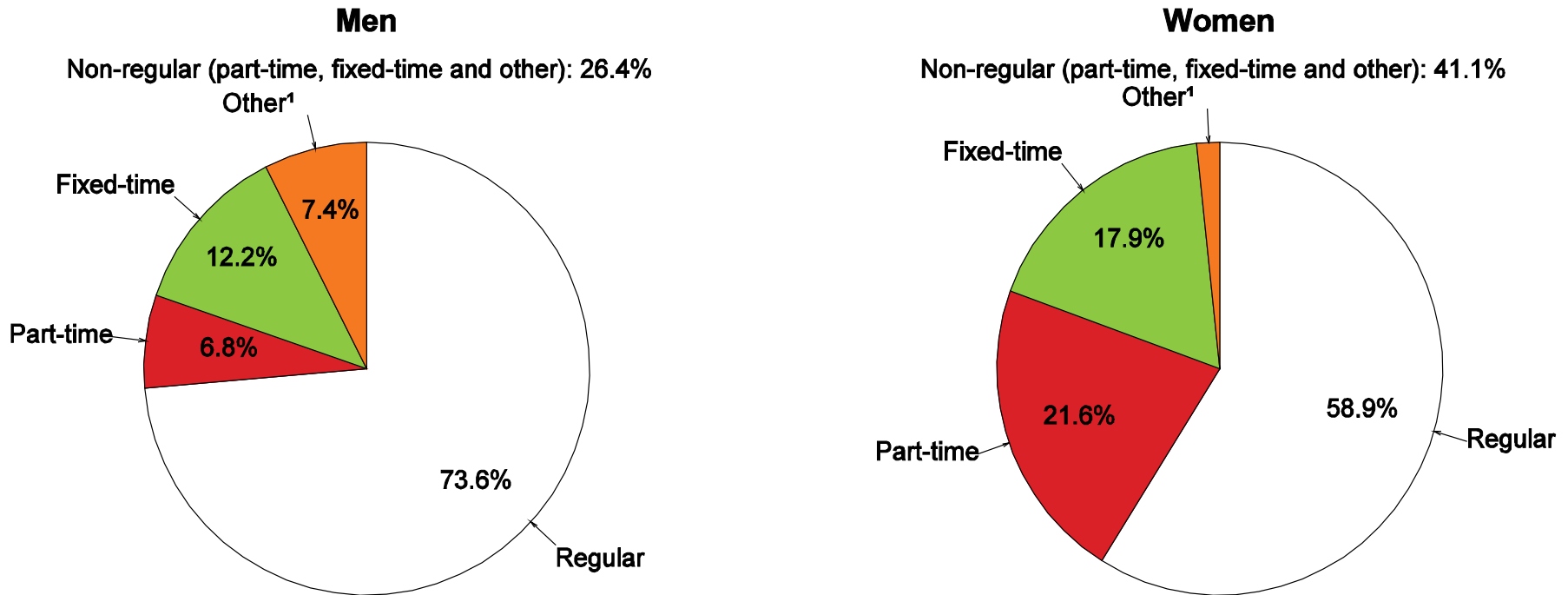


Source: OECD Earnings Distribution (database).



Women are concentrated in low-paying non-regular jobs

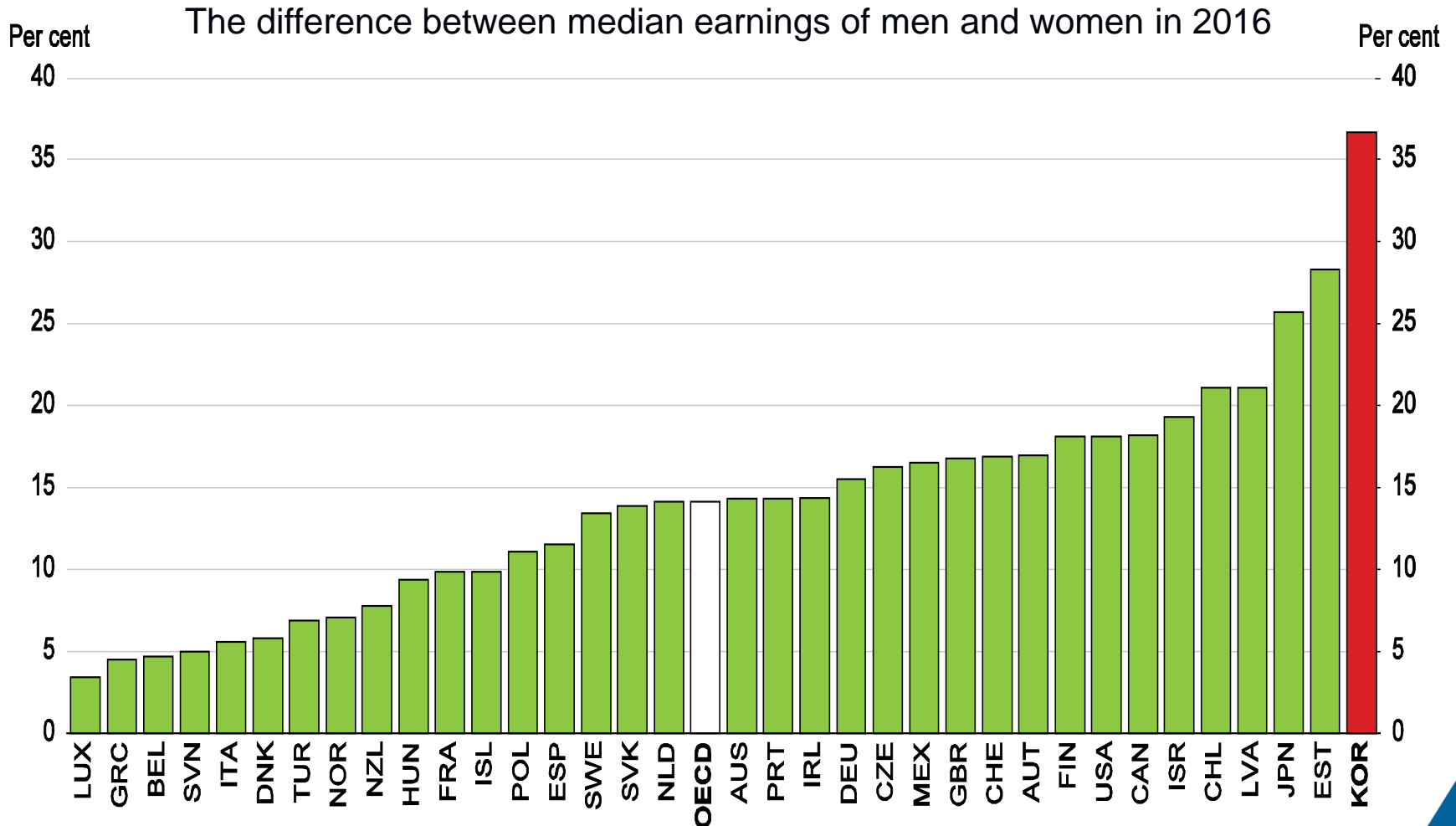
Employees by employment status as a percentage of total employment in 2017



Source: Statistics Korea, *Economically Active Population Survey*, August 2017.



The gender wage gap is the highest in the OECD

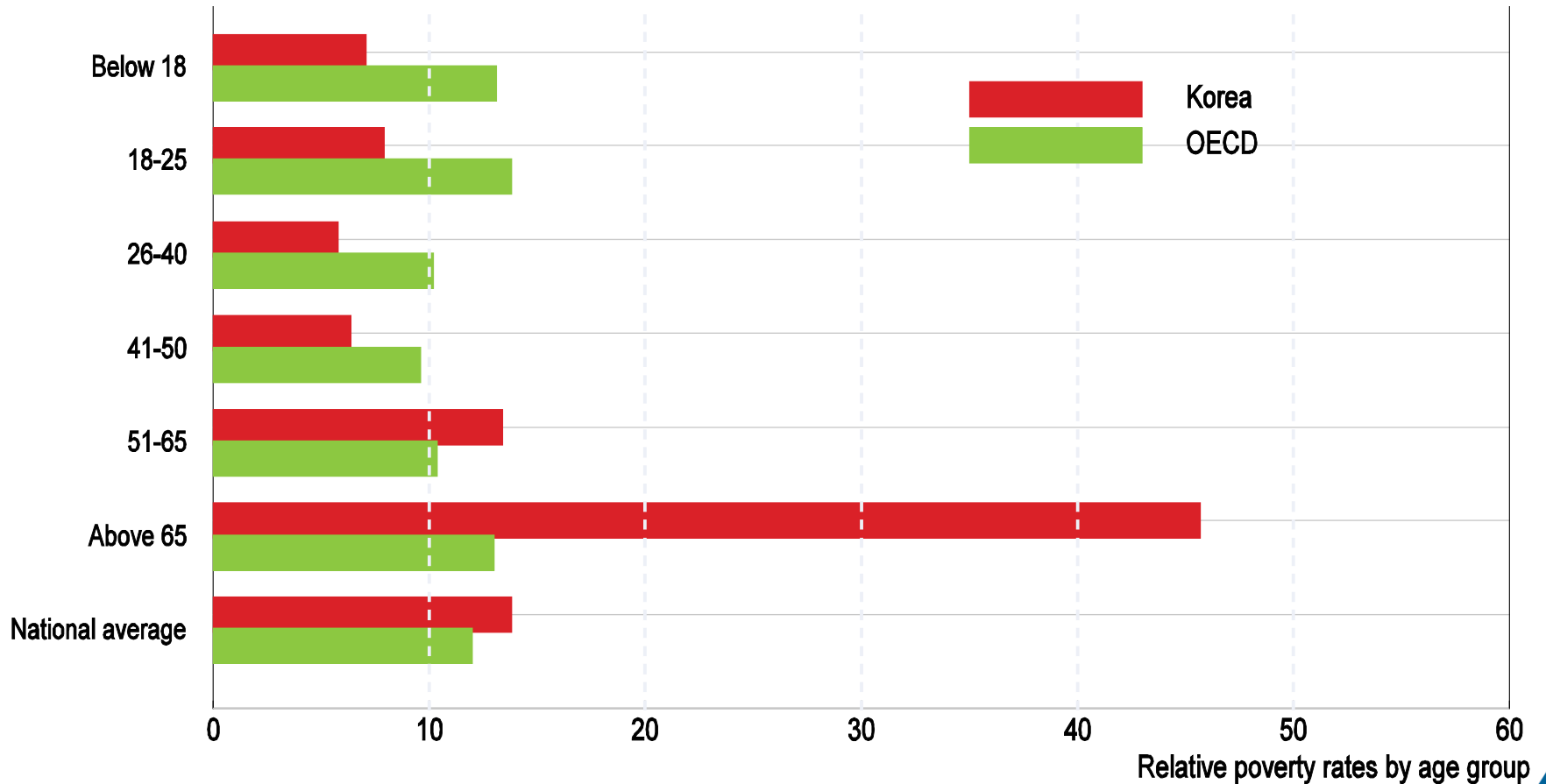


Source: OECD Earnings Distribution (database).



