KNOWLEDGE SHARING PROGRAM

2011 Modularization of Korea's Development Experience:

Regulatory Reform and Economic Development-Korea's Experience in Regulatory Reform

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Prime Minister's Office
Republic of Korea

KIET Korea Institute for Industrial Economics & Trade

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Regulatory Reform and Economic Development -Korea's Experience in Regulatory Reform

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Preface

The study of Korea's economic and social transformation offers a unique opportunity to better understand the factors that drive development. Within one generation, Korea had transformed itself from a poor agrarian society to a modern industrial nation, a feat never seen before. What makes Korea's experience so unique is that its rapid economic development was relatively broad-based, meaning that the fruits of Korea's rapid growth were shared by many. The challenge of course is unlocking the secrets behind Korea's rapid and broad-based development, which can offer invaluable insights and lessons and knowledge that can be shared with the rest of the international community.

Recognizing this, the Korean Ministry of Strategy and Finance (MOSF) and the Korea Development Institute (KDI) launched the Knowledge Sharing Program (KSP) in 2004 to share Korea's development experience and to assist its developing country partners. The body of work presented in this volume is part of a greater initiative launched in 2007 to systemically research and document Korea's development experience and to deliver standardized content as case studies. The goal of this undertaking is to offer a deeper and wider understanding of Korea's development experience with the hope that Korea's past can offer lessons for developing countries in search of sustainable and broad-based development. This is a continuation of a multi-year undertaking to study and document Korea's development experience, and it builds on the 20 case studies completed in 2010. Here, we present 40 new studies that explore various development-oriented themes such as industrialization, energy, human capital development, government administration, Information and Communication Technology (ICT), agricultural development, land development and environment.

In presenting these new studies, I would like to take this opportunity to express my gratitude to all those involved in this great undertaking. It was through their hard work and commitment that made this possible. Foremost, I would like to thank the Ministry of Strategy and Finance for their encouragement and full support of this project. I especially would like to thank the KSP Executive Committee, composed of related ministries/departments, and the various Korean research institutes, for their involvement and the invaluable role they played in bringing this project together. I would also like to thank all the former public officials and senior practitioners for lending their time and keen insights and expertise in preparation of the case studies.

Indeed, the successful completion of the case studies was made possible by the dedication of the researchers from the public sector and academia involved in conducting the studies, which I believe will go a long way in advancing knowledge on not only Korea's own development but also development in general. Lastly, I would like to express my gratitude to Professor Joon-Kyung Kim for his stewardship of this enterprise, and to his team including Professor Jin Park at the KDI School of Public Policy and Management, for their hard work and dedication in successfully managing and completing this project.

As always, the views and opinions expressed by the authors in the body of work presented here do not necessary represent those of KDI School of Public Policy and Management.

May 2012

Oh-Seok Hyun

President

KDI School of Public Policy and Management

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Summary

Regulatory reform is considered as a key driving force that enabled Korea to overcome social and economic impacts of the 1997 financial crisis and a source of quick resilience from 2008 global financial crisis. Korea held on to the momentum for the regulatory reform turning it into a solid base for a rapid economic growth and national competitiveness in global economy.

Based on the conclusion that analyzing factors in a model will provide more tools and insight for understanding Korea's regulatory reform experience than would a simple narration of experience, this paper presents a regulatory model which is applied to explain Korean experience. The model has three factors such as environment, institutionalization and decision mechanism, each of which has detailed determinants. Sub categories of success factors consist of social recognition, stable institution, and participation of policy makers and stakeholders.

The excessive regulations in Korea could be explained by the country's political and cultural background and past government-led growth strategies. These regulations have been widely recognized as degrading the competitiveness of firms. On this front, the paper provides a brief explanation of the history of regulatory reforms in Korea to help understanding.

The Regulatory Reform Committee is responsible for almost all affairs related to regulatory reforms such as deciding basic policy direction, establishing and implementing new policies, and strengthening standards and evaluation mechanisms. This suggests that Korea has a stable institutional mechanism for regulatory reform. The high level of public awareness and understanding about the importance of regulatory reform as well as the current establishment of the Presidential Council on National Competitiveness demonstrate strong will of the Korean government regarding regulatory reform.

From the procedural point of view, the '50% reduction of registered regulations,' which was done in 1998, can be said to be led by the Regulatory Reform Committee. However, the level of regulatory reform was greatly reinforced by the president's will. Looking at the process of making decisions regarding regulatory reforms, it is clear that the president's will is a decisive factor.

The Roh Moo-Hyun administration recognized the necessity of reforming bundle regulations and established the Regulatory Reform Task Force. The most distinguishing feature of the new organization was the participation of private sector in the process of reform demand assessment. The task force included dispatched personnel from private enterprises to reflect their perspectives directly on the regulatory reform.

To overcome economic crisis triggered by global financial crisis, the government reinforced Temporary Regulatory Relief program which suspended effects of 280 regulations in 2009. Since deregulation had been implemented to a considerable extent in the previous government, permanent abolishment of the regulations could result in conflicts or accompany significant cost.

This paper introduces various results obtained from analysis on the economic effects of Korea's regulatory reform. In particular, considering the need of further research with the aim of enhancing public awareness regarding regulatory reform, the paper also provides research methodology.

Korea tried deregulation after the 1980s by using various systems, but no one said they were successful. However, the financial crisis got regulatory reforms going full steam ahead, and since then the momentum for regulatory reform has been maintained. After the financial crisis, regulatory reform has been constantly carried out by the Regulatory Reform Committee, which has been established as a result of the trials and errors experienced in the process of past regulatory reform.

For the first lesson of Korea's regulatory reform, it is important to perceive Korea's regulatory reform as a series of historical trials and errors rather than a success story focused on its achievements after the financial crisis. Looking from this vintage point, it is questionable whether Korea's regulatory reforms system can be applied to developing countries as it has been. Implications from Korea's regulatory reform experience should be used by other countries only with the close examination of their own history, cultural background and trials and errors of regulatory reform.

