

Korea's Leading Think Tank

Korea's Service Sector and Inclusive Growth

Dr. MoonJoong TCHA

Korea Development Institute

C O N T E N T S



I . Status of the Service Industry

II . Service Industry – Hope and Dilemma

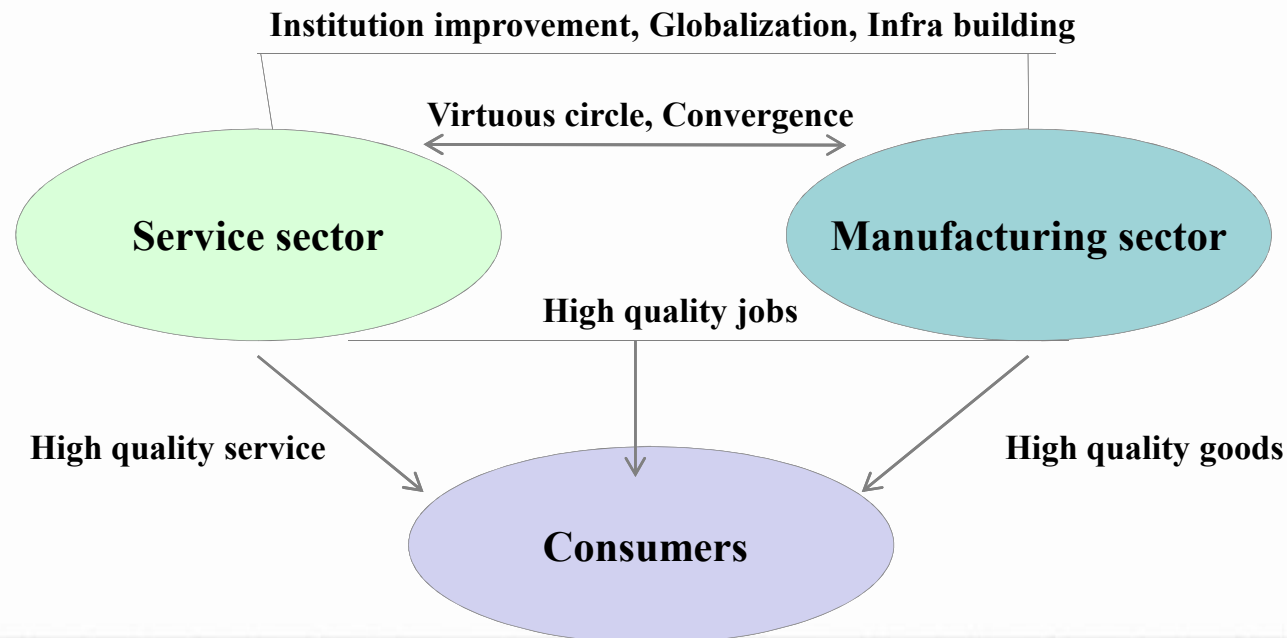
III . Policy Agendas for Inclusive Growth

Part-01 | Status of the Service Industry

KDI

Why Service Sector?

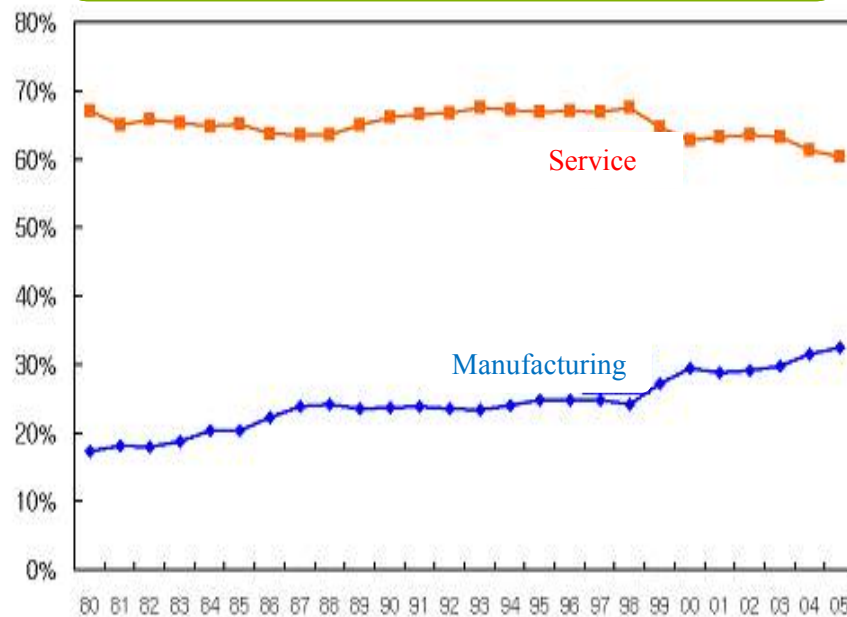
- Service sector creates **more jobs**, particularly, **more jobs for female workers**.
- Service sector drags down **the economy's growth rate** (low productivity).
- Service sector has great potential for **IT application** and **convergence**.
- Service is becoming more **'tradables'**.
- Service sector is more **eco-friendly**.
- Service sector has **low volatility**.