Poverty rates are high among the elderly

Relative poverty rate in per cent in 2015¹



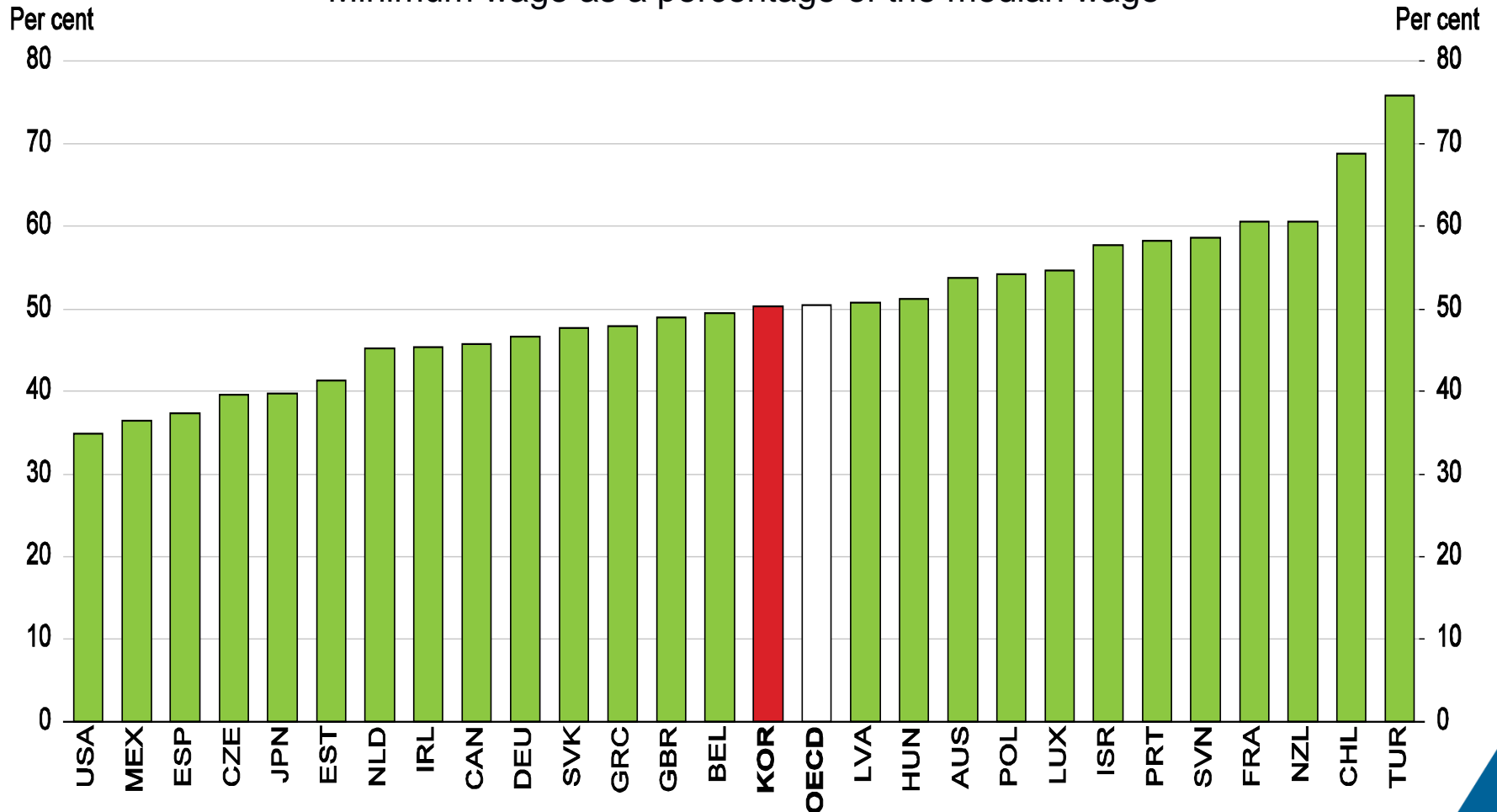
1. Defined as a the share of the population with an income below half of the national median.

Source: OECD Income Distribution and Poverty (database).



Korea's minimum wage was close to the national median wage in 2016

Minimum wage as a percentage of the median wage

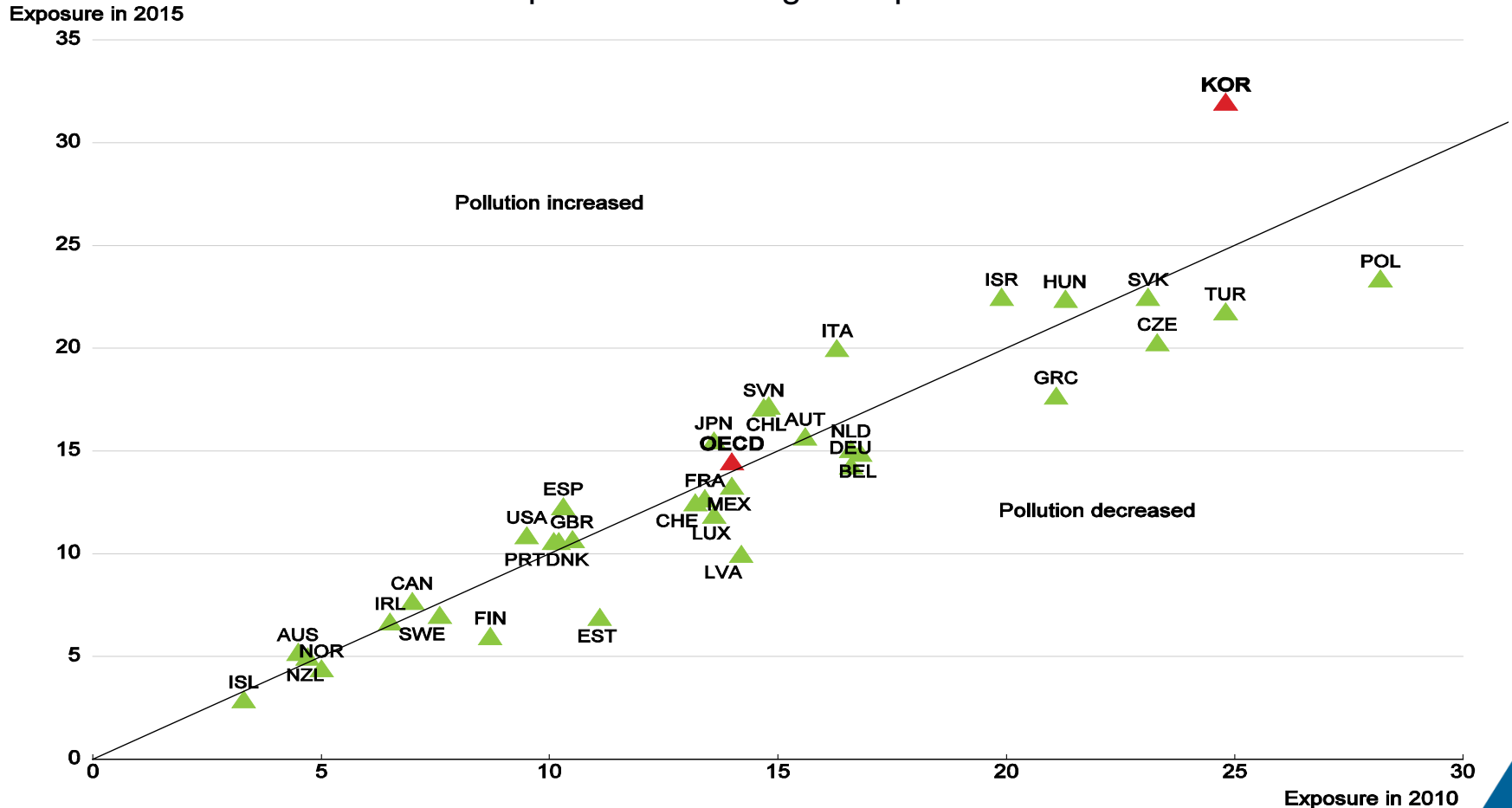


Source: OECD Earnings Distribution (database).



Air pollution is high and increasing

Pm 2.5 exposure in micrograms per cubic metre



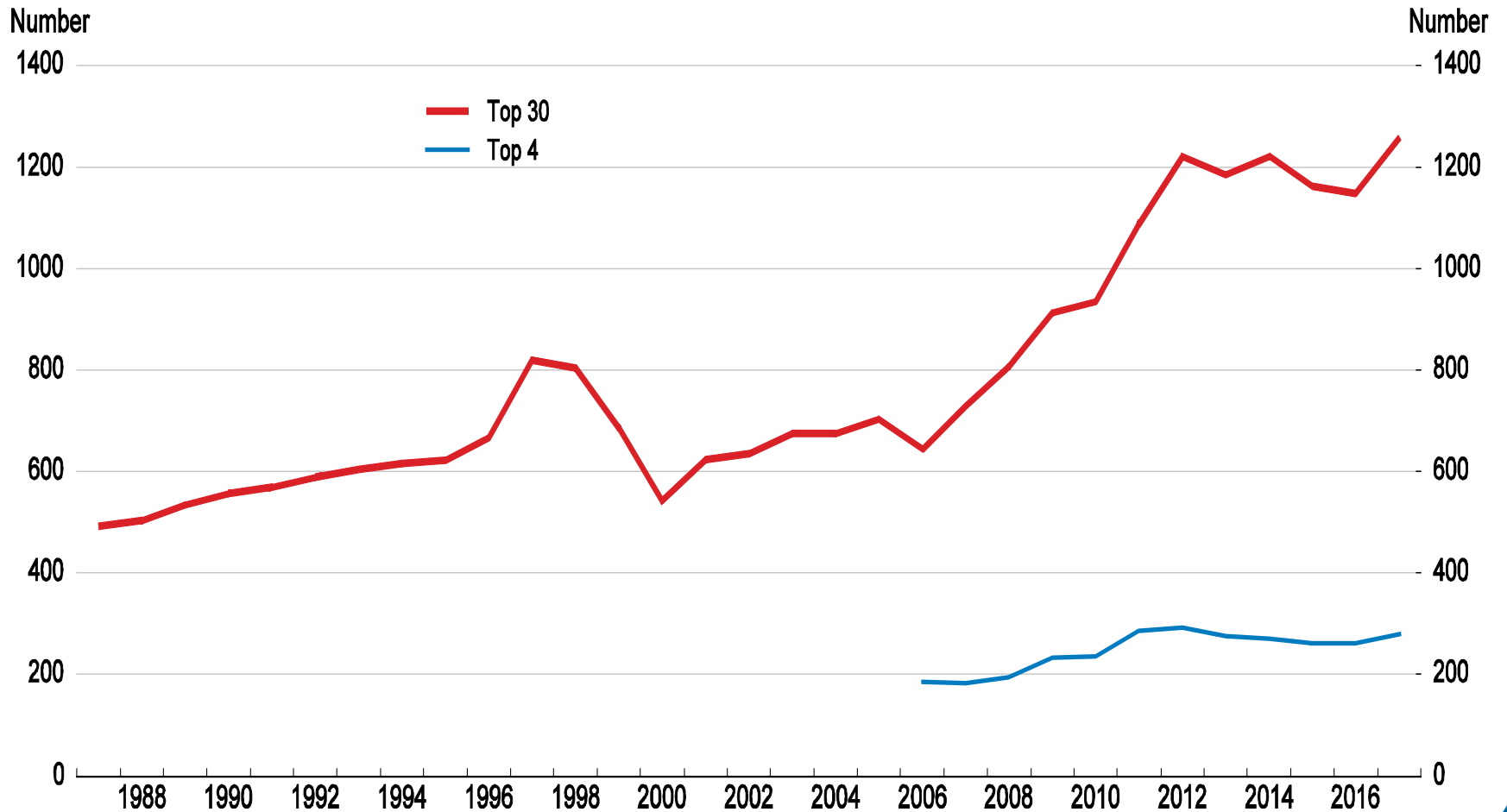
Source: OECD Green Growth Indicators (database).