Second, the 50% reduction of registered regulations in 1998 and the subsequent regulatory reform system were greatly attributed to the constant interest and the will of high government officials. In particular, it is hard to deny that President Kim Dae-Jung's will to carry out regulatory reform was a decisive factor behind the large-scale deregulation and the subsequent establishment of the regulatory reform system.

Third, the successful 50% reduction of regulations in 1998 was successful because the financial crisis made the general public fully aware of the importance of regulatory reform.

This had the effect of neutralizing the resistance of vested groups by the legitimacy of overcoming an economic crisis.

Finally, even if a permanent regulatory reform system is in place, depending on economic conditions at home and abroad, large-scale short-term regulatory reforms may be necessary. In Korea, the Regulatory Reform Task Force of the Roh Moo-Hyun administration and the Presidential Council on National Competitiveness of the Lee Myung-Bak administration are typical examples.

Chapter 1

Introduction

Introduction

Overall, Korea's past and current series of regulatory reform has been considered as successful governmental policy by the international community. In particular, regulatory reform has been considered a key driving force that enabled Korea to overcome social and economic impacts of the 1997 financial crisis and a source of quick resilience from the 2008 global financial crisis. Korea has maintained momentum for regulatory reform, turning it into a solid base for a rapid economic growth and national competitiveness in the global economy.

The objective of this study is to share the lessons learned and knowledge gained from Korea's historical experience in regulatory reform with other countries. In particular, the study pays particular attentions to address the readers from developing countries who may be interested in learning more about the relationship between regulatory reform and a Korea's successful economic development.

As a whole, this study presented as an integral part of the KSP (Knowledge Sharing Program) Modularization project[1] of the Ministry of Finance and Strategy. The KSP Modularization project leverages Korea's development experience to create a systematic and comprehensive national reference manual for international policy consultation activities. It includes information on policy background, implementation methods, policy contents, outcome evaluation and suggestions for a development model with implications and insights.

The KSP Modularization project prioritizes the policy issues that Korea's developing partner countries may find particularly interest for benchmarking: Korea's regulatory reform, the focus of this study, is one of the high-demand issues.

1 Each case study of the KSP Modularization project guides readers to understand a specific development policy through following step. http://www.ksp.go.kr/ksp/03/system.jsp

Responding to international demand for Korea's knowledge sharing in regulatory reform policies, this study analyzes and outlines the key factors for success and failure in regulatory reform for policy makers and practitioners. On one hand, this study provides detailed analysis of Korea's success factors in regulatory reform. On the other hand, it diagnoses Korea's shortcomings to provide vicarious lessons for the developing partner countries.

Korea's regulatory reform system has historical aspects, because the current reform system has been built up through many trials and errors. As such, it may be difficult to apply the current system as it is to other countries. Even now, Korea's regulatory reform system is continuing to improve with many more tasks still to be done. Korea still needs more regulatory reform, illustrated by the fact that many foreign corporations still point out many aspects for improvement. In particular, regulatory reform is being executed mainly by the administration and it behooves Korea to extend regulatory reform process to the legislation process of the National Assembly.

By illustrating various factors for Korea's success and failure in the past, this study hopes to provide important pillars to be considered for efficient policy making and regulatory reform implementation. By doing so, it can reflect on Korea's historical experience, while accounting for the implication of different regulatory environments, while upholding perceptions regarding the need for regulatory reform in each country.

Acknowledging the impracticality of the KSP without the partner country's understanding of the benefits in the regulatory reform, this study summarizes some empirical results of Korea's regulatory reform measures. It is meaningful to illustrate the effects of regulatory reforms on economy in that the regulatory reforms taken after the financial crisis in 1997 contributed to the quick recovery of the Korean economy from the global economic crisis in 2008.

This study consists of six chapters. Chapter 2 briefly describes the significance and necessity of regulatory reform, and presents a model for analyzing the regulatory reforms in Korea. In chapter 3 the process of regulatory reform is organized by period to help better understand the regulatory reform system in Korea. In chapter 4, the current regulatory reform system and important cases of past regulatory reforms are analyzed. Chapter 5 introduces briefly the results of researches on Korean regulatory reform, with focus on methodologies and effects. The last chapter harnesses Korea's experience to present the important factors in efficient policy-making and enforcement of regulatory reforms.

Chapter 2

The Meaning of Regulatory Reform

1. The Essence of Regulation

2. The Need and Purpose of the Regulatory Reform

3. Approach to Regulatory Reform: The Model

The Meaning of Regulatory Reform

1. The Essence of Regulation

1.1 The Definition and Types of Regulation

1.1.1 The Definition of Regulation

The purpose and function of government is to enhance the socioeconomic welfare of its people. To attain policy goals, the government establishes or revises systems including laws, regulations and a variety of guidelines and, if necessary, uses diverse policy instruments. These activities of government regulate or strengthen the activities of individuals and enterprises.

All of these means used by the government for attaining policy objectives can be defined as regulation in a broad sense. In other words, regulation, generally speaking, refers to "all means that are used by the government for carrying out its functions."[2] Regulation in this sense include licenses/approvals/permits, environmental regulations and administrative procedures as well as taxes and tariffs related to economic purposes. Additionally, it includes all the activities and guidelines that limit the private sector according to political and administrative goals or customary practices even without relying on laws.

Since Korean government intervened widely in implementing government-led development strategies, regulations had become abundant. The abundance of regulations in Korea reflects the complex and continuous nature of regulation making.

2 The definition of regulation differs among countries because the definition and range of regulation are set differently with focus on the objectives of regulation polices and the national regulatory system.

1.1.2 Types of Regulation

Regulation can be mainly categorized into economic regulation, social regulation and administrative regulation based on its purpose.[3]

With a purpose of achieving a set of economic goals, economic regulations take a form of intervention in the market system by controlling market entry, pricing and quantities. They can be further divided into the measures taken to improve market efficiency by correcting market failure and the measures taken for specific goals irrespective of market efficiency.