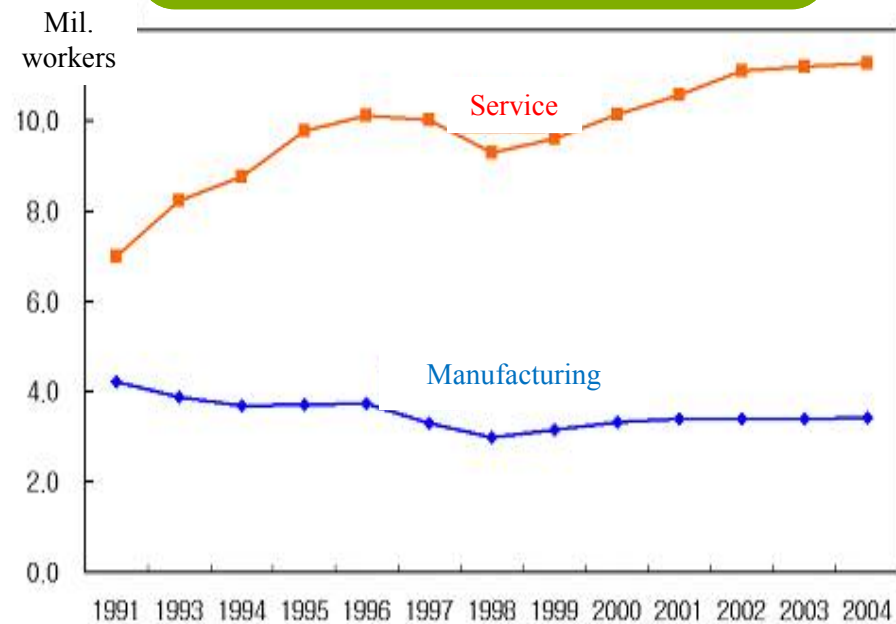
High Employment, Low Productivity (1)

- The growth rate of the value-added and value added ratio of **the service industry** continued to fall after the Asian crisis.
- Successful restructuring transformed the manufacturing industry into technology-intensive industry.

