SOUTH KOREA

South Korea’s economic freedom score is 74.6, making its economy the 19th freest in the 2022 Index. South Korea is ranked 5th among 39 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

Over the past five years, the South Korean economy has followed a track similar to those of many other countries: slowing growth from 2017 through 2019, negative growth in 2020, and recovery in 2021. During the same period, levels of economic freedom have remained largely unchanged. With significant score increases for property rights and judicial effectiveness offset by losses in business freedom and a higher tax rate, South Korea has recorded a negligible 0.3-point overall gain of economic freedom since 2017 and remains in the middle ranks of the “Mostly Free” countries. Fiscal health is robust, but investment freedom and financial freedom are relatively weak.

IMPACT OF COVID-19: As of December 1, 2021, 3,705 deaths had been attributed to the pandemic in South Korea, and the government’s response to the crisis ranked 105th among the countries included in this Index in terms of its stringency. The economy contracted by 1.0 percent in 2020.

ECONOMIC FREEDOM SCORE

HISTORICAL INDEX SCORE CHANGE (SINCE 1995): +2.6

BACKGROUND: Since his election in 2017, progressive President Moon Jae-in has sought to improve relations with North Korea by offering economic benefits that include massive infrastructure projects. Pyongyang, however, has 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. Daunting challenges 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.

QUICK FACTS

POPULATION: 51.8 million
GDP (PPP): $2.3 trillion
-1.0% growth in 2020
5-year compound annual growth 2.0%
$44,621 per capita

UNEMPLOYMENT: 4.1%
INFLATION (CPI): 0.5%
FDI INFLOW: $9.2 billion
PUBLIC DEBT: 48.7% of GDP

2020 data unless otherwise noted. Data compiled as of September 2021.
Under provisions in civil law, property rights and interests are protected and enforced, and there is a reliable system for the registration of mortgages and liens. Intellectual property rights are consistent with international standards. The judiciary is independent and transparent. Despite the government’s anticorruption efforts, bribery, influence peddling, nepotism, and extortion persist in politics, business, and everyday life.

The top personal income tax rate has been raised to 45 percent, and the top corporate tax rate is 25 percent. Both rates are subject to a 10 percent surtax. The overall tax burden equals 27.4 percent of total domestic income. Government spending has amounted to 22.7 percent of total output (GDP) over the past three years, and budget surpluses have averaged 0.0 percent of GDP. Public debt is equivalent to 48.7 percent of GDP.

Businesses must contend with a complicated, opaque, and country-specific regulatory framework. Two-tiered labor regulations that govern regular and non-regular workers complicate the restrictive labor market. Government subsidies to purchasers of electric vehicles increased by more than 20 percent in 2021, and subsidies for fuel cell electric vehicles increased by almost 50 percent.

South Korea has 20 preferential trade agreements in force. The trade-weighted average tariff rate is 8.5 percent, and 448 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.