Social regulations are measures taken for public interests such as quality of the environment, safety and health.[4] These measures are often applied when transactions are not made in the market or when social expenses differ from private expenses due to external economies. Social regulations in the areas of the environment, safety in the workplace and hazard control of consumer goods are usually put in place by government through direct intervention. Economic efficiency or values are secondary concerns for social regulations. Because they are closely related to the quality of life, social regulations tend to be strengthened in response to the level of political and social demands that tend to increase as the income level rises.

Administrative regulations[5] are paperwork related to government work or administrative formalities. A large number of administrative regulations weaken national competitiveness because they not only impose a burden on enterprises and individuals but also constrain socioeconomic achievements.

Depending on whether its legitimacy and conditions are stipulated by legislation, regulation can also be categorized into "formal regulation" and "informal regulation."

Formal regulation refers to a regulation that has been decided through a formal procedure, i.e. a legal proceeding. This type of regulation can be regarded as being ratified in Korea's National Assembly, because the procedure and contents of regulation are decided pursuant to a law or a decree.

Unlike formal regulation, informal regulation can be defined as a regulation that restricts activities of enterprises and citizens following a long customary practice or a political act. There is always a room for the government to restrain and influence the activities of the private sector without depending on laws and regulations. The actions or guidelines taken by the government in this case are classified as informal regulation.

3 OECD also categorized regulation into economic regulation, social regulation and administration regulation. See OECD, The OECD Report on Regulatory Reform; Synthesis, OECD, 1997, p. 11

4 Regulation can be categorized into economic regulation and social regulation depending on whether it is related to the market system or to safety, the environment and health. However, it is often unclear to separate the two because the regulation created for safety of consumers blocks market entry.

5 Administrative regulation here is different in concept from the one defined in Korean law, which will be explained.

As the government possesses a lot of regulations controlling activities of the private sector, informal regulation is frequently executed because the private sector can hardly defy the government's interruption on their activities similar to those under control of government. In other words, informal regulation is more likely to prevail when the rule of law is not well obeyed under the authoritarian system and as the government has a wide range of regulatory means.

The more a regulator's arbitrariness is supported by formal regulation, the more likely informal regulation will be utilized. This is because the government is more likely to use its authority in such an environment. Where relevant laws or regulations do not exist, informal regulation can be adopted. If transparency of the policy decision procedure and regulation contents is assured, informal regulation is less likely to be used. Indeed, informal regulation is closely related to the arbitrariness of government authority. Since informal regulation is reduced with transparency, the assurance of transparency protects benefits related to regulations and reduces government regulations as well. Korea has tried to reduce informal regulations by adopting the principle that regulations should be based on legislation.

Based on the characteristics of a regulating authority, regulation can be categorized into administrative regulation or judicial regulation exercised by the administration and the judiciary authorities, respectively. Depending on the characteristics of a regulation target, it can be categorized into construction regulation, IT regulation and energy regulation, etc.

The Basic Law on Administrative Regulations,[6] legislated in 1998 in Korea, defines administrative regulation as the "requirement that restricts the right of the people or imposes an obligation and is stipulated by the law, etc. or the ordinance/rules." In terms of regulation categorization, it belongs to formal regulation of administrative regulation since deregulation and regulatory reform related regulations are limited to administrative regulations in most cases. Moreover, the focus is put on formal regulation since the number and effectiveness of informal regulation is expected to be significantly reduced as government procedures become transparent.

1.2 The Purpose and Need of Regulation

As mentioned in its definition of regulation, the government creates regulations and forces the private sector to obey them in order to achieve its purpose and to perform its functions. The purpose and need of regulation differ according to characteristics of each type of regulation.

6 Other translation is 'The Framework Law on Administrative Regulations'.

1.2.1 Economic Regulation

Economic regulations, designed to influence economic activities of the private sector, are used by the government to intervene in a market. Economic regulations are designed to achieve various economic goals such as the improvement of economic efficiency.

Economic regulations, first and foremost, are used to correct market failures when a market system does not function efficiently. Resources are efficiently distributed in the state of perfect competition if they meet the following conditions: anybody can enter and exit the market freely; all participants are price takers who take prices for granted; and information is perfect. This is the status of Pareto optimality, when the welfare of consumers is maximized. Since the market functions most efficiently in the state of perfect competition, government does not need to intervene in the market. Economic regulations are needed or should be maintained where resources are not efficiently distributed by the market, which essentially means market failure. If resources are distributed inefficiently, as the prerequisites to perfect competition such as free market entry and exit, perfect information and price takers are not satisfied, and the market fails. Regulations on monopoly and oligopoly or unfair trade belong to economic regulations. If goods are categorized as public goods or there are external economies, the market fails to function efficiently because social expenses and benefits differ from the prices that are formed in the market. In this case, the market itself is inefficient.

The second type of economic regulations is the measures taken to protect certain industries. The measures for fostering medium- and small-sized enterprises, protecting domestic enterprises or procuring domestic goods are all examples of economic regulations. Since these measures have the dynamic goal of fostering industries, they might be fulfilled at the expense of static economic efficiency. However, it is difficult to say that a regulation reduces economic efficiency if the market does not function well or an industry is diagnosed to require certain measures of protection. Regulations gradually disappear following liberalization, and encourage the stimulation of the market economy, ultimately making economic efficiency more important than industrial protection.

Finally, there are measures, like income distribution policies, implemented to solve economic inequality from the market economy.[7] The minimum wage and the cumulative income tax are examples of such measures.

Economic regulation controls prices directly, i.e. pricing, or indirectly through subsidies or tariffs, quantities and market entry control.

7 As explained next, these measures can be included in social regulation because economic efficiency is the secondary concern for them, but they are included in economic regulation because they aim at income distribution.