Ratio of Value-added - Comparison



Employment- Comparison

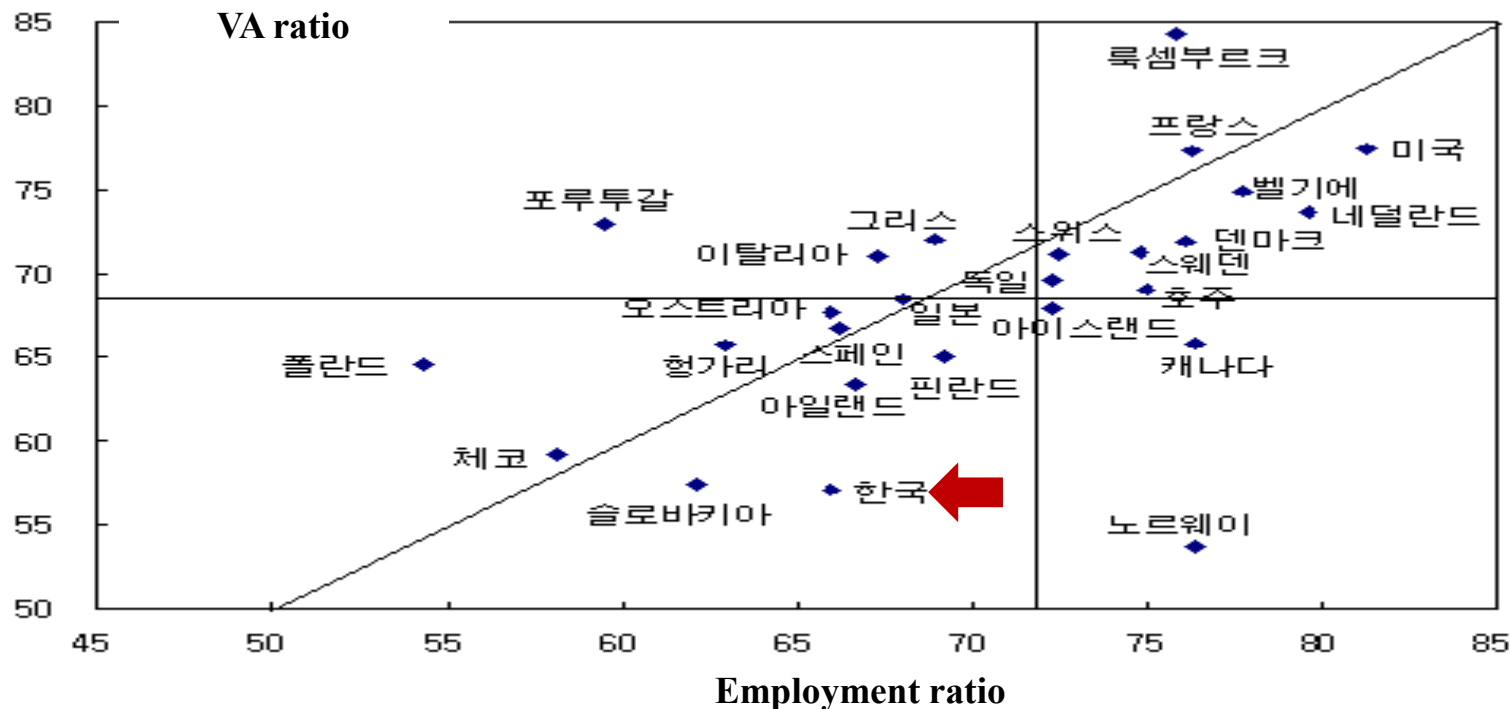


High Employment, Low Productivity (2)

Overall, service industry in Korea shows relatively lower levels of employment and value added ratio.

- Relative productivity of service industry in Korea has been decreasing since 2004.

Value added and Employment ratio of Service (OECD, '06)