Reforming the large business groups to promote productivity and inclusion



The number of firms affiliated with the top business groups continues to rise

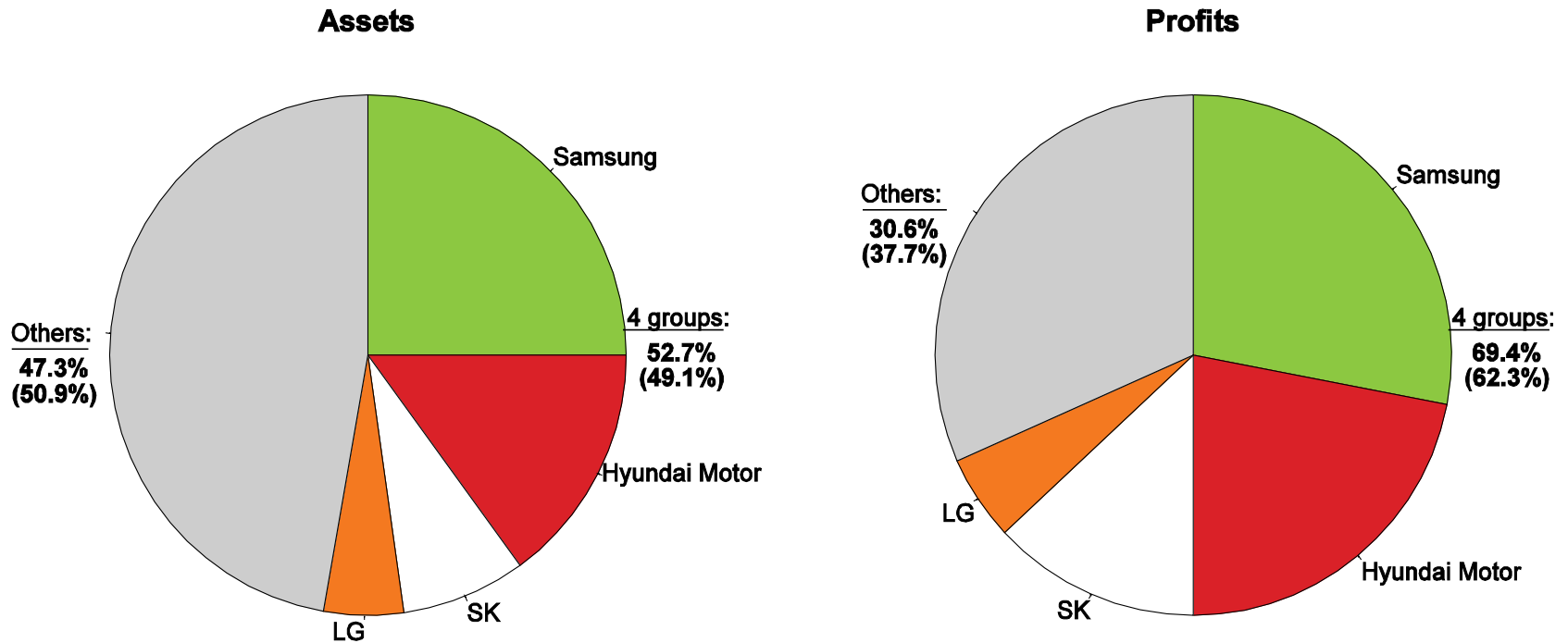


Source: Korea Fair Trade Commission.



The top four business groups are increasingly dominant

The shares of top four business groups as a share of the top 30 groups in 2017 (2011 is shown in parentheses)

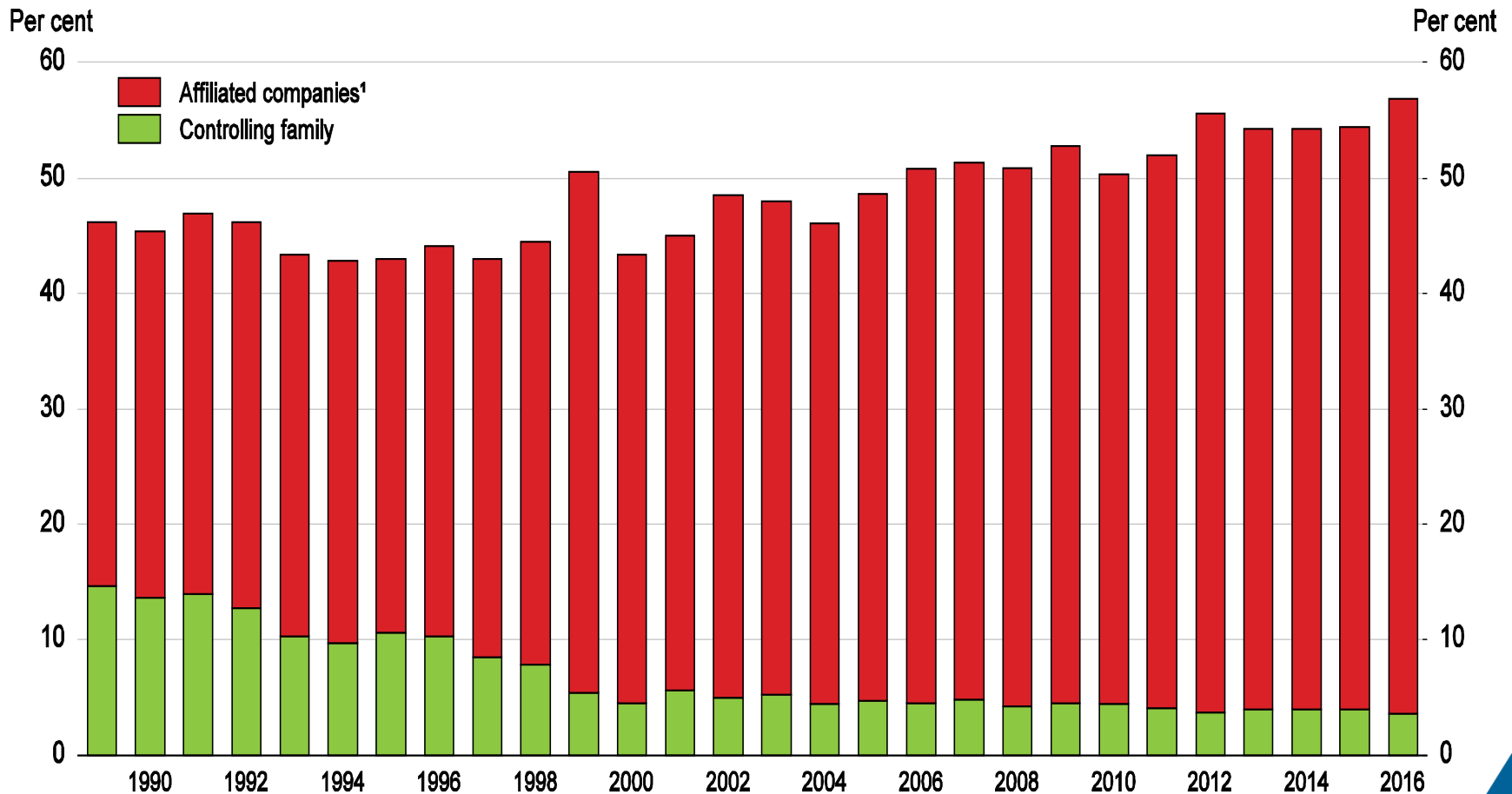


Source: Yonhap News, 21 May 2017.



Inside ownership has risen

Inside ownership = the share held by the controlling family and affiliated companies



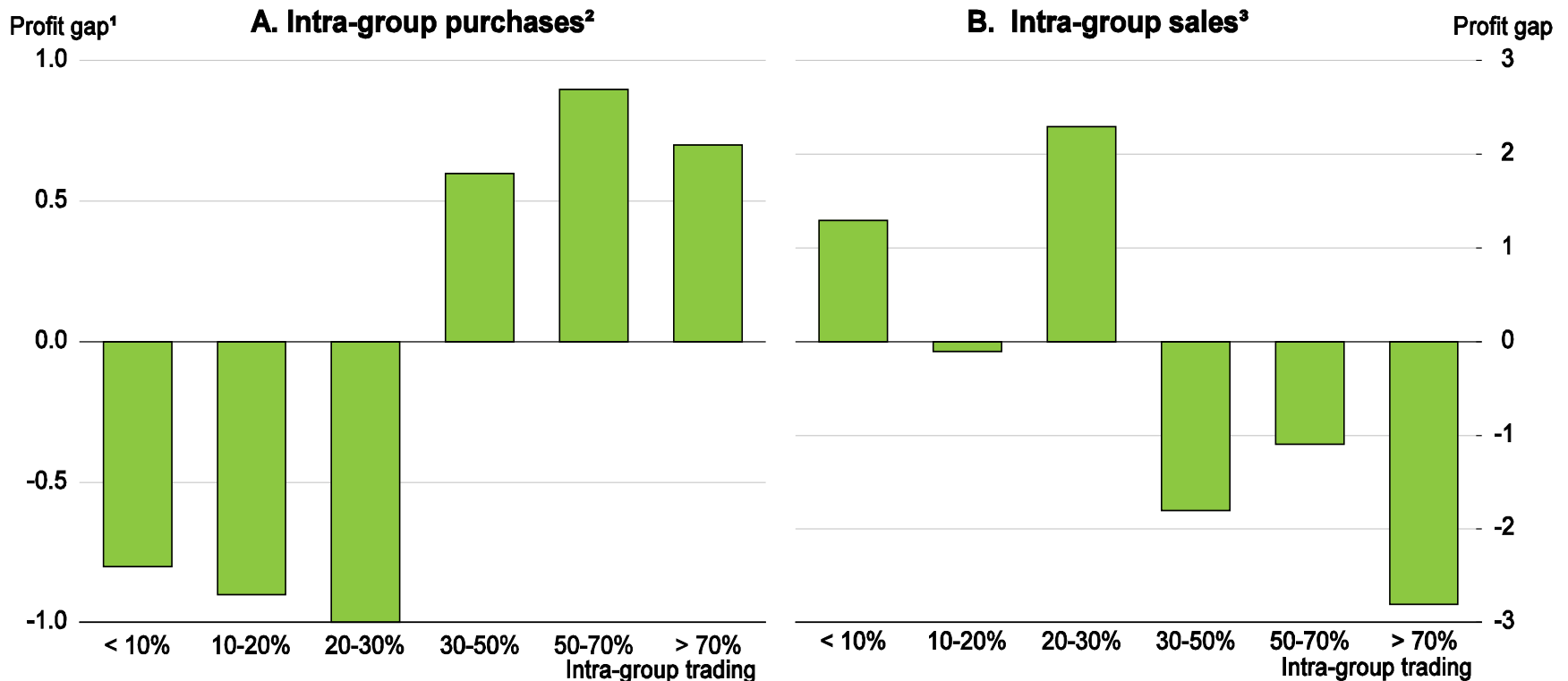
1. Includes other inside owners, who accounted for 2-3% over 2011-16.