1.2.2 Social Regulation

Social regulations are established to achieve social values, and most are related to health, safety and the environment. Social regulations are different from economic regulations in that the economic effects of social regulations may be secondary even when social regulations intervene in economic activities of the private sector.

The values such as health, safety and the environment cannot be measured and compared in terms of the monetary value. For this reason, deciding the intensity of implementing such regulations is often controversial. For instance, consider the level of investment and regulation required for protecting the river water from pollution. All people will agree that clean water is preferable. To improve water quality, investment and regulations are needed. However, it is very difficult to decide on the required level of water quality and the level of investment and the strength of regulations necessary to improve water quality to such a level.

Nevertheless, the private sector places a higher value on such social values as the income gets higher. As a result, it is anticipated that the people's demand for social values will grow along with a rise in their incomes. Therefore, it can be predicated that social regulations will be also strengthened gradually in Korea.

1.2.3 Administrative Regulation

Administrative regulations or administrative formalities or paperwork, are established to provide efficient administrative services for the private sector. However, the private sector may toned to spend a significant amount of time and money to obey the new regulations, due to the complexity or opacity of the administration structure or administrative formalities.

If the government stresses the efficiency of administrative procedures, the private sector has to take care on considerable role in the procedures. To minimize the inconvenience put upon the private sector, the government needs to simplify the formalities or handle them itself. In principle, efficiency of administrative work is in an inverse proportion to inconvenience caused to the private sector. Keeping these two parties in balance depends on the relationship between the government and the private sector.

Recently, many governments in the world have eased administrative regulations by simplifying administrative procedures. This has been done to reduce inconvenience caused to the private sector while focusing on private sector services. Korea has also paid more attention to convenience for the private sector since democracy began to advance and the local autonomous system gained power.

However, there can be administrative regulations or unnecessary regulations that only serve the government's convenience, irrespective of efficiency. Eliminating these regulations is one of the major objectives in of Korea's regulatory reform.

2. The Need and Purpose of the Regulatory Reform

2.1 The Definition of Regulatory Reform

Regulatory reform 'refers to changes that improve regulatory quality by enhancing the performance, cost-effectiveness, or legal quality of regulations and related government formalities. Reform can mean revision of a single regulation, the scrapping and rebuilding of an entire regulatory regime and its institutions, or improvement of processes for making regulations and managing reform.'[8] Regulatory reform can be divided into three types; deregulation, improving the quality of regulation and enhancing the transparency and efficiency of the regulation process.

Deregulation means the abolishment or relaxation of existing regulations. To stimulate competition in the market, deregulation has been used to ease economic regulations. The typical case is a series of deregulations on the aerospace industry and road transportation. Most of the recent regulatory reform attempts in Korea were deregulation initiative.

Improving the quality of regulation and thereby reducing the burden is usually applied to social regulations and reflects changes in the socioeconomic aspect, the people's consciousness and the role of government. The example is found in the effort to find out methods to elevate the intensity of regulation to improve the safety of automobiles, minimize expenses required for the private sector to comply with regulation and solidify the safety efficiently.

The transparency and efficiency of the regulation process encourage the compliance of relevant organizations or the private sector in the regulation decision procedure. This allows these entities to help define the regulation and contribute to achieving the goal efficiently. The purpose of reinforcing RIA(regulatory impact analysis) in advanced countries is to assure the transparency of the regulation process and pursue its efficiency. RIA aims to analyze the efficiency of the existing regulations or to select the most efficient regulation. In Korea, RIA is required when a new regulation is introduced according to the Basic Law on Administrative Regulation in order to seek the efficiency of the regulation process.

The measures such as the industrial restructuring, can either be under operation or planned. They can also belong to a range of regulatory reform because they concern the improvement or abolishment of regulations regarding market competition and prices. For example, the electric power restructuring is treated as a major issue of regulatory reform because it deals with not only the restructuring of Korea Electric Power Co. but also with overall matters with regards to the electricity market, including pricing and market competition.

8 OECD(1997) p.6

2.2 The Need of Regulatory Reform

Regulatory reform is necessary to keep up with changes in the socio-economic environment. That is, reform can adjust to conditions that are different from the ones considered when regulations were originally introduced. As the social environment changes, the purpose of regulation becomes extinct , or adopt to the changes.

The Family Formalities Law[9] in Korea is a good example. The Law was enacted in 1969 with the purpose of reducing wasteful formalities and promoting healthy social culture. It had been continuously pointed out that many regulations in the Law could not be enforced due to socio-economic changes and might threaten individual freedom. The regulation that was established to save resources can cause inconvenience or become an obstacle to the activities of individuals or enterprises. As a consequence, it was abolished on February 8, 1999.

Although the purposes of a regulation may not have changed, there is always the possibility that it can hinder enterprises or individuals from developing their creative ingenuity, since government intervention is inherent in the regulation. It is necessary to improve or abolish the regulation to make it efficient to respond with socio-economic changes. Regulatory reform need to be carried out continuously because the conditions for the regulation continue to change. Therefore, regulatory reform should be accelerated to keep up with the society's own rapid pace of change.

Changes in the perception of regulation can be indicated as a factor that stresses the need of regulatory reform. The birth of the WTO broke down traditional market entry barriers, such as tariffs and quotas, making regulation more important as a factor in national competitiveness. Accordingly, countries in the world strive to upgrade regulations in order to promote national welfare effectively and efficiently.

However, regulatory reform not only brings about benefits but can also incur significant expenses. Unemployment or decrease in enterprises' profits can occur in the early short-term phase of redesigning regulations. Moreover, deregulation can be followed by the weakening of social, health safety or environmental problems. For this reason, regulatory reform should be pushed by simultaneously considering expected expenses as well as benefits.

Furthermore, regulatory reform should be carried out continuously because the socioeconomic environment changes. Expenses and risks attached to regulatory reforms might be bigger than expected. However, these costs and risks are often found to be lower than the price of instituting no regulatory reform.

