WORLD RANK: **29**

REGIONAL RANK: **7**

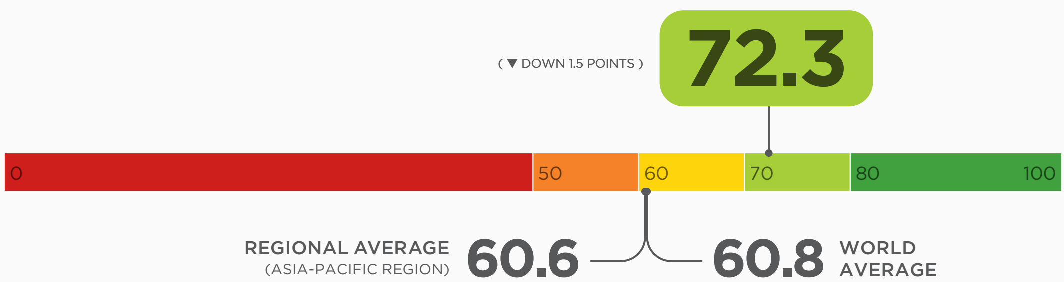
ECONOMIC FREEDOM STATUS: **MOSTLY FREE**

SOUTH KOREA

South Korea's economic freedom score is 72.3, making its economy the 29th freest in the 2019 *Index*. Its overall score has decreased by 1.5 points because of sharply lower scores for **judicial effectiveness** and the **tax burden** and declines in **monetary freedom** and **labor freedom**. South Korea is ranked 7th among 43 countries in the Asia–Pacific region, and its overall score is above the regional and world averages.

Touting "income-led growth" to create a "people-centered economy," the government has increased its intervention in the economy with measures to alleviate household debt pressures, increase corporate taxes and marginal income tax rates, and raise the minimum wage. No new high-profile corruption scandals have emerged since the former president's impeachment, but public trust and confidence in the government have not been strengthened. The rule of law is fairly well institutionalized, supporting such other pillars of economic freedom as regulatory efficiency and market openness.

ECONOMIC FREEDOM SCORE

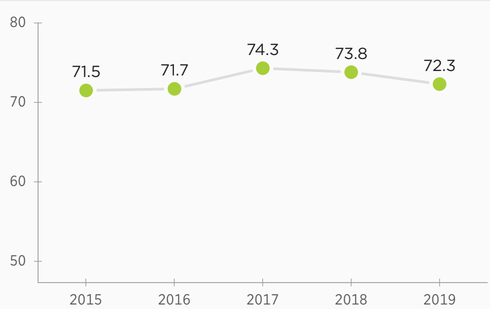


RELATIVE STRENGTHS:
Fiscal Health and Business Freedom

HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995):
+0.3

CONCERNS:
Government Integrity and Labor Freedom

FREEDOM TREND



QUICK FACTS

POPULATION:
51.5 million

GDP (PPP):
$2.0 trillion
3.1% growth in 2017
5-year compound annual growth 3.0%
$39,434 per capita

UNEMPLOYMENT:
3.7%

INFLATION (CPI):
1.9%

FDI INFLOW:
$17.1 billion

PUBLIC DEBT:
39.8% of GDP

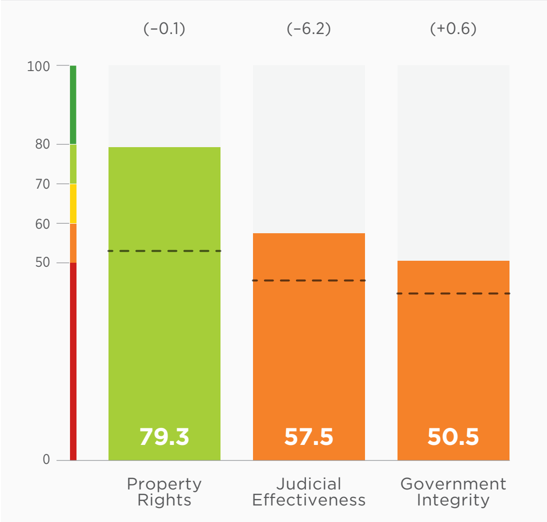
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: In May 2017, liberal candidate Moon Jae-in became president following the impeachment of Park Geun-hye. Moon promised a resumption of economic benefits to North Korea to reduce tensions on the peninsula and quickly embraced a diplomatic outreach by Kim Jong-un in 2018. Although Moon hopes to use economic largesse to induce more moderate behavior by Pyongyang, such efforts are constrained by U.N. and U.S. sanctions. After decades of rapid economic growth and global integration, South Korea has become a high-technology, industrialized, trillion-dollar economy, but President Moon faces daunting challenges that include an aging population, low worker productivity, and the need to implement a structural shift away from overreliance on an export-led growth model.