Source: Korea Fair Trade Commission.



Company profitability is influenced by intra-group trading

The profit gap¹ in group-affiliated firms, classified by intra-group trading shares in 2015



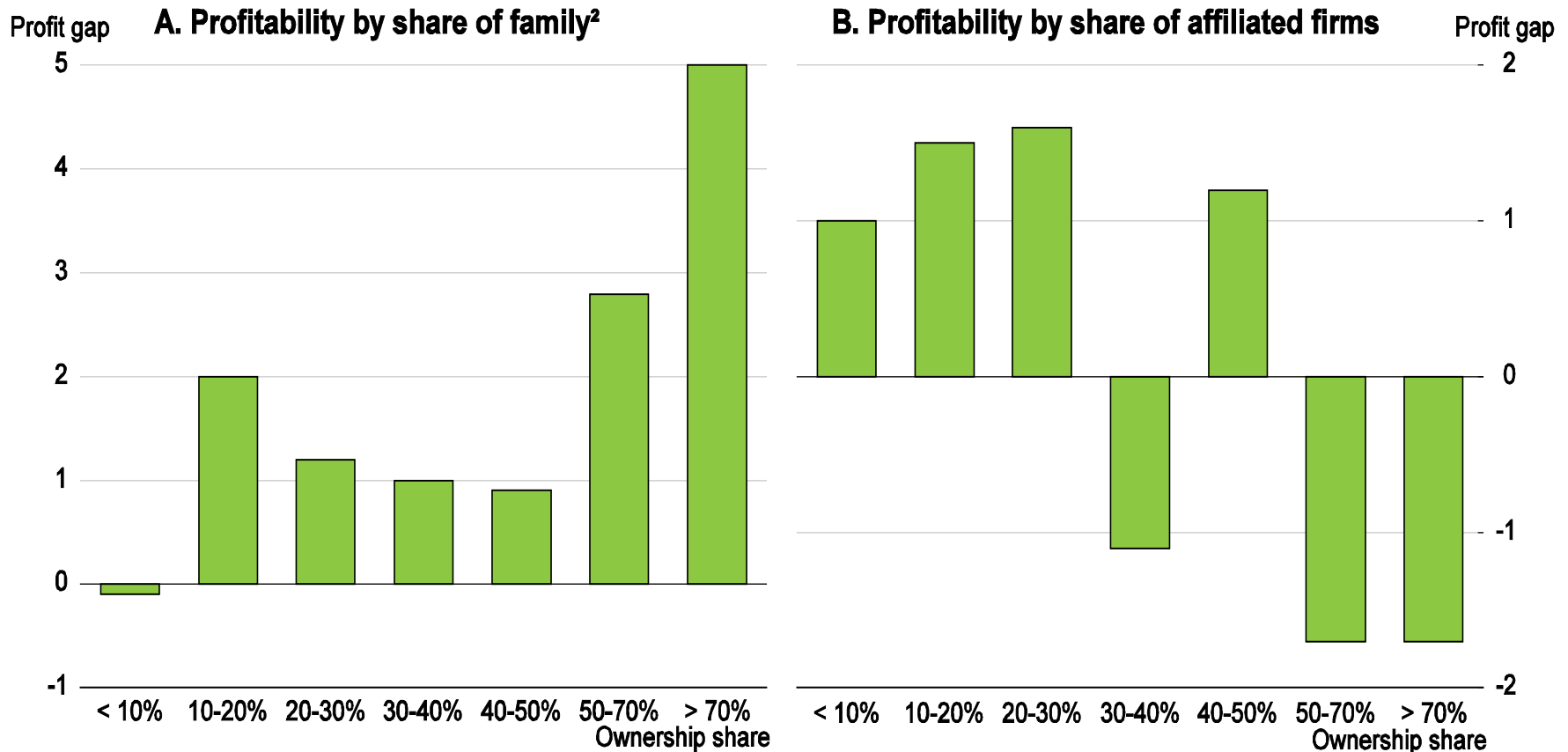
1. The profit rate in individual firms minus the profit rate in the business group to which they belong.
A positive number thus means that a firm is more profitable than the business group.
2. The share of a firm's purchases from firms affiliated with the same business group as a share of their total purchases.
3. The share of a firm's sales to firms affiliated with the same business group as a share of their total sales.

Source: Lee and Park (2016).



Profitability is linked to inside ownership

The profit gap¹ between group-affiliated firms, classified by ownership shares in 2015



1. The profit rate in individual firms minus the profit rate in the business group to which they belong. A positive number thus means that a firm is more profitable than the business group.

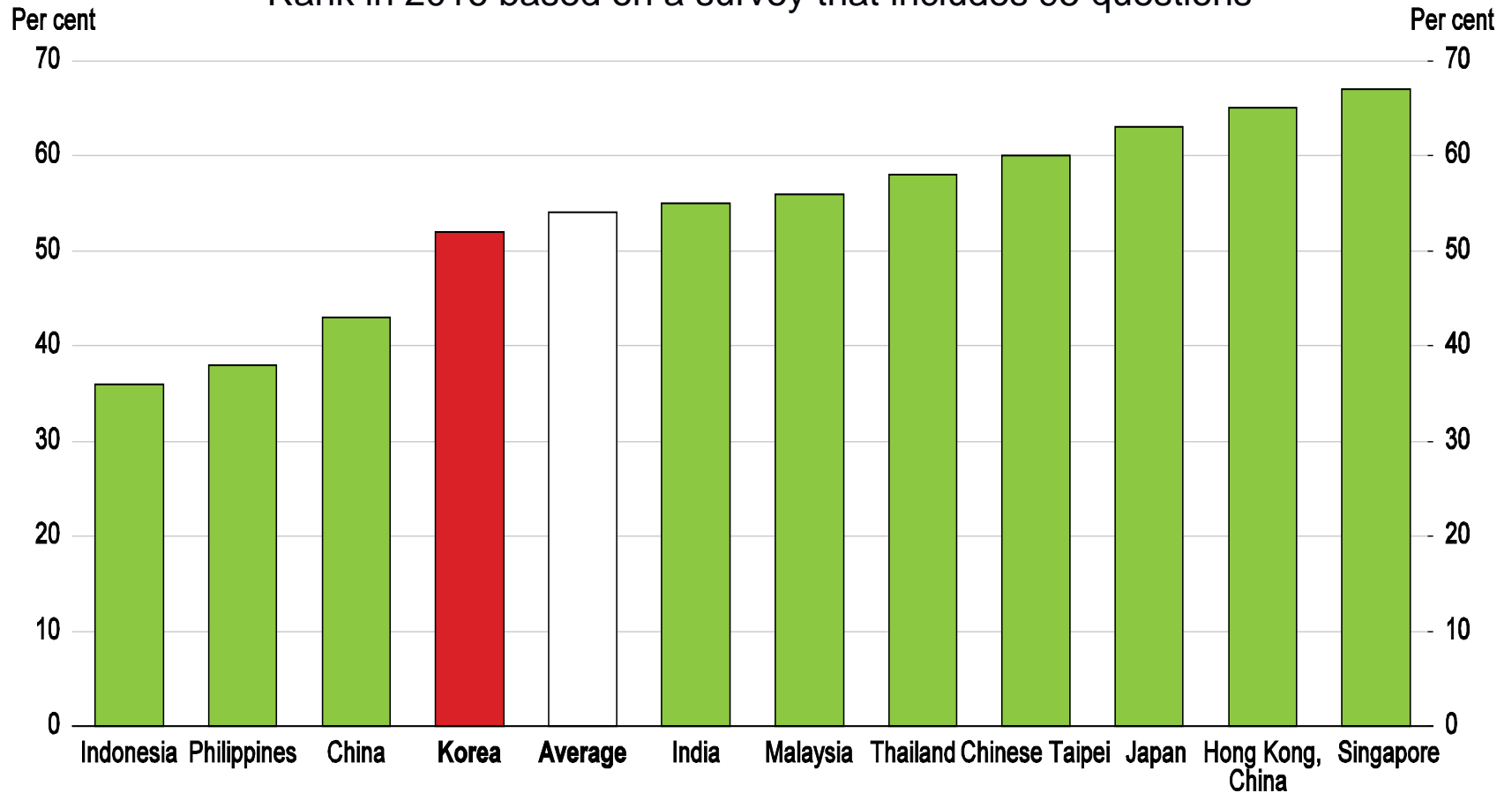
2. The chief of the business group and children.

Source: Lee and Park (2016).