9 Family formalities referred to marriages, funeral rites, ancestral appreciation rituals, etc. Forbidden acts of formalities were 1) invitation of guests through printed invitation letters, 2) advertisement on newspaper notice under the name of an organization, an institution, or a group, 3) display of gifts with names inscript such as wreath or flowers, 4) giving out return presents, 5) wearing special funeral costumes, 6) using an elegy, and 7) food and beverage receptions during the congratulatory and condolence periods.

2.3 The Effects of Regulatory Reform[10]

Regulatory reform improves productivity and promotes technological innovation in production consequently enhancing the competitiveness of enterprises and the nation's economic growth.

The elimination of regulation that restrains other enterprises from entering a market or enhances competition in the market. This motivates and pushes enterprises to encourage efficiency of their production and sales ceaselessly, in order to survive in the market competition. These constant efforts bring about enhanced capital and labor productivity in the industry. Besides, growing autonomy in the private sector in line with enterprises' survival efforts accelerates technological innovation.

Since the integration of European markets, Europe's labor productivity in manufacturing between 1986~1991 jumped by 14%, which is significantly higher than the average 7.5% during the same period in the past. In U.S. airfare rates dropped by one-third between 1976~1993, half of which is presumed to have resulted from deregulation.

Deregulation is not the sole contributor to productivity enhancement. Social and administrative regulations also promote the growth of productivity and thereby decrease prices in all sectors of the economy. Social and administrative regulations do not aim to control economic activities, but often ends up imposing costs on the private sector and limiting its economic activities.

In Canada, large enterprises spend 2% of their sales preparing documents submitted to the government, while small enterprises spend 8%. In the Netherlands, small and medium sized enterprises (SME's) are known to spend six times longer than large enterprises preparing documents related to the government. This lengthy time is often times attributable to the lack of personnel wholly responsible for such paperwork in SMEs.

In addition to enhancing productivity, another effect of deregulation is stimulating technological innovation. Technological innovation blooms when a company is motivated or given a chance to promote competitiveness through prices and the diversification of its product portfolio. In the IT sector, mobile telephone and Internet were introduced far earlier and have been spread much faster in countries with minimal regulation, than in countries where the businesses were monopolized. This comparison proves, albeit indirectly, the beneficial effect of deregulation on technological innovation.

The OECD analyzed the results of benchmarking exercises and measured the effect of technological innovation on the regulatory reform conditions. The effect of technological innovation was expected to be high in the IT sector. As shown in Table 2-1, stimulating technological innovation is expected to bring about an increase in production by 10~30% in the communications industry in the U.S., Japan and Germany given that regulatory reform

10 For examples that are introduced in this section with no special mention, the OECD Report on Regulatory Reform: Synthesis, Sept. 1997 was referred to.

is achieved efficiently. It was also found that the achievement of technological innovation would result in increased production in the logistics industry by 6% in Japan and 3% in Germany, France and England though lower compared to the increase of production level in communication industry.

The benefits of increased productivity, lowered prices and technological innovation are spread over all sectors rather than being limited to the sectors where deregulation measures are applied. Enterprises using products and services offered at lower prices are able to produce more at lower costs.

Table 2-1 | Leading Countries' Potential Effect of Technological Innovation by Industry

	US	Japan	Germany	France	England
Electric Power	0	0	0	0	0
Air Transportation	-	5	5	5	0
Road Transportation	-	0	0	0	0
Communications	10	15	30	30	15
Logistics	-	6	3	3	3

Source: OECD, The OECD Report on Regulatory Reform: Thematic Studies, Paris, 1997

Moreover, regulatory reform's influence on economic growth is shown through the improvement in capital productivity and incidental increase in savings and capital stocks, in addition to an improvement in financial balances resulting from the faster growth and the enhancement of international competitiveness. These eventually lead to the enhancement potential for growth.

The OECD analyzed as shown in <Table 2-2> that economic growth can be expedited if regulatory reform is conducted efficiently in five sectors. These five sectors were listed as electricity, communications, airline, transportation and retails, pertaining to the five member states: the U.S., Japan, Germany, France and England. Japan and some European countries, which imposed legal controls on various sectors, were expected to increase real production by 3~6% for 10 years should regulation be relaxed efficiently. However, the real production in the U.S. was expected to increase by 0.9%, a relatively very low rate, because the sectors subject to regulation relaxation took less than 5% of GDP, and regulations had been loosened considerably in most sectors. It is presumed that the currently high economic growth of the U.S. has considerably benefitted from the results of prior regulatory reforms.

In particular, the benefits of deregulation such as increased productivity, stimulated technological innovation, increased capital stocks and enhanced international competitiveness, enhancing the efficiency of the economy. For the Korean economy which is now pursuing efficiency-oriented growth strategy, rather than input-oriented strategy of the past, economic growth is considered essential.

Table 2-2 | Macroeconomic Effects of Regulatory Reform

	US	Japan	Germany	France	England	Netherlands	Spain	Sweden
Effect on Sectors included:								
Labor Productivity	0.5	2.6	3.5	2.3	2.0	1.3	3.1	1.7
Capital Productivity	0.5	4.3	1.3	3.3	1.4	2.9	3.1	1.3
Gross Productivity	0.5	3.0	2.8	2.7	1.8	1.8	3.1	1.5
Employment in Manufacturing	0.0	-1.0	-0.4	-0.4	-0.5	0.6	-0.7	-0.6
Wages	0.0	0.0	-0.1	0.0	0.0	-0.2	-0.1	0.0
GDP Deflector	-0.3	-2.1	-1.3	-1.4	-1.2	n.a.	n.a.	n.a
Effect on National Economy:								
GDP	0.9	5.6	4.9	4.8	3.5	3.5	5.6	3.1
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employment	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real Wages	0.8	3.4	4.1	3.9	2.5	2.8	4.2	2.1

Source: OECD, The OECD Report on Regulatory Reform: Thematic Studies, Paris, 1997

3. Approach to Regulatory Reform: The Model

In this section, we build a model to analyze the main success factors Korea's historical experience of regulatory reform. Analyzing factors in a model will provide more tools and insight for sharing knowledge on Korea's regulatory reform experience than through a simple narration of experience.

