South Korea’s economic freedom score is 74.0, making its economy the 24th freest in the 2021 Index. Its overall score is unchanged, with an improvement in the government spending score offset by declines in investment freedom and financial freedom. South Korea is ranked 7th among 40 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

South Korea’s economy continues to maintain its ranking among the mostly free countries. A well-educated labor force and high capacity for innovation have helped companies to capitalize on the country’s participation in the global trading system. A sound legal framework is in place, but lingering corruption continues to undermine equity and trust in government. Improvements in judicial effectiveness and government integrity would increase economic freedom and spur growth.

**IMPACT OF COVID-19:** As of December 1, 2020, 526 deaths had been attributed to the pandemic in South Korea, and the economy was forecast to contract by 1.9 percent for the year.

**BACKGROUND:** Since his election in 2017, progressive President Moon Jae-in has sought to reduce tensions and improve relations with North Korea by offering economic benefits that include massive infrastructure projects. All economic activity with Pyongyang, however, is constrained by international sanctions, and North Korea subsequently dismissed Seoul’s diplomatic endeavors, even rejecting humanitarian assistance. After decades of rapid economic growth and global integration, South Korea has become a high-technology, industrialized, $2 trillion economy led by such sectors as electronics, telecommunications, automobile production, chemicals, shipbuilding, and steel. Nevertheless, the country 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 and expansionary fiscal policy.
Property rights and interests are enforced, and the courts manage a reliable system for the registration of mortgages and liens. The judiciary is generally considered to be independent, and efforts are being made to ensure that the judicial process is fairer and more reliable. Despite government anticorruption efforts, bribery, influence peddling, nepotism, and extortion persist in politics, business, and everyday life.

The top personal income tax rate is 42 percent, and the top corporate tax rate is 25 percent. Both rates are subject to a 10 percent surtax. The overall tax burden equals 28.4 percent of total domestic income. Government spending has amounted to 20.9 percent of total output (GDP) over the past three years, and budget surpluses have averaged 1.9 percent of GDP. Public debt is equivalent to 40.7 percent of GDP.

Business freedom is well established in South Korea. However, the number of procedures and days it takes to start a business has risen. The Moon administration has initialized a mandatory 52-hour workweek, adding rigidity to an already inflexible labor market. In its 2020 budget, the government maintained a variety of green subsidies including subsidies for electric vehicles.

South Korea has 18 preferential trade agreements in force. The trade-weighted average tariff rate is 8.0 percent, and 435 nontariff measures are in effect. Foreign investment in some sectors remains restricted, and policy reforms are needed to facilitate greater investment inflows. The financial sector is competitive, but business start-ups still struggle to obtain financing. Interventionist policies have increased, undermining the potential for growth.