Corporate governance in Korea is viewed as weak

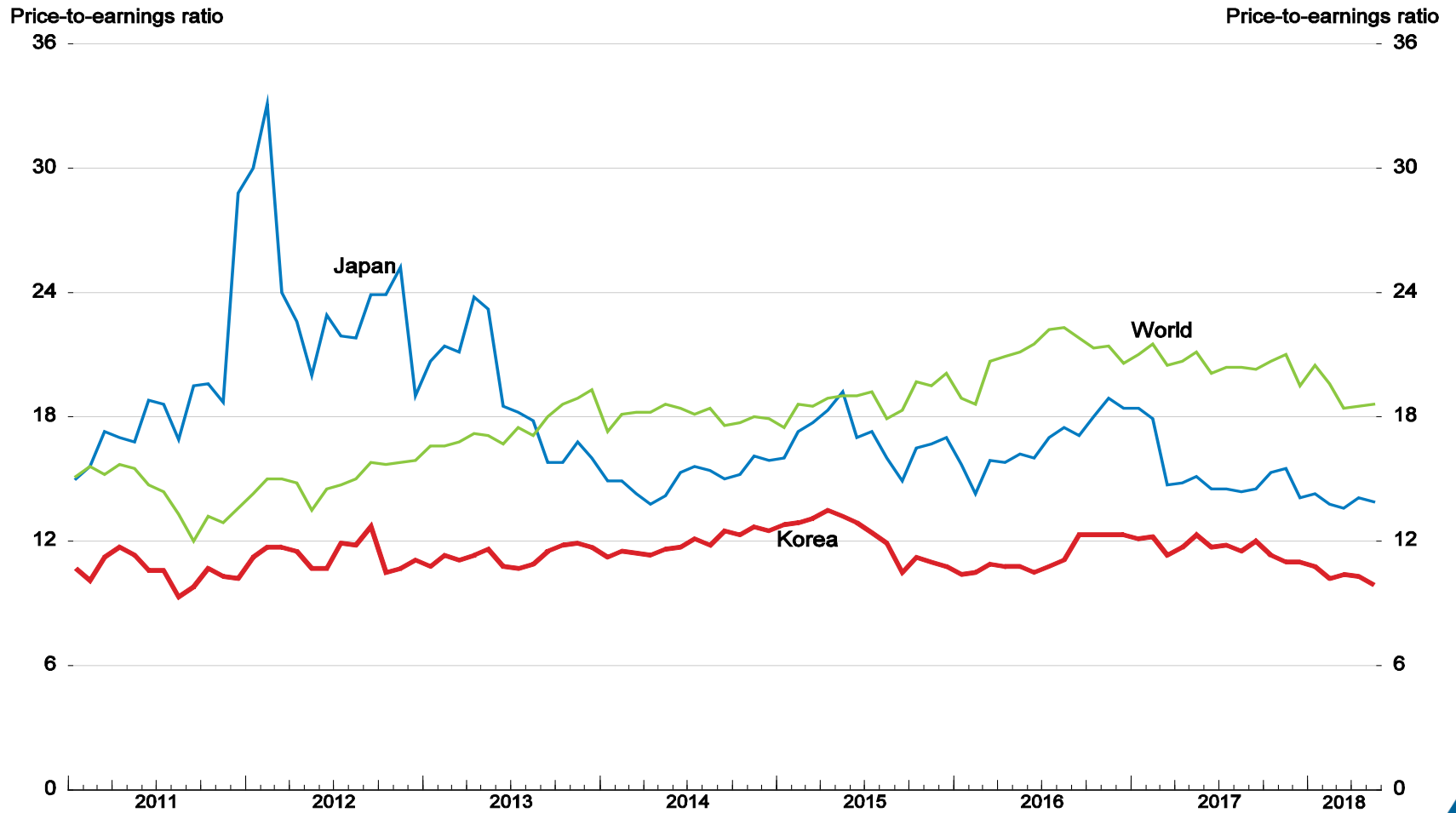
Rank in 2016 based on a survey that includes 95 questions



Source: CLSA and Asian Corporate Governance Association



The “Korea Discount” in price-earnings ratios



Source: Bloomberg.



The regulatory framework imposed on the large business groups is extensive

Key regulations imposed on business groups	Date imposed
Prohibition of cross-shareholding	April 1987
Restriction on the voting rights of affiliated financial and insurance companies ¹	April 1987
Prohibition on the creation of holding companies ²	April 1987
Ceiling on the total amount of equity investment by firms in business groups ³	April 1987
Specialisation policy to encourage greater focus on core activities	1991
Prohibition of debt guarantees	April 1993
"Big Deals" – swaps of the groups' firms in eight key industries	July 1998
Requirement to disclose large-scale intra-group transactions ⁴	April 2000
Requirement to disclose important matters related to non-listed companies	April 2005
Requirement to disclose business group's status	June 2009
Restriction on the pursuit of personal interests	February 2014
Prohibition of new circular shareholding	July 2014

Source: Korea Fair Trade Commission.



Recommendations to improve the performance of the large business groups (1)

1. Strengthen product market competition by relaxing barriers to imports and inward foreign direct investment and liberalising product market regulation.
2. Improve corporate governance:
 - Reinforce the role of outside directors by enhancing the criteria for independence
 - Reduce the role of management in nominating outside directors.
 - Require that outside directors comprise more than half of the boards of all listed firms.
 - Require objective evaluations of outside directors.
3. Follow through on the government's pledge to not grant presidential pardons to business executives convicted of corruption.



Recommendations to improve the performance of the large business groups (2)

4. Implement reforms to encourage the use of class action suits and derivative suits, particularly to address the problem of intra-group trading.
5. Reinforce the monitoring role of institutional investors, particularly the National Pension Fund, in part by active implementation of the new Stewardship Code.
6. Remove obstacles to an active market for corporate control as insider ownership is reduced.