In establishing the model, indicators in a general policy evaluation model are chosen as factors, implicitly considering Korea's experience and insights.

3.1 Factors from General Policy Evaluation

In public performance management, four performance indicators (input, activities, output and outcomes) are used to determine the achievement of performance goals. In the model, output and outcomes are excluded since they reflect the effectiveness of a policy, but are not the determinants of success. They will be introduced and explained after assessing Korea's experience in the implementation process of regulatory policies.

First, input in regulatory reform policies refers to the introduction of institutions that guide and monitor overall policy making and implementation. Input in public performance management generally refers to budget, personnel and resources utilized for a policy making and implementation. However, since regulatory reform includes multitude of diverse policies with relevant costs that are difficult to estimate, it is not appropriate to refer only to material inputs utilized to develop and implement specific regulatory reform policies. Therefore a degree of institutionalization, which may seem narrow, is considered to be an indicator for assessing input of regulatory reform policies.

Second, activities related to implementing methods and procedures refer to decision mechanism, which includes aggressive participation of the private sector and implementation of the Regulatory Impact Analysis (RIA). These features are required for reforms to be processed steadily and depend primarily on the political will and capacity of reformers. Both participation of the private sector and RIA implementation are very useful in persuading interest groups to agree to reform.

3.2 Special Factors in Regulatory Policies

In terms of evaluation, regulatory reform policies are quite different from general policies in two main aspects.

First, continuity is to be considered as an important factor in regulatory policy evaluation. Successful regulatory reform requires continuous efforts to implement a series of polices. However, general polices, even those that are continuously effective, are implemented intermittently or at one-time. Therefore regulatory reform relating to various policy measures and decisions requires continuity of institution for being successful. This is well phrased by OECD that "Regulatory reform is not a one-off effort but a dynamic, long-term, multi-disciplinary process." Continuity will be an essential check point since regulatory reform is a "dynamic and long-term process,"[11] a unique characteristic of regulatory policy from other policies. Whether the institution is designed to be perpetuated over the long-term is a very important factor in evaluating regulatory reform policy.

Second, environment factors will be newly added. Regulatory policy as "'multi-disciplinary" involves various governmental institutions. Regulatory reform process involves various government officials in both decision-making and its implementation. If government

11 OECD (2005)

officials are against regulatory reform during the political process, it is difficult to expect the reform to be implemented successfully and effectively. The same is true for the stakeholders in the private sector, whose regulatory compliance is a key determinant of a successful regulatory policy. Therefore, the environment factor refers to the attitude of various stakeholders toward regulatory reform which in other words means degree of social desire and understanding of the reform. In particular, the recognition and will of high-ranking government officials are very important determinants of the success, as demonstrated in Korea’s experience.

In addition to the differences, review and feedback (assessment) mechanism, though somewhat idealistic and ambitious, is important as suggested by U.S. OMB (Office of Management and Budget) and OECD. Review and feedback, which is not an indicator, but an aim of the policy evaluation itself in general policy evaluation program, is essential in the regulatory reform, considering continuity of regulatory reform.

3.3 Factors Combined

The factors in the model of evaluating regulatory reform policies are summarized and categorized along with details as explained and presented in <table 2-3>.

The model has three factors such as environment, institutionalization and decision mechanism, each of which has detailed determinants. Since Korea’s experience is implicitly considered, the factors and details de facto represent requirements for Korea’s regulatory reform and its momentum to be continued.

For the reform momentum to be continued, social recognition of both government officials and pubic should be kept or enhanced. For the effective reform, reform institution should exist with review and feedback mechanism. For the efficiency and effectiveness, participation of both leadership and private sectors should be ensured. On this front, RIA is a very useful method.

Table 2-3 | Determining Factors in Regulatory Reform

Factors	Details
Environment	Government Officials Recognition
	Public Recognition
Institutionalization	Institution
	Continuation
	Feedback
Decision mechanism	Leadership participation
	Private Participation
	RIA

Chapter 3

History of the Regulatory Reform by Government

1. Changes in the Regulatory Reform Environment and Goals

2. Regulatory Reform Organizations

3. Regulatory Reform Performance by Administration

History of the Regulatory Reform by Government

Characteristics of Korean regulations have been described as abundance with overlaps and duplications, in addition to opaqueness and comprehensiveness subject to the arbitrary decisions of the regulators. These characteristics eventually accompany a lot of informal regulations that are not based upon laws.

The excessive regulations in Korea could be explained by the country's political and cultural background as well as past government-led growth strategies. These regulations have been widely recognized as obstacles to the competitiveness of firms, thereby promoting outward direct investment and blocking inward foreign direct investment. On this front, a brief explanation of the history of regulatory reforms in Korea can be helpful.

1. Changes in the Regulatory Reform Environment and Goals

1.1 The Park Chung-Hee Administration (1963-1979.12)

During Park Chung-Hee's administration, national strategies and policies focused mostly on economic growth, and government rules and regulations were enforced for economic development plans implemented over a long period. The prime goal of these economic policies was the growth in production, construction and export. The government exercised its power to achieve these goals. To lead the rapid growth of the national economy, the government controlled economic regulations during this period. Indeed, it was a dark era for proponents of deregulation. Regulatory reform or deregulation had not been an issue in this period.