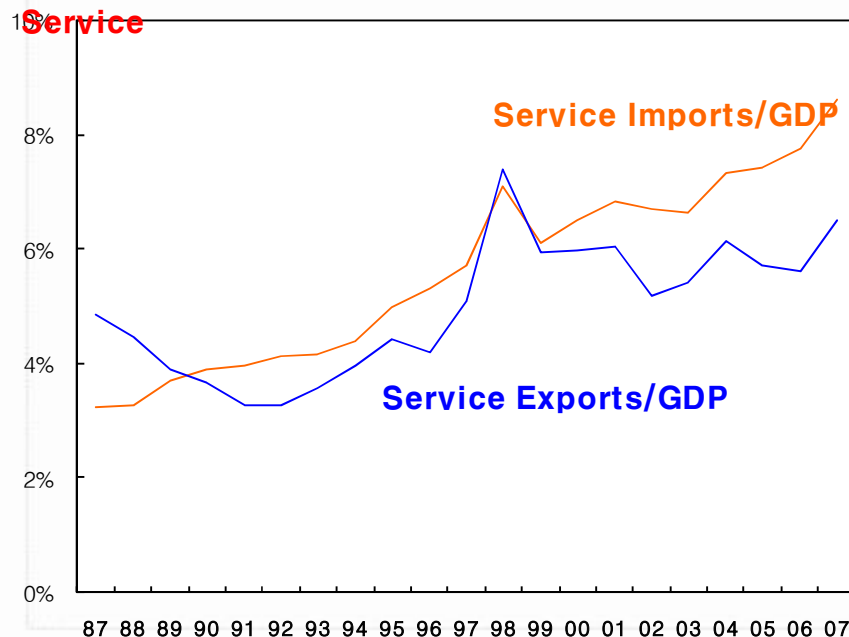


Low Productivity, More Imports

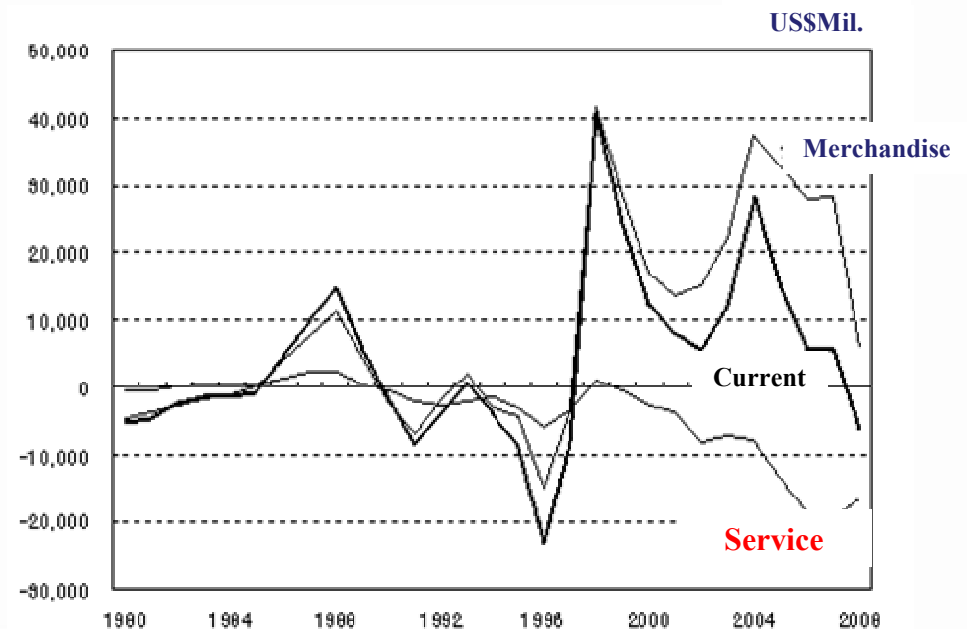
Service imports dominated exports due to poor **competitiveness** in certain sectors.

- With the expansion of economic openness after the crisis, there was an increasing opportunity of buying overseas services.

Service Imports and Exports (GDP Ratio)



Trade Imbalances



Part-02 | **Service Industry**
- Hope and Dilemma

KDI

Service Creating More Employments (1) **KDI**

The no. of jobs created by 1 bil. won of final demand has decreased.

- **Service industry has taken about 75% of new employments created in the economy when the final demand increased by 1 bil. won.**

The No. of New Employments by 1 Bil. Won Increase in Final Demand

Category	2000	2003	2005	2006	2007
All industry	12.7	11.6	10.5	10.1	9.9
Agriculture, forestry and fisheries and mining	0.22	0.16	0.16	0.15	0.15
Manufacturing industry	3.4	2.9	2.5	2.3	2.2
Service industry	9.1	8.6	7.8	7.6	7.6

Service Creating More Employments (2) **KDI**

The service industry (including construction) creates the largest no. of new employments when 1 bil. won of new investment is injected.

- **Even the knowledge-intensive service's job creation effect is higher than the manufacturing.** (eg) business service: 10.6, fin. & insurance: 9.1, broadcasting & telecom: 7.9.

The No. of New Employments in Each Industry

Category	2000	2003	2005	2006	2007
Manufacturing industry	8.8	8.6	7.2	6.9	6.6
Electricity, gas, water services	4.7	3.9	3.2	3.1	3.1
Construction industry	14.6	16.3	14.8	15.2	14.8
Service industry	13.7	13.7	12.6	12.6	12.6

Note: The number of employments newly created in the economy when 1 bil. Won is newly invested in the relevant industry

Service Creating More Jobs for Women

The service industry's workers requirement coefficient (no. of jobs per 1 bil. Won) is higher than manufacturing.

The No. of New Jobs Creation for Female ('07: #/1 Bil.Won, %)

	W. R. C (Total)	Male	Female
Whole Industry	13.9	8.2 (59.0)	5.7 (41.0)
Manufacturing	9.2	5.9 (64.1)	3.3 (35.9)
Service	18.1	9.6 (53.0)	8.5 (47.0)
Wholesale & Retail	29.5	16.3 (55.3)	13.2 (44.7)
Food & Accom.	36.5	14.2 (38.9)	22.3 (61.1)
Fin. & Insurance	10.0	5.1 (51.0)	4.9 (49.0)
Education & Health	20.6	7.4 (35.9)	13.2 (64.1)
Social & Other	23.9	12.1 (50.6)	11.9 (49.8)

