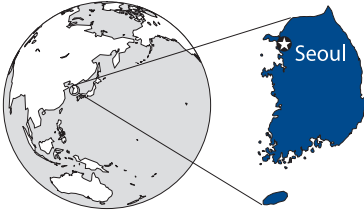


# SOUTH KOREA



World Rank: **31**

Regional Rank: **8**

**S**outh Korea's economic freedom score is 69.9, making its economy the 31st freest in the 2012 *Index*. Its score remains essentially unchanged, with gains in business freedom and labor freedom offset by a decline in the government spending score. South Korea is ranked 8th out of 41 countries in the Asia-Pacific region.

South Korea's dynamic economy has emerged from the ongoing global economic slowdown on a solid growth path. In an effort to confirm its status as one of the world's premier trading nations, the country has proactively entered into free trade pacts with several of the world's leading economies. A vibrant private sector, bolstered by a well-educated labor force and high capacity for innovation, has capitalized on the country's openness to global commerce and an improving regulatory framework. The financial sector has also become progressively more open and competitive.

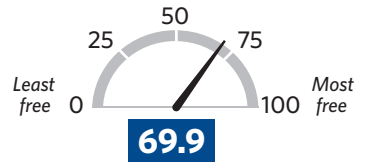
A sound legal framework is firmly in place to uphold the rule of law, but corruption continues to damage government integrity and undermine the foundations of economic freedom. The extent of South Korea's long-term economic dynamism will be determined at least in part by the outcome of ongoing debates about the proper scope of government, the existing social contract, and welfare policies.

**BACKGROUND:** South Korea is one of Asia's liveliest democracies and the world's 15th largest economy. It has experienced decades of impressive economic growth since the early 1960s and has sophisticated electronics, telecommunications, automobile, and shipbuilding industries. Having implemented economic reforms, South Korea was not hurt as severely by the 1997–1998 Asian financial crisis as many of its neighbors. President Lee Myung-bak took office in 2008 with a large electoral majority, vowing further economic liberalization through freer trade, deregulation, and privatization of major industries. While the Korea–U.S. trade agreement remained stalled for four years, the European Union completed an FTA with Korea that was finalized in 2011.

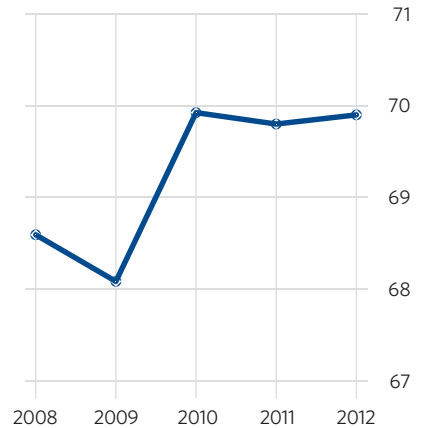
## How Do We Measure Economic Freedom?

See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

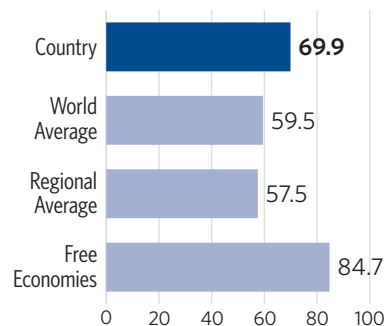
## Economic Freedom Score



## Freedom Trend



## Country Comparisons

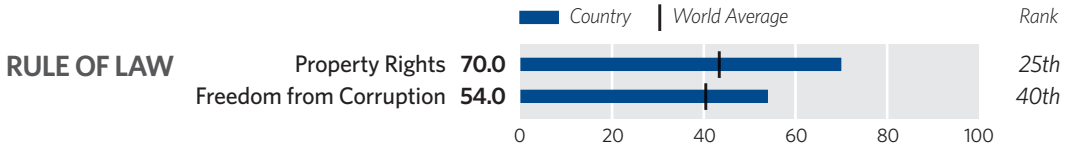


## Quick Facts

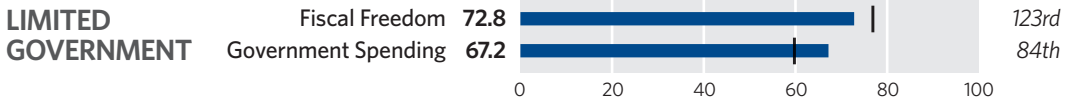
**Population:** 48.9 million  
**GDP (PPP):** \$1.4 trillion  
 6.1% growth in 2010  
 5-year compound annual growth 3.8%  
 \$29,836 per capita  
**Unemployment:** 3.7%  
**Inflation (CPI):** 3.0%  
**FDI Inflow:** \$6.8 billion  
**Public Debt:** 33.4% of GDP

2010 data unless otherwise noted.  
 Data compiled as of September 2011.

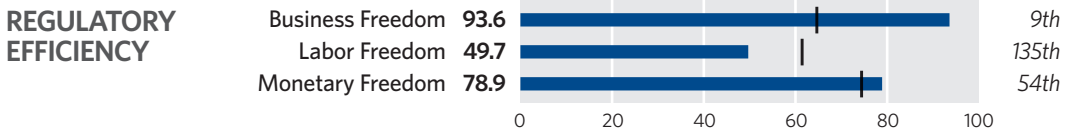
**THE TEN ECONOMIC FREEDOMS**



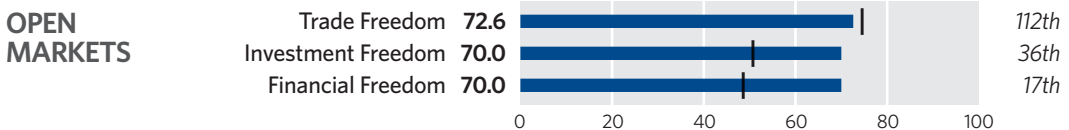
A well-functioning modern legal framework ensures strong protection of private property rights. The rule of law is effective, and the judicial system is efficient. Protection of intellectual property rights needs to be improved, as piracy of copyrighted material is significant. The importance the government places on IPR protection, however, has increased considerably. Corruption remains a substantial cause for concern.



The top income tax rate is 35 percent, and the top corporate tax rate is 22 percent. A 10 percent surtax is applied to the income tax and corporate tax rates. Other taxes include a value-added tax (VAT), and the overall tax burden amounts to 25.6 percent of GDP. Government spending has risen to a level equivalent to 33.1 percent of total domestic output. The budget balance has been in small surplus, with public debt reaching 33 percent of GDP.



The competitive regulatory framework facilitates entrepreneurial activity and innovation. Business formation and operating rules have become more efficient. Bankruptcy proceedings are relatively easy. The labor market is dynamic, but there are lingering regulatory rigidities, and powerful trade unions add to the cost of conducting business. Monetary stability has been well maintained, although inflationary pressures linger.



The trade weighted average tariff rate is 8.7 percent, with non-tariff barriers inhibiting more dynamic gains from trade. Increasingly open to foreign investors, the investment regime has become more transparent. The financial sector has undergone notable transformation and improved transparency and efficiency. Despite progress in recapitalizing banks and non-bank financial institutions, their soundness has been under renewed strain in 2011.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.6	Business Freedom	+2.0	Trade Freedom	+1.8
Freedom from Corruption	-1.0	Government Spending	-5.8	Labor Freedom	+3.2	Investment Freedom	0
				Monetary Freedom	+0.2	Financial Freedom	0