Productivity and Product Markets in Korea Evidence from Advanced Economies

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This paper constructs an industry-level dataset of productivity across advanced economies, showing that Korea’s labor productivity and total factor productivity levels are below the median of other advanced economies. We identify sizable industry-level productivity gaps in Korea with respect to the global frontier, especially in market-oriented services. Using the OECD’s Product Market Regulation (PMR) Indicators, we show that tighter PMRs slow industry-level productivity growth, and these effects occur across all areas of PMRs—state control, barriers to entrepreneurship, and barriers to trade and investment—and through several detailed indicators. These effects are transmitted through higher product prices and unit labor costs of industries exposed to regulation. The results confirm the potential for Korea to boost overall productivity and growth through PMR reforms, especially by lowering barriers in service and network sectors, reducing restrictions applying to trade and investment, and evaluating the scope of government involvement in the economy.

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