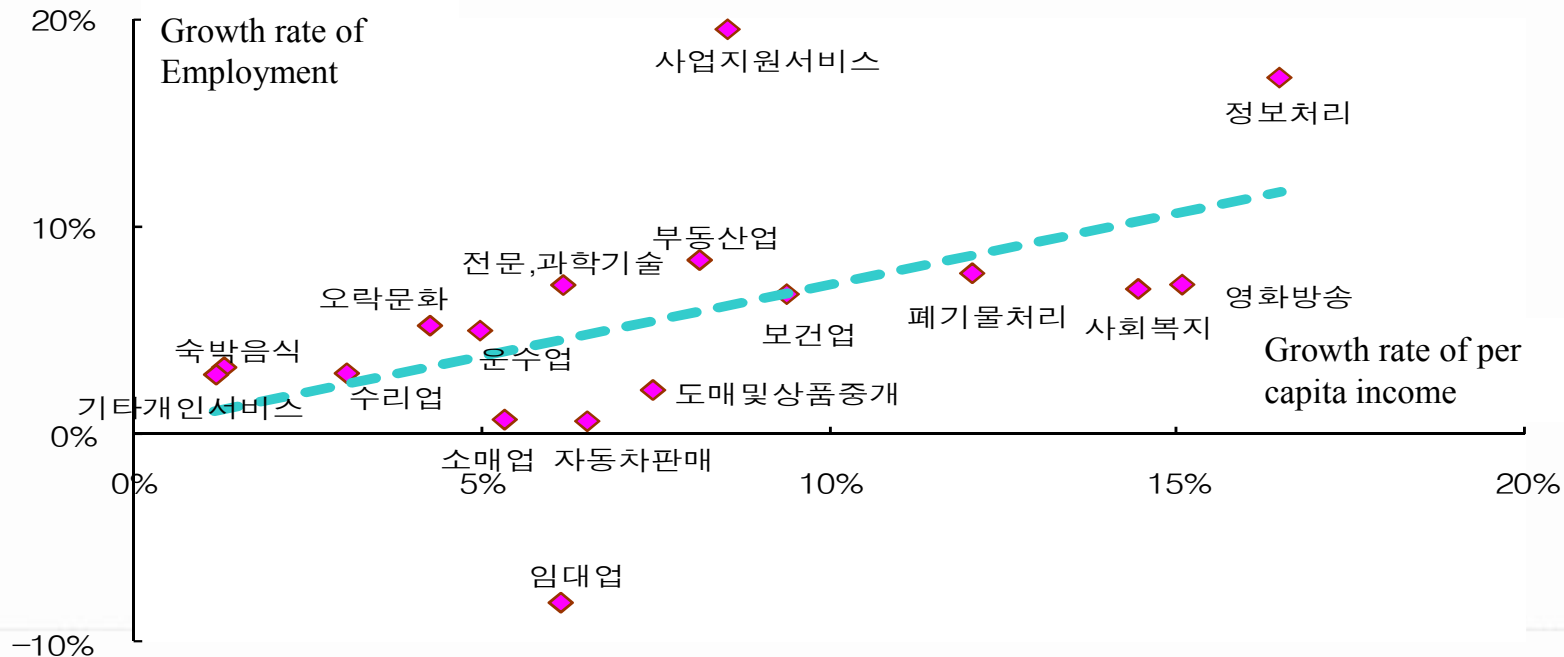
Note: The number of jobs newly created in the economy when 1 bil. Won is newly invested in the relevant industry

Service Industry: A New Growth Engine?

Service industry is a major tool to provide more quality jobs and enhance growth potential.

- The **matured** manufacturing industry and global competition: productivity tends to grow when the employment growth is low.

Relationship between employment and productivity (service)



Dilemma of Korea's Service Sector (1)

The no. of employees depends on demand and productivity.