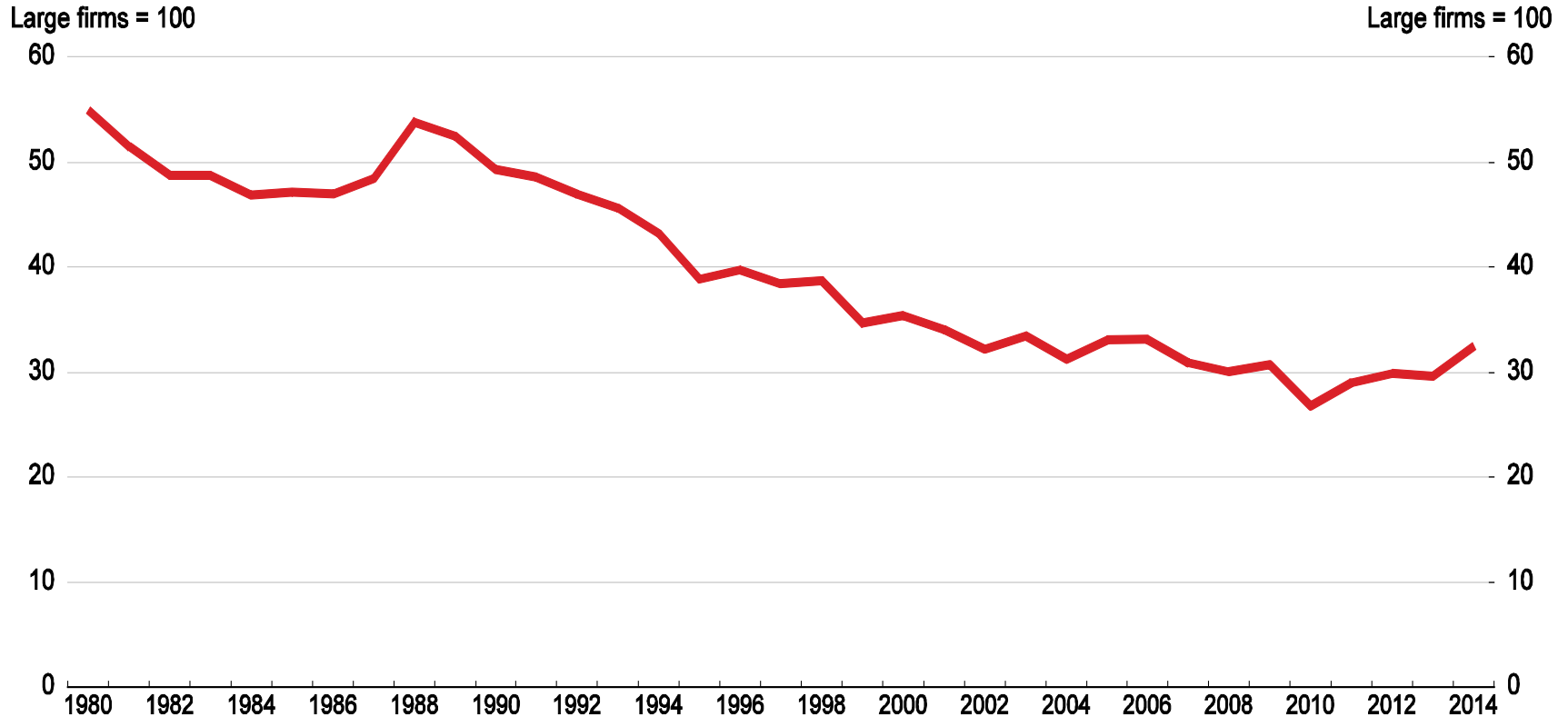


Enhancing dynamism in SMEs and entrepreneurship



The productivity gap between SMEs and large firms is getting bigger

Value added per employee in SMEs relative to large firms

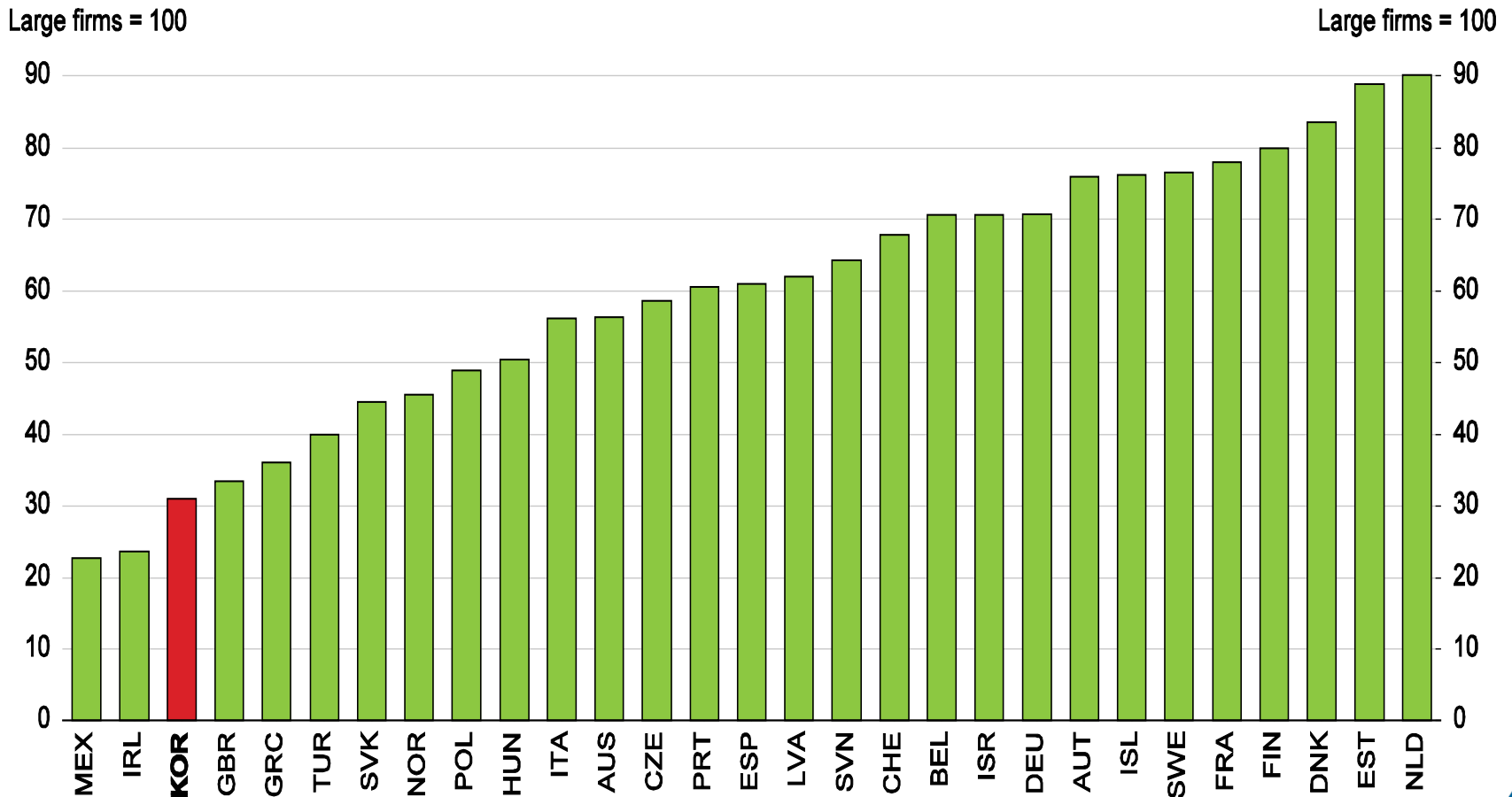


Source: Statistics Korea; OECD.



The productivity gap between SMEs and large firms is relatively wide

The productivity in SMEs as a percentage of large firms in 2014

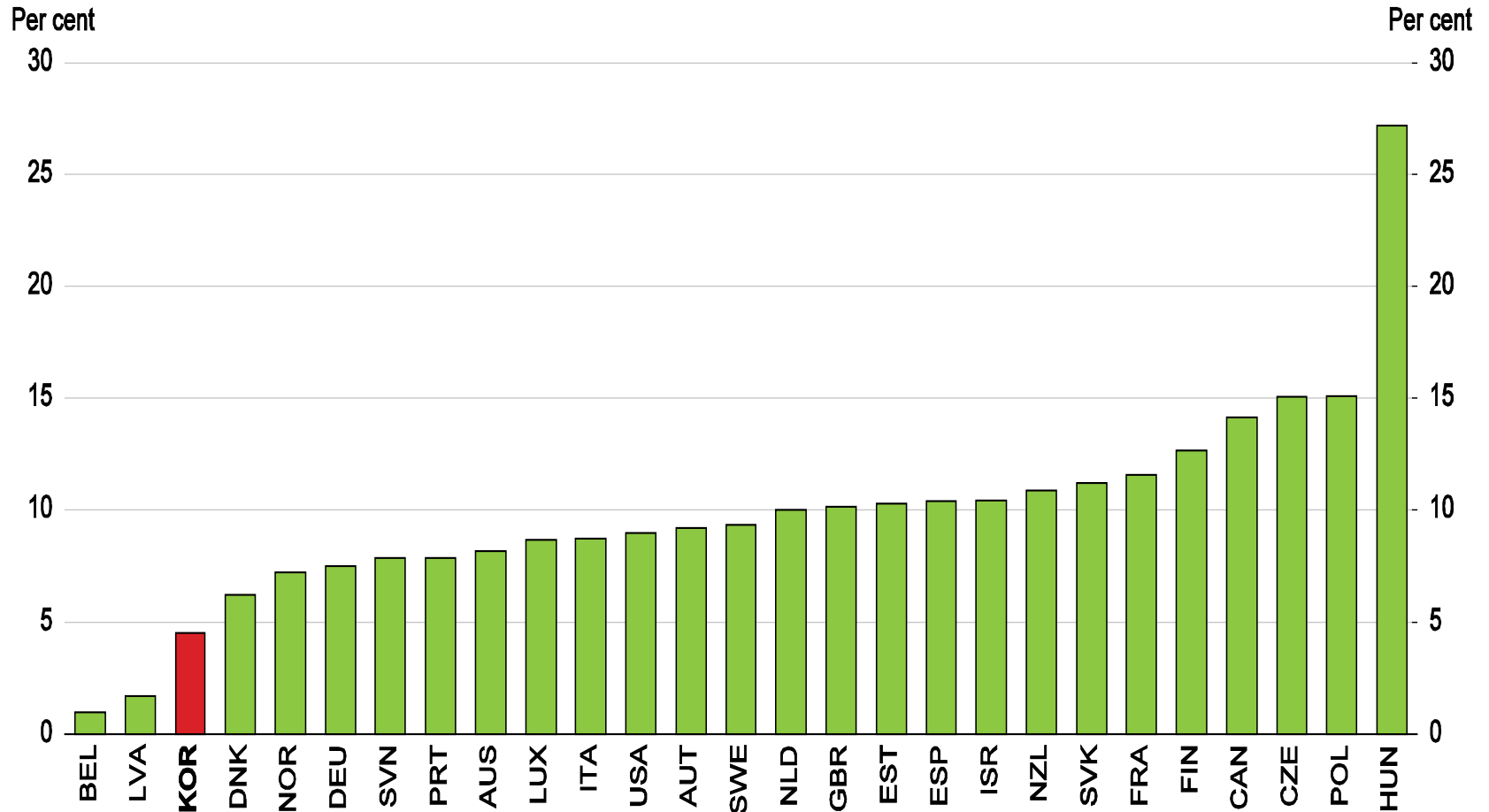


Source: OECD.



The exit rate of companies is low

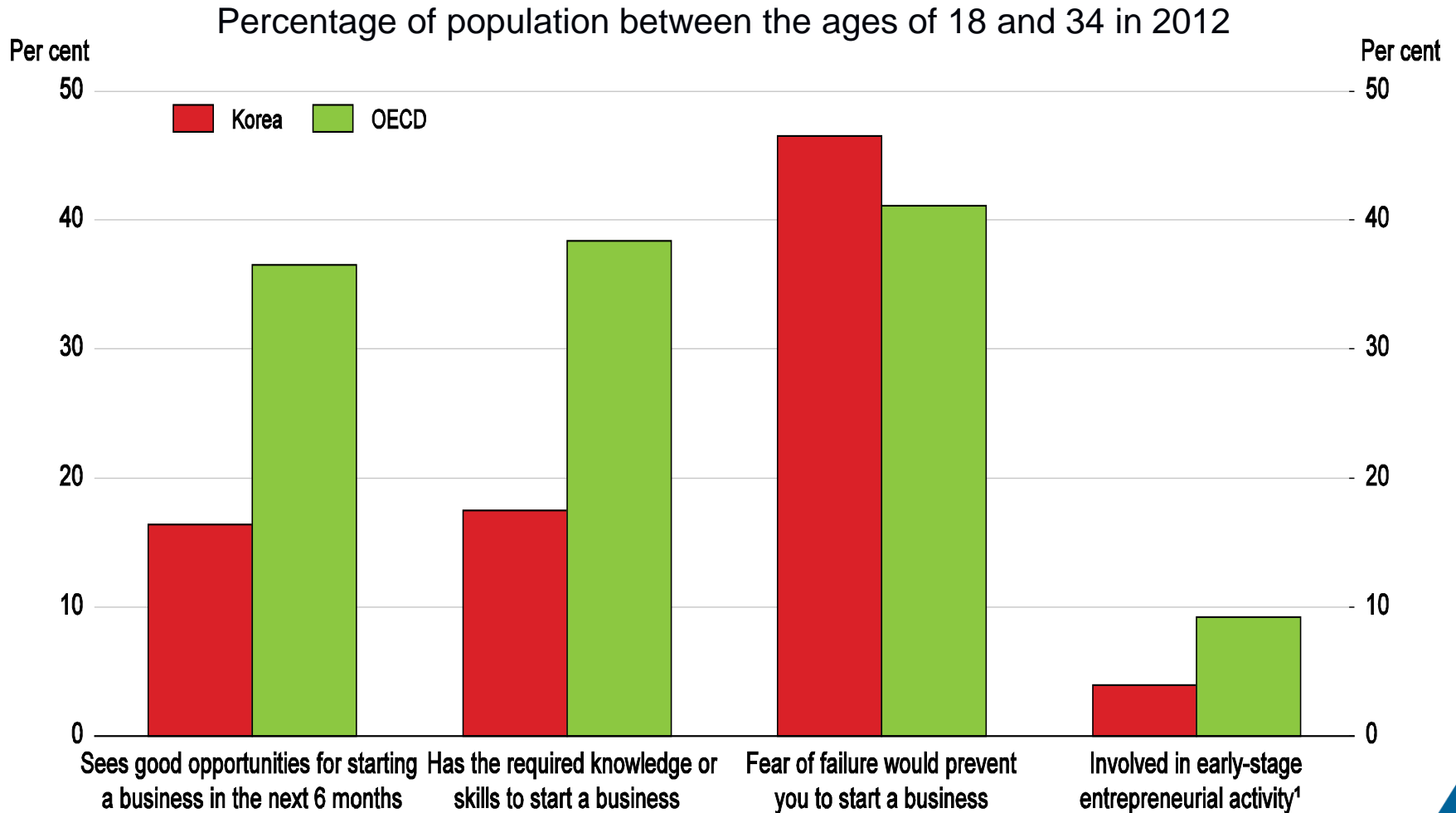
The number of firms that exit as a percentage of firms in 2014 or latest year



Source: OECD, *Entrepreneurship at a Glance 2017*.