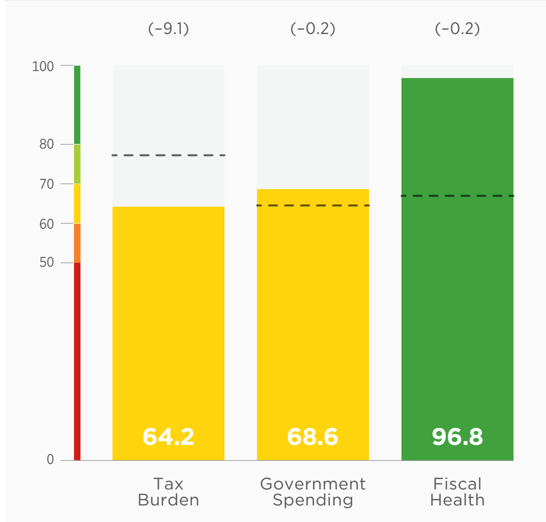
— — WORLD AVERAGE | ONE-YEAR SCORE CHANGE IN PARENTHESES

12 ECONOMIC FREEDOMS | SOUTH KOREA

RULE OF LAW



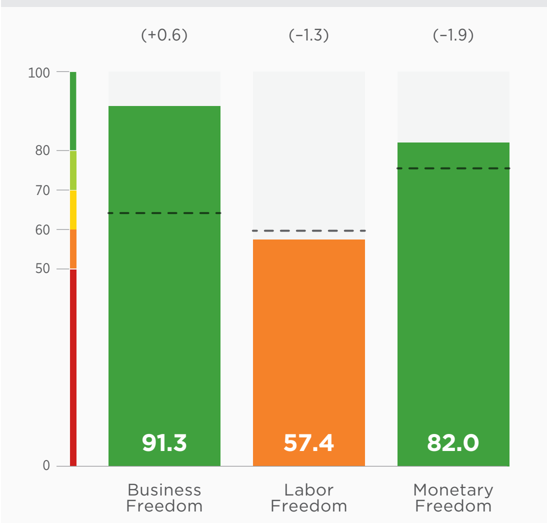
GOVERNMENT SIZE



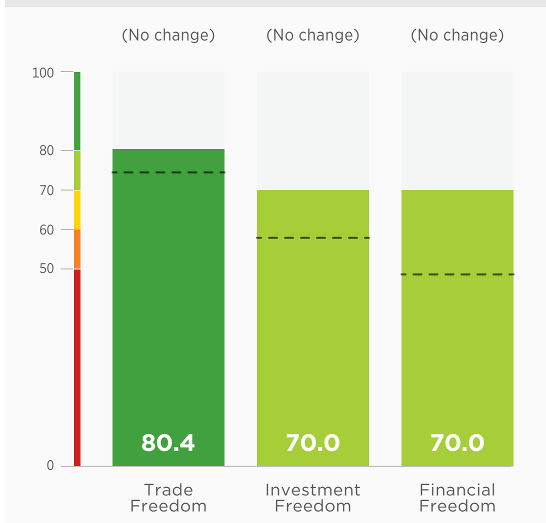
Private property rights are protected, and the judicial system is independent and efficient, but the judiciary is not completely free from political pressure despite the government's anticorruption efforts. Laws and regulations are often framed in vague terms and are subject to differing interpretations by rotating government officials. Nepotism, especially when securing contracts and tax favors, is still frequently encountered.

The top personal income tax rate has been raised to 42 percent, and the top corporate tax rate has been raised to 25 percent. Both rates are subject to a 10 percent surtax. The overall tax burden equals 26.3 percent of total domestic income. Over the past three years, government spending has amounted to 32.4 percent of the country's output (GDP), and budget surpluses have averaged 1.4 percent of GDP. Public debt is equivalent to 39.8 percent of GDP.

REGULATORY EFFICIENCY



OPEN MARKETS



The competitive regulatory framework generally facilitates entrepreneurial activity. Business formation and operating rules are relatively efficient. There are lingering regulatory rigidities, and powerful trade unions add to the cost of doing business. The minimum wage has been significantly increased. Monetary stability has been well maintained, and the government reduced electric vehicles subsidies in 2018, although it also introduced shipbuilding subsidies.

The combined value of exports and imports is equal to 80.8 percent of GDP. The average applied tariff rate is 4.8 percent. As of June 30, 2018, according to the WTO, South Korea had 394 nontariff measures in force. Foreign investment in some sectors remains restricted, and decisive policy reforms to facilitate greater investment flows have been absent. The financial sector is competitive, but business start-ups still struggle to obtain financing.