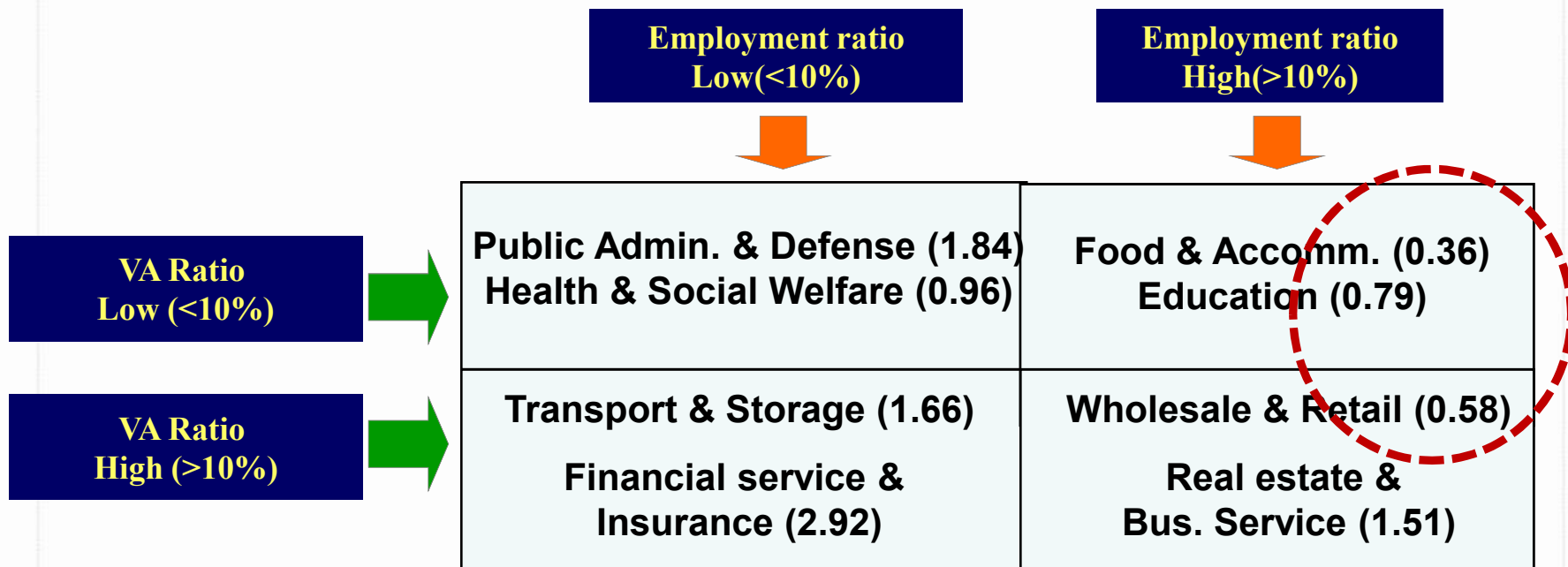
- Enhancement of productivity lessens the no. of new employment.
- However, eventually it will increase demand for goods and service, and increase employment opportunity.
- Creation of new demand is important.

Decomposition of the Increase in Employment

	Employment Growth Rate	Demand Effect	Productivity Effect
Whole Industry	3.3	6.3	2.9
Manufacturing	1.5	7.5	5.9
Service	4.7	6.1	1.3
Distribution	3.0	5.4	2.3
Producer	8.3	7.1	-1.1
Social	5.8	6.0	0.2
Consumer	3.1	5.3	2.2

Dilemma of Korea's Service Sector (2)

- Sectors with high employment show relatively low productivity.
 → Polarization in Service sector!



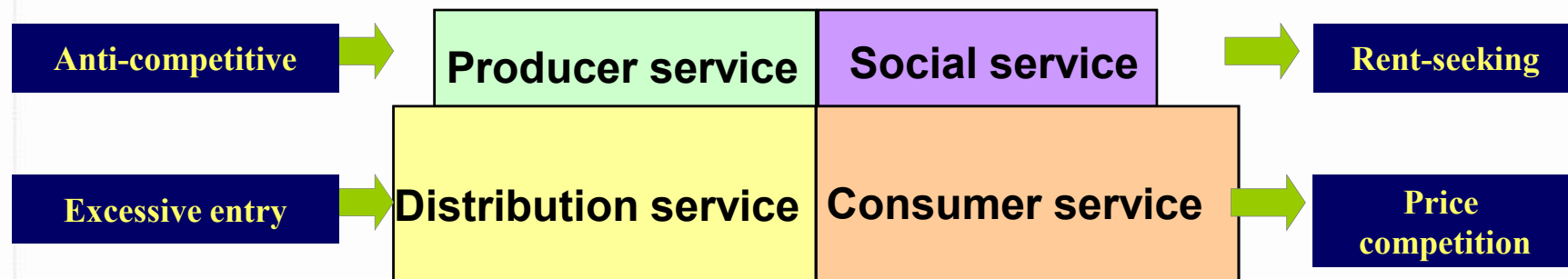
Note : Numbers in parentheses are **relative productivity(value added share/labor share)**

Dilemma of Korea's Service Sector (3)

Dual structure of **anti-competitive** knowledge-based service and **over-competitive** labor-intensive service

- High return to the knowledge-based industry is the result more of realizing the anti-competitive rents than of innovation.
- Low entry barrier to the labor-intensive service industry causes excessive competition and deters industrial development.

Inherent nature of Korea's service industry



Dual structure of the service industry

Excessive Competition in Distribution service in Korea?