The entrepreneurship rate for youth is low



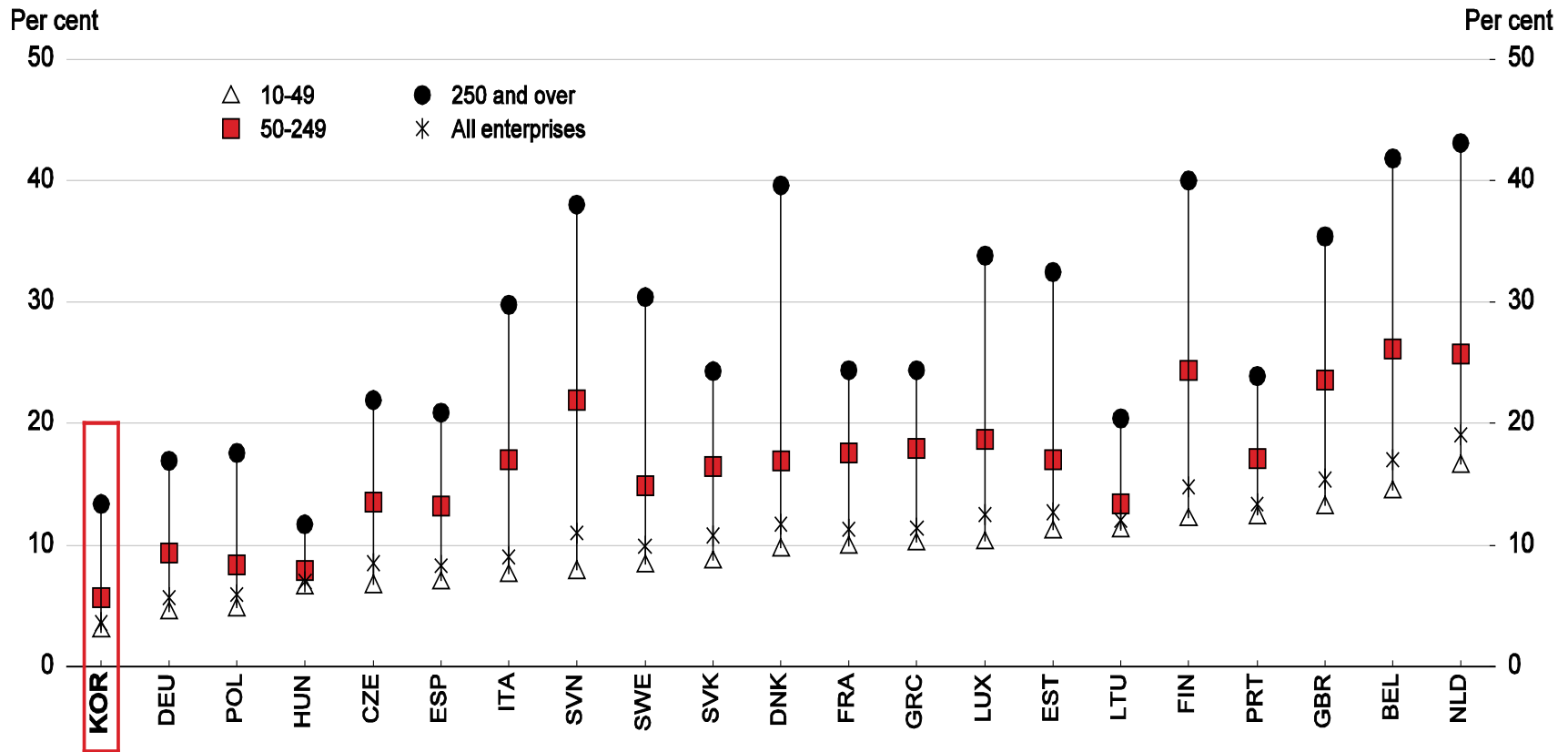
1. Defined as the share involved in a nascent or new business.

Source: Global Entrepreneurship Monitor (2013).



Korean firms lag significantly in their use of key digital technologies

Percentage of firms in each employment size class using big data analysis in 2016

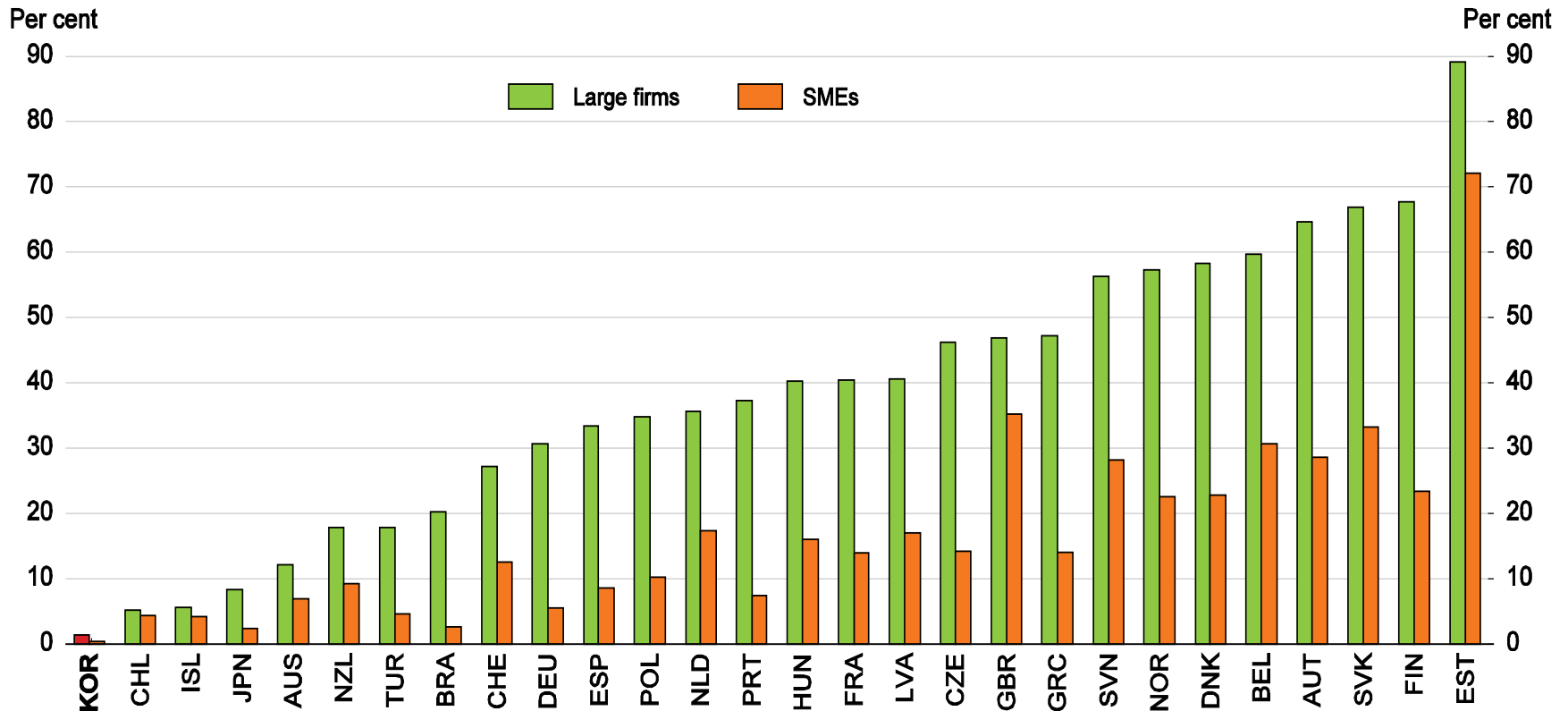


Source: OECD (2017e), *OECD Digital Economy Outlook 2017*.



Korean firms are less connected to global innovation networks

Firms engaged in international collaboration for innovation by firm size, 2012~14¹



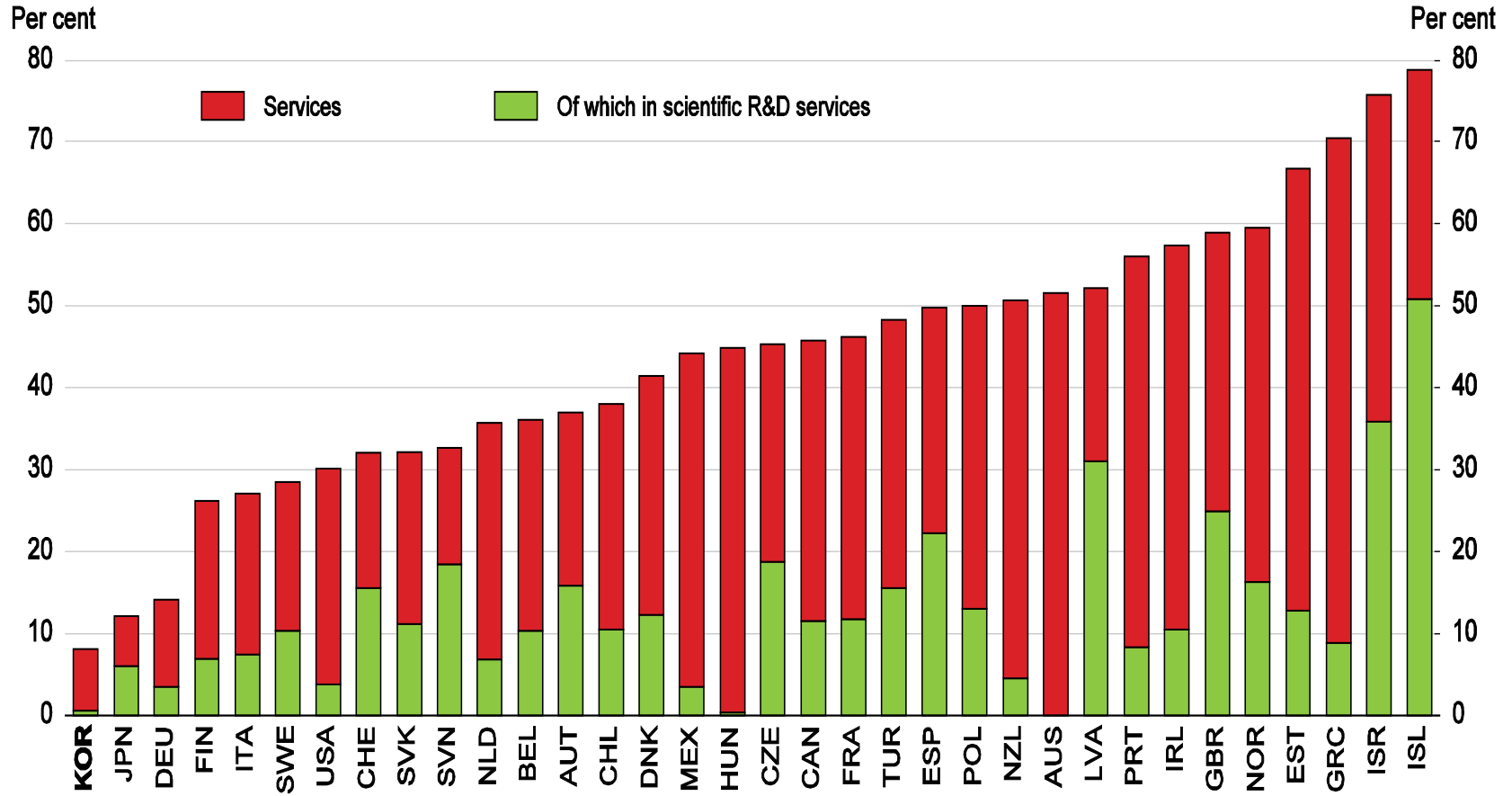
1. As a percentage of firms engaged in product or process-innovation. For Korea, data are for 2013-15.

Source: OECD (2017f), OECD Science, Technology and Industry Scoreboard 2017.