Strengthened government control over the economy for the successful implementation of the government-led growth of the national economy, government funding and the official exchange rates resulted in opportunities for preferential treatment. Close ties between the government and the private sector seeking economic favors were formed, which became a serious social problem.[12]

1.2 The Chun Doo-Hwan Administration (1980.9-1988.2)

The key political tasks of the Chun Doo-Hwan Administration were the recovery of economic growth and stable economic management. The early 1980s was a period of economic difficulties due to negative growth caused by domestic and international conditions. Naturally, the biggest political goal of the government was recovery of economic growth. To enable economic growth, regulatory reform was attempted for the first time during this time.

As negative effects of favor-seeking activities becan to appear, caused by government control of the economy for rapid growth during Park Chung-Hee's administration the government concluded that the growth-first policy could be ineffective and detrimental to helping the private sector develop creativity and efficiency. Especially, political incentives aimed at fueling the market economy increased corruption in political and government circles, rising transaction costs and thus degrading national competitiveness.

Judging that removing these opportunities would contribute to the efficient growth of the economy, the government stopped government funding. To eliminate such opportunities in the foreign exchange market, the fixed exchange rate system was replaced by floating exchange rate system, which consequently removed the gap between the official and market exchange rate.

1.3 The Roh Tae-Woo Administration (1988.2-1993.2)

Roh Tae-Woo was directly elected by the people, and his administration was in a transitional period from a military regime to a democratic government. The goal of his administration was to strengthen national competitiveness, so it sought deregulation to achieve the goal.

The administration used the phrase "deregulation" instead of regulatory reform, which signified that regulatory reform was performed only through deregulation. During this time, relaxing regulations was aimed at upgrading national competitiveness and became the main goal of the government's economic policy measures.

1.4 The Kim Young-Sam Administration (1993.2-1998.2)

Kim Young-Sam's administration tried to ease government regulations for the nation's economic growth. Shortly after its inauguration, the Kim administration announced the "100-Day Plan for a New Economy" and tried to use deregulation as a policy measure.

12 Choi, Yoosung (2009)

1.5 The Kim Dae-Jung Administration (1998.2-2003.2)

To receive an IMF bailout package at the end of 1997, immediately before the beginning of the Kim Dae-Jung administration, the government had to accept IMF requirements. Many of the IMF requirements were related to economic regulations reforms, including the opening of the capital market, improvement of the corporate governance structures, and the restructuring of the economy according to market principles and discipline.

In response to internal and external demands, the Kim Dae-Jung administration started to vigorously reform government regulations shortly after its inauguration. The reform was pursued in the direction of making Korea "a good country to do business and a good country to live in." From the beginning, this administration put more effort than any of its predecessors in reforming government regulations.

1.6 The Roh Moo-Hyun Administration (2003.2-2008.2)

The Roh Moo-Hyun administration was more socialistic than any preceding administration.[13] It put more stress on distribution and balance than on efficiency, unlike the previous administrations that emphasized efficiency. The Roh administration also pursued a small government. Therefore, regulatory reform was not a big concern at the outset of this administration.

Under this government policy, the Regulatory Reform Committee, committed to improving government regulations during the former administration, was now little more than a name in Korea. In the middle of 2004, the government learned that the lack of regulatory reform effort was one of the main reasons for corporations' timid investment activities, which resulted in a low level of job creation. The government admitted to the need to reform regulations and began to push for regulatory reform afterwards.

1.7 The Lee Myung-Bak Administration (2008.2-present)

The Lee Myung-Bak administration, which has held fast to the belief that regulatory reform is a measure to enhance national competitiveness since its inauguration, established the Presidential Council on National Competitiveness committed to reforming key regulations and improving existing regulations.

2. Regulatory Reform Organizations

2.1 The Park Chung-Hee Administration (1963-1979.12)

In 1964, a year after President Park came into power, the government established the Government Reform Investigation Committee to modify various laws and regulations.

13 Choi, Yoosung (2009)

The committee was also assigned with updating outmoded systems, as part of its effort to clear the remnants of Japan's colonization of Korea and to enhance administrative efficiency. Additionally, the government reinforced administrative regulations to achieve the government-led economic growth.

The Government Reform Investigation Committee was renamed the Government Reform Committee in 1973 and again reorganized as a presidential committee in 1988. It was comprised of 21 civilian members and sought ways to improve government organizations and systems, rather than dealing with economic regulations. To invite ideas and opinions from citizens, it conducted panel discussions, open forums and surveys. Korean regulatory reform, however, is not originated from this committee.

2.2 The Chun Doo-Hwan Administration (1980.9-1988.2)

In 1982, the government established the Committee for Improving Restraints of Growth and Development run in collaboration between government and the private sector. This Committee was chaired by the Prime Minister and consisted of government ministers and civilian representatives from business, media, cultural and labor circles.

Though not well organized, the attempt to reform government regulations was aimed at helping corporations contribute to the growth of the national economy by freeing them from regulatory burdens.

2.3 The Roh Tae-Woo Administration (1988.2-1993.2)

The Joint Private-Government Council for Modification of Settlement Laws and Regulations was organized in 1988, and the Joint Private-Government Council for Modification of Settlement Laws and Regulations was formed by the Economic Planning Board to find out the state of government intervention and to make any necessary improvement in the system. The Civil Advisory Commission for Deregulation of Administration was established in 1991, and was chaired by the Prime Minister and consisted of government ministers.

2.4 The Kim Young-Sam Administration (1993.2-1998.2)

To push reform of government regulations, the Committee for Deregulation of Economic Administration was organized by the Economic Planning Board in March 1993, the Presidential Commission for Administrative Reform in May 1993, the Industrial Regulation Review Committee organized by the Ministry of Trade, Industry and Energy in September 1993 and the Joint Review Council of Administrative Regulation organized by the Ministry of Government Administration in May 1994. During this administration, the reform of government regulations was not carried out by a single organization. Instead, various government ministries attempted to reform regulations on a competitive bases, making this administration distinctive from other ones.

The Committee for Deregulation of Economic Administration was installed as a temporary organization by the Economic Planning Board in March 1993 as part of the "100-day Plan for a New Economy" at the launch of the new government. Originally intended for temporary operation, the Committee continued to exist because of continued interest in, and implementation of, deregulation of regulations that could not be executed in a short period of time.

