

Executive summary

Echoing broader trends in Korea, Seoul's rapid economic development and urbanisation in recent decades has generated significant prosperity, but economic growth has not been equally distributed across territories and populations. Income inequalities in Korea are the seventh-highest in the OECD, and regional disparities are also relatively high and have been on the rise over the past decade.

Quality public services are the foundation for inclusive growth in Seoul, yet some groups face challenges

Seoul offers its 10 million inhabitants – 25 million within the broader metropolitan area – high quality public services, including education, health and public transport. These services help provide a strong foundation for inclusive growth to all residents, regardless of their income levels or geography within the city. However, a number of pressing challenges remain, particularly for certain social groups. The city faces a rapid and massive demographic transition, with a fast-ageing population, nearly half of whom are living below the poverty line. In addition, a rigid labour market – a key feature of the Korean economy more broadly – divides workers into two groups, regular and non-regular workers; non-regular workers have fixed-term contracts and weaker social protections, and earn around 64% of the hourly wage of regular workers. Women, youth, seniors and migrants face additional hurdles in the labour market: women are paid 63% of men's average wage – the highest gender pay gap in the OECD, while labour market inactivity rates among youth are among the highest in the OECD. These challenges point to critical barriers for specific groups to fully participate in the city's economy.

Seoul is pioneering efforts to put citizen welfare and inclusion at the core of climate strategies

A changing climate risks exacerbating existing inequalities and disadvantages in Seoul. Climate change damages, which are expected to escalate in Seoul, are likely to disproportionately affect already economically vulnerable groups, who are either more vulnerable to health impacts or lack insurance and social safety nets to help them recover from damages. Vulnerable groups in Seoul include non-regular workers, low-income households as well as those with lower levels of education, women and the elderly. For instance, between 2000 and 2010, mortality rates increased by 8.4% during heat waves, with higher risks recorded for women versus men, older versus younger residents, and those with no education versus some education.

Against a backdrop of strong national policy framework for climate change action and green growth, Seoul Metropolitan Government (SMG) has been at the forefront of city efforts to put citizen welfare and participation at the core of its ambitious climate change

strategies. In particular, SMG has been effective in linking energy-efficiency measures with those to address energy poverty: this is especially relevant in Seoul, where one in ten households faces energy poverty. Through the *Promise of Seoul* initiative, SMG introduced a comprehensive plan to address climate change mitigation, adaptation and citizen welfare in a mutually reinforcing way, while engaging citizens at all stages of the policy making process. Indeed, citizen participation is an essential part of the implementation of a number of SMG initiatives, such as the *Energy Welfare Public-Private Partnership Programme* and *Energy Self-sufficient Communities*, which are designed to deliver emissions reduction while raising awareness and boosting solidarity.

Nonetheless, several dimensions of the city's already impressive efforts could be strengthened. First, SMG could consider collecting data and developing indicators to understand the interactions of climate and inclusive growth outcomes, within and beyond the city's administrative boundaries. Second, SMG could mainstream climate and inclusive growth objectives in transport, land-use and urban planning policy making; much of the city's efforts thus far have centred on the energy sector, while other important policy areas present opportunities for action. Third, SMG could develop a long-term low-emission development strategy at the city level; such strategies can be an important policy tool to place short-term actions in the context of the long-term structural changes required to transition to a low-carbon, resilient economy by 2050. Finally, SMG could take measures to overcome administrative fragmentation within the city administration to break down policy siloes. At higher levels of government, more needs to be done to align policies with inclusive growth and environmental objectives; the labour market and energy sector in particular require considerable reforms at national level.

SMEs and entrepreneurship are a crucial vector for inclusive growth in Seoul

Small and medium-sized enterprises (SMEs) help drive inclusive growth in Seoul. Micro and small firms represent about 98% of the business population and account for nearly 60% of employment in Seoul, providing income and jobs for a large share of the population. However, they face a number of challenges. The gap between SMEs and large firm productivity in Korea is the largest in the OECD; this can be partially explained by very low levels of innovation and regulatory barriers to entrepreneurship. On top of that, many groups with lower labour market activity rates (women, youth, migrants) are strongly affected by the country's labour market dualism, both in terms of worker status (regular versus non-regular workers) and by firm size (SMEs versus large conglomerates). Many non-regular workers, for instance, work in SMEs. The challenges faced by SMEs and entrepreneurs are universal across Korea, signalling a need for broader national reforms.

In 2016, SMG introduced the *Economic Democratisation Agenda* (EDA), which aims to reduce economic inequality and provide equal opportunity for all citizens to engage in sustainable economic activities. The EDA includes 23 measures divided into 3 categories: partnership, fairness and labour, including measures to support SMEs and entrepreneurs, as well as labour market measures, such as social insurance support to small business owners and the conversion of non-regular working contracts into regular contracts for some public-sector workers. The EDA is effective in identifying many important challenges facing SMEs and disadvantaged groups – notably women, youth and seniors, but will not alone suffice in resolving these challenges. Indeed, part of the stated aim of

the EDA is to bring attention to challenges facing SMEs, entrepreneurs and other vulnerable workers in order to spur action at national level.

Several aspects of the EDA could be strengthened. First, SMG could complement the EDA with measures that go beyond protecting SMEs from structural faults of the company, to those that strengthen their productivity and innovation capacity; such measures would be essential to truly level the playing field for firms of all sizes. This includes building a strong ecosystem for inclusive entrepreneurship that ensures access to finance, knowledge and technology. Second, SMG could strengthen monitoring and evaluation to measure the efficiency and impact of different policy measures of the EDA. Finally, SMG could do more to address labour market duality and strengthen entrepreneurship. This includes investments in skills and better access to networks, which is especially important for economically disadvantaged groups that may not have access to the same business connections.



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