R&D in services is the lowest in the OECD

As a percentage of business enterprise R&D in 2015

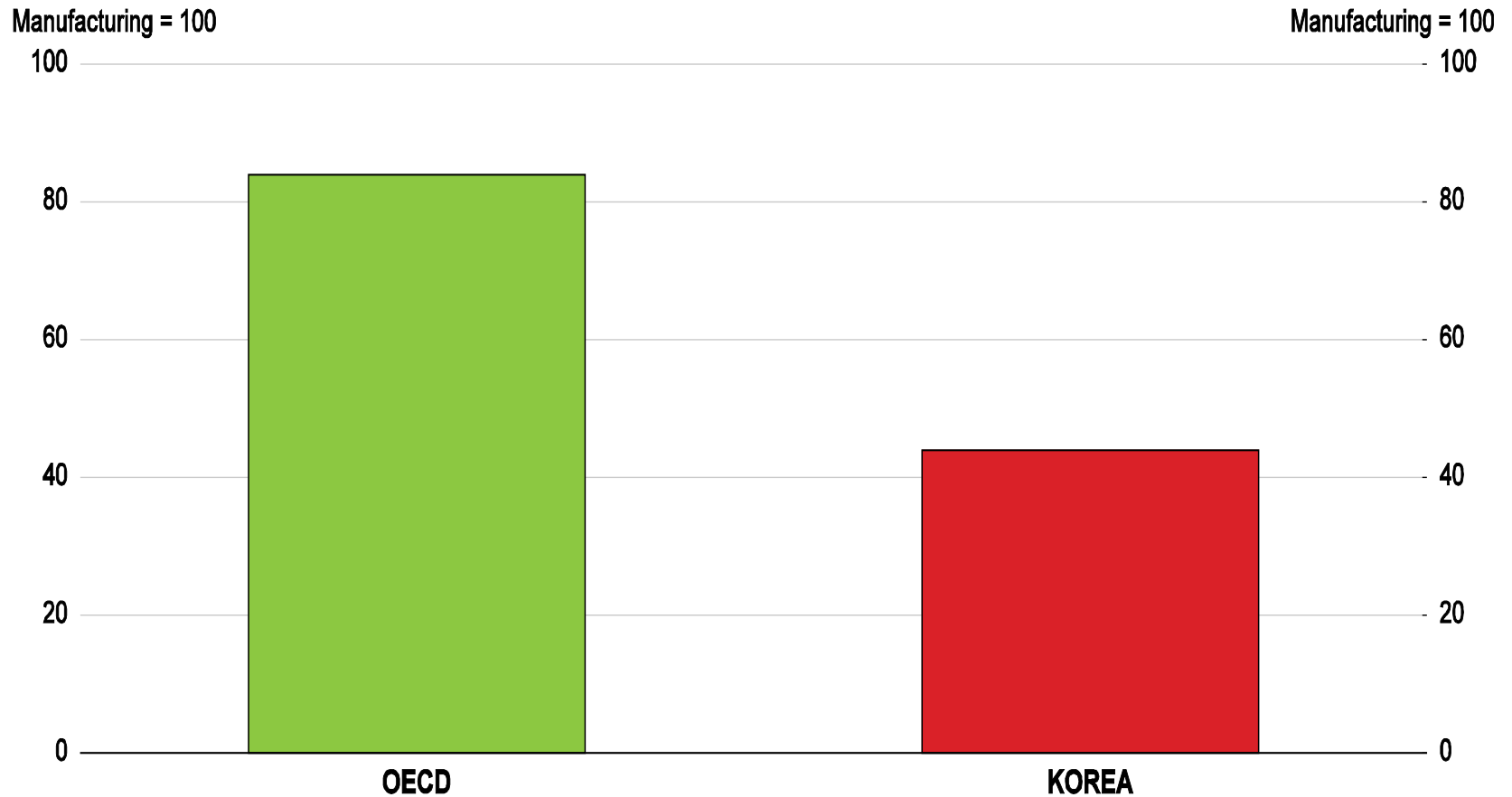


Source: OECD (2017f), OECD Science, Technology and Industry Scoreboard 2017.



Productivity in services is low

Manufacturing = 100; in 2017 based on 2010 prices for value added

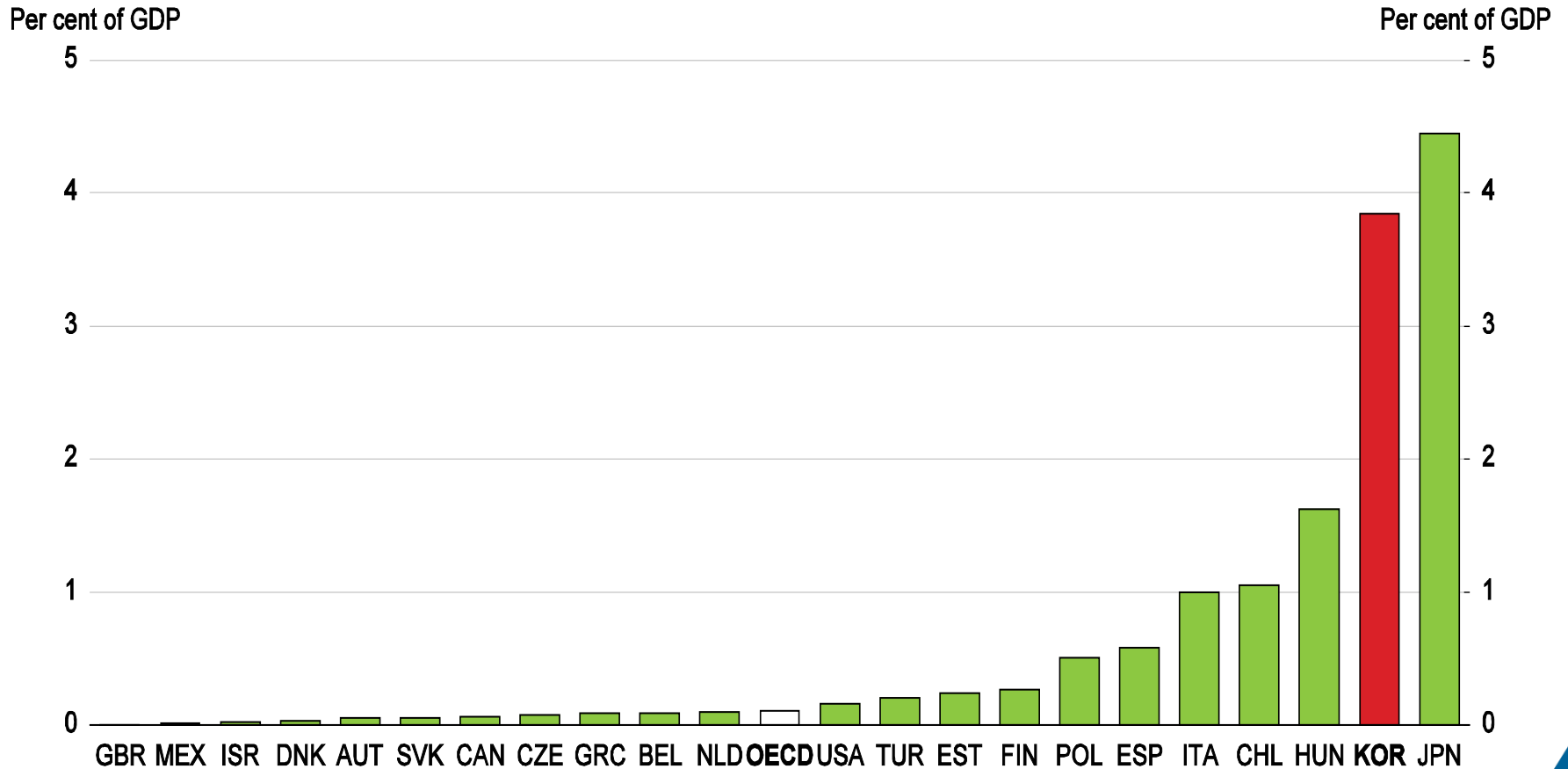


Source: OECD National Accounts Statistics (database); OECD Structural Analysis Statistics (database).



The level of support for SMEs is high

Government credit guarantees for loans to SMEs in 2016 or latest year available



Source: OECD (2018), *Financing SMEs and Entrepreneurs 2018*.



Specific recommendations to improve the performance of SMEs (1)

1. Introduce a comprehensive negative-list regulatory system.
2. Allow firms in new technologies and new industries to test their products and business models without being subject to all existing legal requirements (i.e. a regulatory sandbox).
3. Improve the insolvency framework to reduce the personal costs for failed entrepreneurs, thereby raising Korea's low firm exit rate and encouraging the reallocation of resources to innovative firms.
4. Increase lending based on firms' technology by expanding public institutions that provide technological analysis to private lending institutions.

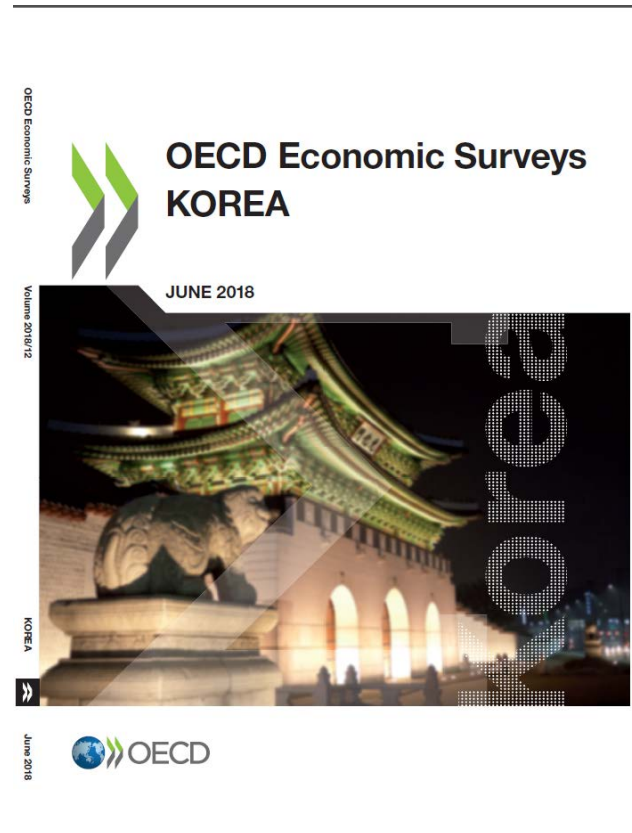


Specific recommendations to improve the performance of SMEs (2)

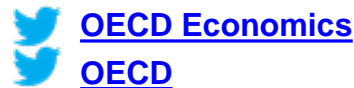
- 5. Ensure that support provided to SMEs improves their productivity by carefully monitoring their performance and introducing a graduation system.**
- 6. Increase the quality and availability of vocational education to reduce labour market mismatch and labour shortages in SMEs.**
- 7. Enhance labour market flexibility to make the use of digitalisation more effective for firms while expanding the social safety net.**



More information...



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