Part-03 | Policy Agendas for Inclusive Growth

KDI

What to Do List: OECD recommendation and Korea's special circumstance

- Provision of manpower and capital
- Regulation reform (No discrimination against service)
- R&D
 - + Convergence with IT Innovation
 - + Balancing between Public Interest and Industrial Development
- More openness

Strengthening the competitiveness of the service industry (1) - Capital and Labor



Inducing **capital provision** into the service industry

- Upgrading the related systems for attracting capitals and, say, non-medical CEOs to **medical institutions**
- Exploring methods to improve the loan process for service companies

Value-added of Medical Service (Currency, GDP ratio)

year	Korea (1 trillion Won)	Japan (100 billion Yen)	USA (100 million Dollars)	UK (100 million pound)
2000	11.8 (2.0%)	-	546.2 (5.6%)	415.5 (4.9)
2006	25.2 (3.2%)	260.2 (5.1%)	822.8 (6.3%)	57.4 (5.5%)

Strengthening the competitiveness of the service industry (1) - Capital and Labor



Training manpower that can fulfill the demand of the on-site business

- **Professionalism, Creativity, Convergence**
 - Professional school system and upgrading the quality of education by attracting **professors with practical experience**
 - Respecting the university's autonomy in establishing educational facilities and revamping the curriculums
 - Establishing the competition system among universities; rigorously implementing the tenure system of professors; releasing to the public the information of universities including graduates' career development; encouraging interdisciplinary studies
- **More flexible labor market**

Strengthening the competitiveness of the service industry (2) – Institutional reform



Implementing **regulation reform** so as to improve industrial foundations

- Eliminating legal, medical, welfare service regulations which pursue the political perspective for the reason of public interest
- Reviewing various **certification tests** which deliberately limit the manpower provision in the service industry.
- Preparing institutional improvement measures to stop collective selfishness.

Legal Service – International Comparison

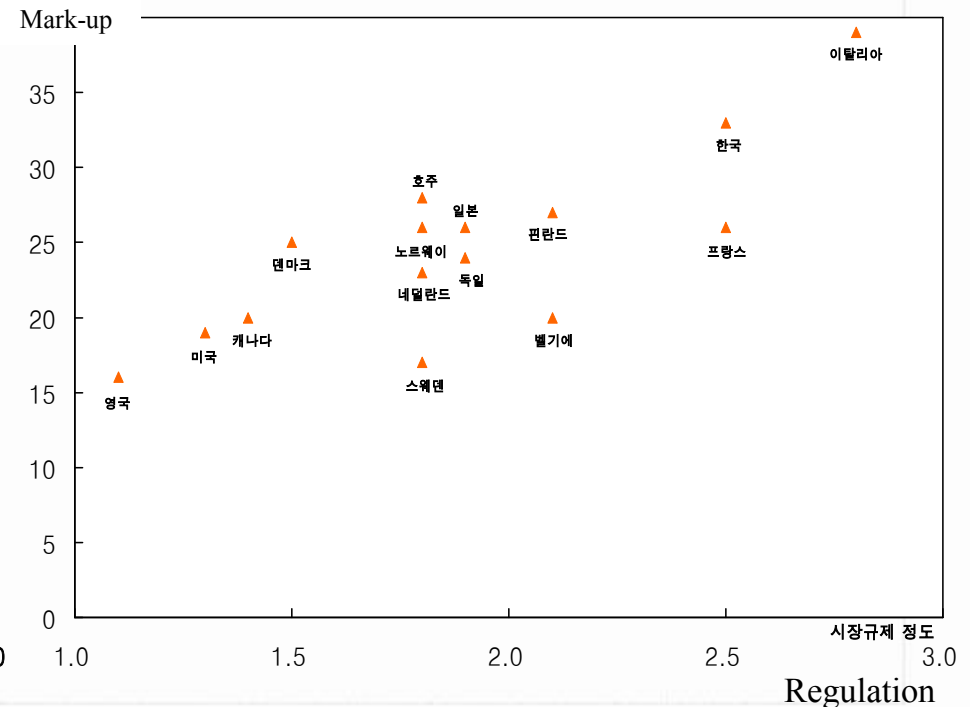
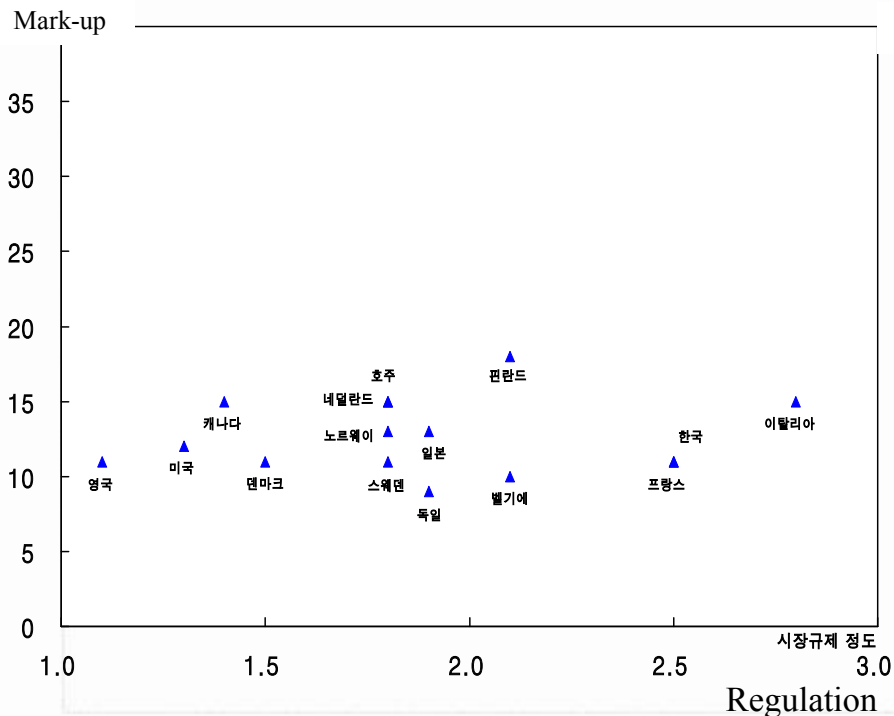
	USA (2008)	UK (2008)	Germany (2008)	Japan (2007)	Canada (2004)	Aust. (2002)	Korea (2007)
# of Lawyers	1,162,124 ¹⁾	155,323 ²⁾	146,910 ²⁾	24,302 ³⁾	-	-	8,174 ⁴⁾
Pop. per Lawyer	268	394	560	5,238	447 ⁶⁾	558 ⁶⁾	5,891
Rel. ratio to Korea (%)	5	7	10	89	8	9	100

