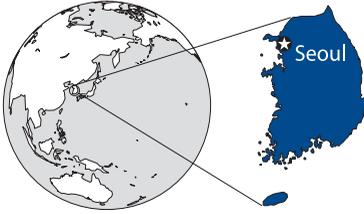


# SOUTH KOREA



World Rank: **31** Regional Rank: **8**

**S**outh Korea's economic freedom score is 71.2, making its economy the 31st freest in the 2014 *Index*. Its score is 0.9 point higher than last year, with improvements in financial freedom and monetary freedom outweighing modest declines in business freedom, labor freedom, and fiscal freedom. South Korea is ranked 8th out of 42 countries in the Asia-Pacific region.

Over the 20-year history of the *Index*, South Korea's economic freedom has been largely stagnant. Notable gains in market openness, which measures trade freedom, investment freedom, and financial freedom, have been undercut by declines in property rights, freedom from corruption, and the management of public spending. South Korea's economy, rated "moderately free" through most of the history of the *Index*, has advanced to "mostly free" in the past two years.

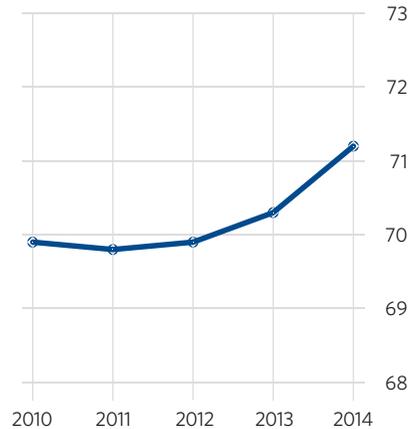
A dynamic private sector, reinforced by a well-educated labor force and high capacity for innovation, has capitalized on openness to global trade and investment. A sound legal framework is in place, although corruption continues to undermine equity and trust in government. South Korea's long-term economic dynamism hinges on the outcome of ongoing debates about the proper scope of government in the free market and welfare policies.

**BACKGROUND:** Conservative President Park Geun-hye assumed office in February 2013 vowing a new approach to North Korea. Her "trustpolitik" strategy balances enhancing South Korean defense capabilities to deter North Korean attacks with a willingness to engage Pyongyang in conditional, reciprocal diplomacy. North Korea has shown no sign of accepting Park's outreach without massive unconditional benefits. Her election, however, turned more on economic issues. Park pledged a mixture of business-friendly economic policies to jump-start the economy and increased government "social welfarism" to redress economic disparities. South Korea, the world's 15th-largest economy, has enjoyed decades of impressive economic growth and is a world leader in electronics, telecommunications, automobile production, and shipbuilding.

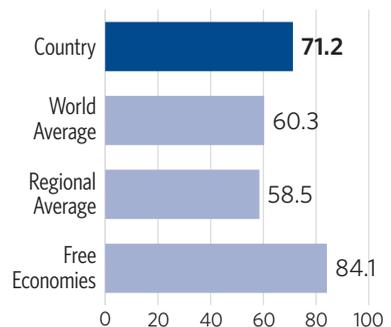
## Economic Freedom Score



## Freedom Trend



## Country Comparisons



## Quick Facts

**Population:** 50.0 million  
**GDP (PPP):** \$1.6 trillion  
 2.0% growth in 2012  
 5-year compound annual growth 2.9%  
 \$32,272 per capita  
**Unemployment:** 3.3%  
**Inflation (CPI):** 2.2%  
**FDI Inflow:** \$9.9 billion  
**Public Debt:** 33.7% of GDP

2012 data unless otherwise noted.  
 Data compiled as of September 2013.

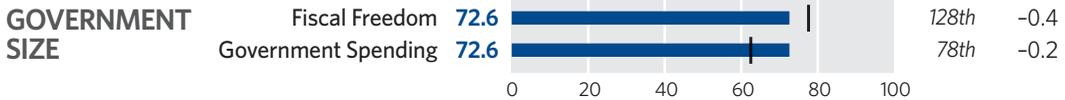
### How Do We Measure Economic Freedom?

See page 471 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

**THE TEN ECONOMIC FREEDOMS**



Despite the political system’s overall health, bribery, influence peddling, and extortion remain present in politics, business, and everyday life. In 2012, the speaker of South Korea’s National Assembly resigned after allegations surfaced that he had obtained his post through bribery. A well-functioning modern legal framework ensures strong protection of private property rights. The rule of law is effective, and the judicial system is efficient.



The top individual income tax rate is 35 percent, and the top corporate tax rate is 22 percent. A 10 percent surtax on individual and corporate rates and a value-added tax (VAT) bring the overall tax burden to 25.9 percent of GDP. Government spending is equivalent to 30.2 percent of total domestic output. The budget balance has been in small surplus, and public debt remains below 35 percent of GDP.



The competitive regulatory framework facilitates business formation and innovation. Launching a company takes five procedures, and no minimum capital is required. Bankruptcy proceedings are relatively easy. The labor market remains dynamic, but there are lingering regulatory rigidities, and powerful trade unions add to the cost of conducting business. Monetary stability has been maintained, and inflationary pressures have eased.



South Korea’s average tariff rate is 8.7 percent. The country has completed several free trade agreements and is pursuing agreements with Australia, China, and Canada. Foreign ownership in some sectors of the economy is capped at different levels. The financial sector is sophisticated and well developed, with its assets valued at about nine times GDP. Financial institutions have gained more autonomy from the state, ensuring greater market competition.

**Long-Term Score Change (since 1995)**

RULE OF LAW		GOVERNMENT SIZE		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-20.0	Fiscal Freedom	+9.3	Business Freedom	+22.8	Trade Freedom	+3.4
Freedom from Corruption	-16.0	Government Spending	-13.0	Labor Freedom	-8.8	Investment Freedom	+20.0
				Monetary Freedom	-0.6	Financial Freedom	+10.0