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DYNAMIC ECONOMY ROADMAP

I. Background

Korea achieved unprecedented rapid growth from the ruins of war, transforming from one of the world's poorest countries to a developed nation. The combination of entrepreneurship and an export-driven strategy under the multilateral trade system (e.g., GATT, WTO) has constantly developed new growth engines such as textiles, shipbuilding, and semiconductors, overcoming the limitations of the domestic market. At the same time, both the zeal for education and the public education system have contributed to cultivating a high-quality industrial workforce. In addition, in line with increased income levels thanks to rapid growth, Korea has established a social safety net, including the four major social insurance schemes, which has helped to alleviate income inequality.

However, since the 1990s, Korea's potential growth rate has slowed at a fast pace compared to peer countries and is currently in the low 2% range. If the current situation persists, the growth rate will soon drop to the 1% range and further plummet to the 0% range after 2035. Despite the gradual improvement in income distribution since the 2010s, aided by a strengthened social safety net and rising employment rates, the perception of social mobility has weakened due to the widening income and wealth gaps caused by a lack of quality jobs and intergenerational wealth transfer. As the 1% range low growth may become entrenched and social mobility continues to weaken without large-scale structural reforms, it is crucial to improve the quality of life for Korean people and enhance economic sustainability by realizing a dynamic economy where growth and social mobility produce a virtuous circle.

II. Dynamic Economy Roadmap

A "dynamic economy" refers to an economy where institutions and policies are designed to maximize the country's inherent dynamism. The government aims to realize a dynamic economy under the three main pillars of **strengthening the innovation ecosystem**, **ensuring fair opportunities**, and **improving social mobility**, with the following ten key policy tasks to be carried out.

1) Strengthening the innovation ecosystem: Reigniting the growth engine through innovation

- ✓ Economic growth is a necessary condition for enhancing social mobility and quality of life through job and income creation, and securing resources for welfare.
 - In a situation where the working-age population is rapidly decreasing, innovation is essential to shore up the potential growth rate.
- ✓ While Korea's innovation capabilities are at a high level, strategic responses are crucial

to adapt to changing environments such as the fragmentation and restructuring of global supply chains, the digital transformation, and the rapid growth of service trade.

- Strengthening the innovation ecosystem is required through boosting industrial innovation, increasing the optimization of production factors, and expanding global networks.

[Task 1] Building a High-Productivity Economic System

i. Analysis: Due to factors such as declining working-age population and weakened investment capability, the productivity growth of the economic system continues to stagnate.

※ *If the total factor productivity growth rate is improved to the top 25% level of the OECD, the GDP and per capita GDP growth rates will each increase by 0.8 percentage points by 2060. (KDI, 2024)*

- Stagnant corporate growth, low productivity in SMEs and service industries have lowered productivity across the economy, and digital transformation has not been accelerating.

ii. Response Plan: Establish a corporate growth ladder*, foster new service industries, and leap forward to become a leader in digital transformation by intensively investing in the three major game changers (AI-semiconductor, quantum, and biotech industries).

* *Revise the corporate support system based on company size, conduct a comprehensive review of regulations and devise rational improvement plans (research project in H2, 2024 → public discussion from 2025 onward).*

[Task 2] Boosting the Optimization of Production Factors

i. Analysis: The contribution of the three major production factors (capital, labor, and land) to growth continues to decline due to delays in capital market development, lack of regional investment, inefficient land use regulations, and low fertility rates.

* *Contribution to growth (%p, 1990s→2000s→2010s→2020~2022)*
[Capital] 3.5→2.1→1.7→1.5 [Labor] 1.4→0.6→0.6→0.4

ii. Response Plan: Focus on advancing the quality of production factors and facilitating utilization of idle sectors.

- Capital: Advance capital markets by implementing the Corporate Value-up program* and attracting private venture capital.

* *(Corporate Tax) Provide a 5% tax credit on the increased amount of shareholder returns.*

(Dividend Income Tax) Apply a lower separate tax rate on the increased dividend amount (14% → 9%, maximum reduction 45% → 25%).

(Inheritance Tax) Abolish the premium evaluation for major shareholders,

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and expand the family business inheritance tax deduction target (remove the sales criteria for middle market enterprises) and limit (60 billion → 120 billion won).

- **Land:** Develop reform plans for the national land use system (urban, agricultural, and industrial land) and schemes to attract corporate investments.
- **Labor:** Prepare strategies to attract and utilize foreign talents, which include nurturing talents in advanced industries and providing special visas for outstanding talents in advanced industries (H2, 2024).

[Task 3] Expanding Global Networks

- i. Analysis:** Amid intensifying competition among major economies in export markets and securing raw materials, the global supply chain is seeing fragmentation and restructuring, elevating the risk of the Korean economy with high external dependency.
- Opportunities also arise, such as global firms' move to relocate their headquarters into the Asia-Pacific region.
- ii. Response Plan:** Devise tailored strategies to achieve top ranking in FTAs (Trade Policy Roadmap to be established by H2, 2024), supply chain stability (Supply Chain Stabilization Master Plan to be established by H2, 2024), and attract global Asia-Pacific regional headquarters with a goal to be included in the three major business hubs in the Asia-Pacific region.