Systemic problems: (2) Regulation

Regulations tend to encourage more **rent-seeking behaviors** than innovation in the service industry.

Regulations and markups in the manufacturing industry

Regulations and markups in the non-manufacturing industry



Source: OECD, 2008

Strengthening the competitiveness of the service industry (2) – Institutional reform



Eliminating **discrimination against manufacturing**

- **Some differences innate**
 - Manufacturing with higher facility investment, larger scales, more export-oriented, tangible assets, more IT related works
- **Correcting high **utility rates** for service industry**
- **Reviewing **definition** of SMEs - Revised**
 - Manufacturing: < 300 workers/8b won
 - Service: < 50~300 workers/5~30b won
- **Correcting different **value-added ratio****
 - Manufacturing: 20%
 - Service: 30~40%
- **Reviewing **discriminatory tax system** – Under revision**
 - Special Tax Reduction for SMEs for manufacturing + selected service only (wholesale and retail, car service, tourism)
- **Revising **target industries for government supports****
 - Subsidizing Production Environment Innovation Technology
 - Industry clustering vitalization/ Supporting factory establishment

Strengthening the competitiveness of the service industry (3) - Outsourcing and R&D



Preparing policy support measures to precipitate the **outsourcing** of the business service

- Increasing **the public sector's** purchase of private service through limiting the launch of affiliates by government-owned companies
- Expanding the outsourcing of the business service through **improving the productivity of SMEs**
- Preventing the practice of imposing **unfair price & conditions** on SME service companies through a stronger fair trade policy

Expanding the government support on service **R&D**

- Expanding the subject of **the national R&D program**, currently confined to the manufacturing industry, to the service industry
- Activating the basis study of **consumer analysis**, which could be used widely by broadcasting, advertisement, and design.

Strengthening the competitiveness of the service industry (4) – Export promotion



Transforming the service industry from domestic to **export industry**

- Supporting service companies to **become larger** so that overseas expansion will be activated
- Actively training **experts** with sufficient understanding of foreign language and international trade, and using foreign manpower
- Upgrading the **national image**: improving the dignity of politics, labor movements, social orders.

Actively participating in globalization by **more opening up**

- Higher productivity through **more competition**
- Wisely utilizing **foreign services** to improve competitiveness of industries using them as inputs and enhancing consumers welfare
- Attracting more **FDI** in service industries

More Agendas



Improving **fair trading environment** for (Service) SMEs

Encouraging **R&D** for service enterprises

Helping service enterprises explore **overseas markets**

Developing **service supply chains** and inducing more **FDI**

Establishing **an effective system** to pursue service sector advancement policy

Preparing for the rapidly coming **aging society**

THANK YOU

Korea's Leading Think Tank

