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Removing Administrative Barriers to Investment:

Korean Regulatory Reform Experience

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Removing Administrative Barriers

- Cutting “Red Tapes”
- Deregulation
- Regulatory Reform

Korean Regulatory Reform: Background

- In 1997, South Korean economy was hit by the Asian financial crisis.
- Four major sectoral reforms were launched to overcome the crisis.
  - Financial sector reform
  - Labor market reform
  - Corporate sector reform
  - Public sector reform
- The four sectoral reforms were regulatory reform in broad sense.

Korean Regulatory Reform of 1998

- There were 11,125 regulations as of January 1998.
- President ordered to eliminate 50% of existing regulations within a year: *"Guillotine Approach"*
- Each ministry had to prove the need for its regulations before Regulatory Reform Committee (RRC) during the process.
- By the end of 1999, the total number of regulations in Korea decreased to 6,308; 2,411 regulations were modified.
- Virtually all areas of Korean economy and life were affected.

The Economic Impacts of the Reform

Created Jobs	1,066,200
Reduced Public Burden	18.7 trillion won (4.4% of GDP in 1997)
Reduced Government Costs	590 billion won
Increased Foreign Direct Investment	$36.5 billion extra FDI over 5 years

All numbers are projected numbers

The Economic Impacts of the Reform

Real GDP growth in 10 years	8.57% (0.64% annually)
Consumer Price	-7.18%
Employment	0.94%
Unemployment Rate	-0.91

Source: Byung Ki Ha(1999), *The Economic Effects of Korea's Regulatory Reform (in Korean)*, KIET

The Basic Act on Administrative Regulation

- The Basic Act on Administrative Regulation (BAAR) was enacted by the Legislature(1997).
- BAAR requires:
  - Establishment of Presidential Regulatory Reform Committee
  - Registration of all regulations
  - Mandatory Regulatory Impact Analysis(RIA) on all new and important regulations
  - General principles of regulatory reform
  - Comprehensive Regulatory Improvement Plan by each Ministry each year

The Presidential Regulatory Reform Committee

- Presidential Regulatory Reform Committee (RRC) was established in 1998.
- RRC is under the President and chaired by the Prime Minister and a civilian co-chairman.
- RRC consists of 20 members, 7 of them cabinet ministers.
- Civilian members are appointed by the President for two year term.

RRC's Major Functions

- Establish the basic policy guidelines on regulatory reform and quality control across the government.
- Review proposals for new or strengthened regulations
- Examine existing regulations
- Register and publish regulations
- Examine current status of regulation in Ministries and Agencies

RRC's Review Process

- All introduction and strengthening of regulations must go through a review process by RRC.
- All proposals must attach a RIA document.
- Proposing ministry should prepare RIA.
- All law, by-laws, administrative orders, decrees are reviewed.
- RRC maintained consistent set of principles to control the quality.
- About 1,000 regulations go through RRC review each year.

RRC's Review Principles

Economic regulations are to be deregulated, while social regulations are to be made more efficient.

1. The method of regulations will change from a negative system (where actions are prohibited unless exemptions are made) to a positive system (where actions are permitted with simple registration or notices, and prohibited actions are clearly spelled out).
2. Transparency of regulations will be increased. Excessive discretion by field-level bureaucrats will be reduced.
3. Regulations with low compliance rates, or regulations whose costs outweigh the benefits will be eliminated.
4. Overlapping regulations will be unified into a single combined and unified regulation.
5. Regulations which are contrary to international agreements and global standards will be eliminated.

Lessons from Korean Experience: *Success Factors*

- Economic crisis was needed for regulatory reform to gain support and momentum. Political support for the reform was also built on the popular campaign to save the economy and to wipe out corruption.
- Making regulatory reform a part of government function was important, both in institutions and in the administrative procedure law.
- Regulatory quality was controlled by an independent agency at the center of government who could check the “pro-regulation” tendency of ministries.

Lessons from Korean Experience: *Challenges*

- Regulatory reforms in Korea focused mostly on legal changes, not actual implementation of those changes on the ground.
- The Korean reform focused on reducing the number of regulations with little attention to compliance costs.
- Lack of reform at the local government level undermined visible benefits for citizens.
- The Korean reforms tackled individual rules rather than interlinked groups of rules.

Conclusion

- Build coalition for the reform within the society. Reform needs political support.
- Make a permanent system of reform.
- Regulatory reform is not only a matter of numbers, but also a matter of quality.
- Seek non-regulatory methods, use market incentives and forces.
- Private sector's ability to maintain order is not a prerequisite for deregulation. It is a consequence of market liberation.