2) Ensuring Fair Opportunities: Establishing equal opportunity and a just reward system

- ✓ Equal opportunity and fair rewards are the foundation of sustainable innovation and social mobility.
- ✓ However, monopolies, anti-competitive regulations, and unfair practices still persist, and the cooperative structure and culture between large and small businesses, as well as between labor and management, remain weak.

[Task 4] Equal Opportunities

- i. Analysis:** Barriers to entry, anti-competitive regulations, and unfair practices restrict the pursuit of innovation and infringe on consumer rights.
- ii. Response Plan:** Conduct a survey of entry and competition-restricting regulations in the economic sector (H2, 2024) to develop improvement plans, and reinforce legal and support systems to protect victims of unfair trade practices (starting from H2, 2024).

[Task 5] Fair Rewards

i. Analysis: Significant wage gaps based on years of service and dual structure of the labor market still persist, and insufficient work-life balance is required to be remedied.

ii. Response Plan: Promote the spread of job- and performance-based wage systems and develop a roadmap for continued employment, push forward the enactment of laws supporting vulnerable workers, and aim for a work-life balance that matches advanced countries with a high work-life balance.*

** Review reform plans for the holiday system (e.g., substitute holidays and weekday public holidays).*

[Task 6] Promoting Win-Win Growth Environment

i. Analysis: Social capital for win-win growth is weak, such as mutual growth between large and small companies, corporate social responsibility, and voluntary contributions.

ii. Response Plan: Bolster corporate social responsibility and solidarity*, and promote donations through mechanisms such as public trusts.

** Revise schemes to facilitate win-win growth in specific sectors including subcontracting, franchising, and platforms.*

3) Improving Social Mobility: Raising Opportunities for Intra- and Intergenerational Mobility

- ✓ Active social mobility stimulates the motivation for innovation among economic agents and serves as a foundation for a better wealth distribution and social integration.
- ✓ However, the recent lack of quality jobs, educational disparities, and intergenerational wealth transfer have weakened expectations for social mobility, leading to diminished motivation for innovation and intensified social conflicts.

[Task 7] Increasing Household Income and Assets

i. Analysis: The labor force participation rates of youth and women are below the OECD average*. The asset gap between youth and middle-aged groups is widening while elderly poverty persists at 40% in 2023.

** Labor force participation rate (% , 2023)*

<u>Youth:</u>	(Korea) 49.4	(OECD) 60.5
<u>Women aged 35 to 44:</u>	(Korea) 63.7	(OECD) 75.3

ii. Response Plan: Set a goal to raise the labor force participation rates to the average level of OECD and assist people in their asset building across different life stages.*

** Expand the linkage between Youth Leap Accounts¹ and individual savings accounts (ISAs) from 2025, and promote institutional reforms for the retirement pension system (H2, 2024)*

[Task 8] Reducing Essential Living Expenses

- i. Analysis:** Structural factors such as low agricultural productivity and high tariff rates contribute to rising food prices. Housing supply preferred by low- and middle-income households is insufficient while medical and nursing care costs continue to rise due to aging population.
- ii. Response Plan:** Restore food price stability by scaling up the agriculture industry and adjusting food-related tariff rates, innovate housing services*, and reduce medical expenses by expanding the number of beneficiaries of integrated nursing and care services.

** Supply up to 50,000 additional rental housing units in urban areas by 2035 / Introduce new types of long-term rental services to supply over 100,000 units by 2035.*

[Task 9] Innovating the Education System

- i. Analysis:** The burden of high private education costs amplifies the impact of parents' economic power on their children's education. In addition, the education system from high school and university to lifelong education, is inadequate in producing high-quality human resources.
- ii. Response Plan:** Expand free after-school programs, designate AI and software Meister high schools² (starting from H2, 2024), ease regulations on universities, prepare measures to promote lifelong vocational education (2025).

[Task 10] Bolstering Protection and Support for the Vulnerable

- i. Analysis:** Blind spots in poverty linger, and social services are insufficient in both quantity and quality.
- Small business owners are struggling due to soaring debt and prolonged high-interest rates following COVID-19.
- ii. Response Plan:** Continuously scale up welfare for the vulnerable and raise work incentives, upgrade the quality of social services, and strengthen the competitiveness of small businesses by supporting companies' digitalization and scaling up.

¹ An exclusive saving product for young people aged 19-34 who meet the income requirements, which aims to provide support for mid-to long-term asset building.

² A high school aimed at nurturing professionals in specific technology fields (e.g., biotech, semiconductors, automobile, etc.) by combining work and study.