The government also introduced laws including the Act on Special Measures for the Deregulation of Corporate Activities, and the Framework Act on Administrative Regulations and Civil Petitions, to lay a legal and institutional foundation for reform. With the legislation of these laws, the government could have a legal and institutional justification for reforming government regulations.

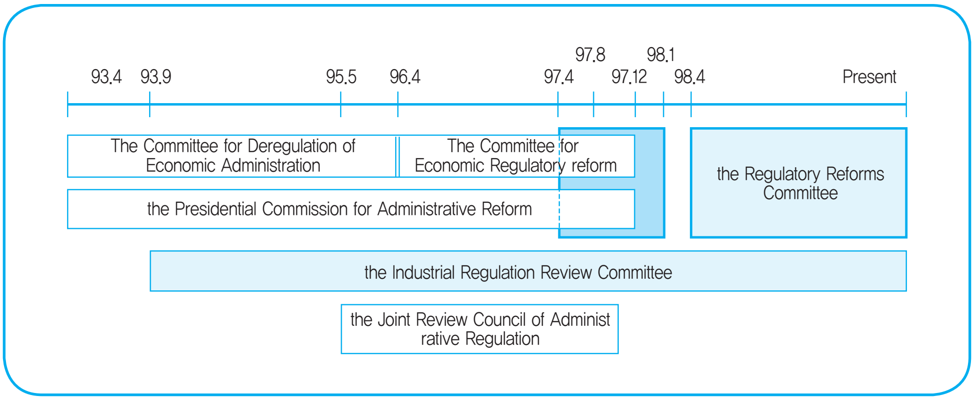
The evaluation made at the end of the Kim administration raised questions about the effectiveness of the reformative measures. This way because reform was attempted not by a unified body but by separate ministries, and major provisions of the laws were not compulsory but recommendatory in nature. In response, the government integrated these four committees into one, the Council for the Promotion of Regulation Reform, which had a higher proportion of civilian members compared to other committees.

The government also introduced the Basic Law on Administrative Regulations, of which the Presidential Commission on Regulatory Reform was clearly established. The legislation of the Basic Law on Administrative Regulations paved the way for pushing regulatory reform systematically and continuously and provided the framework for legalizing the regulation control system.

Composed by Kim Yong-Woo (1998),[14] the figure below shows the trends of the regulatory reform promotion system in the early and latter phases of the Kim Young-Sam Administration and how the system was connected to the regulatory reform system of the Kim Dae-Jung Administration.

14 Kim Yong-Woo (1998) Regulatory Reform Promotion Status and Future Tasks of the Korean Government

Figure 3-1 | Changes in the Regulatory Reform Promotion System from the Kim Young-Sam Administration to the Kim Dae-Jung Administration



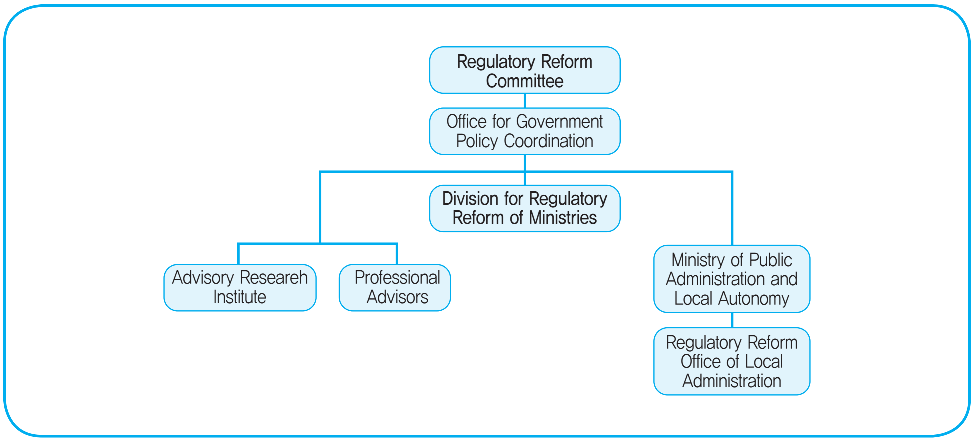
2.5 The Kim Dae-Jung Administration (1998.2-2003.2)

As pointed out above, the Kim Dae-Jung Administration was launched in 1997 during the period of foreign exchange crisis in Asia. As Korea was a recipient of an IMF bail-out fund, the government it had to implement various regulatory reforms required by the IMF. Therefore, regulatory reform was a major political goal of the Kim Dae-Jung Administration from its initial phase. The Presidential Regulatory Reform Committee was established in accordance with the Basic Law on Administrative Regulations legislated at the end of the Kim Young-Sam administration.

This was a single body for regulatory reform promotion which was sought by multiple ministries in the Kim Young-Sam administration. In addition, regulatory reform promotion organizations were installed by ministries and local government and the organizations were inter-operated so as to promote regulatory reform consistently. The Regulatory Reform Committee with legal binding force prescribed to register all of the regulations under management by each ministry according to the Basic Law on Administrative Regulations. In addition, advanced regulatory reform systems, such as the regulation registration review system, Regulatory Impact Assessment, sunset law or an advance review system for the newly established or strengthened regulations were introduced and operated.

Led by the Prime Minister as ex officio chairperson, the Presidential Regulatory Reform Committee consisted of 12 nongovernmental members, including a co-chairperson and six government members. With economic subcommittees 1 and 2 and an administrative subcommittee installed, the Presidential Regulatory Reform Committee placed technical experts in charge of investigation and research. The figure below shows the status of the Kim Dae-Jung Administration's Regulatory Reform Committee.

Figure 3-2 | Regulatory Reform Promotion System of the Kim Dae-Jung Administration[15]



2.6 The Roh Moo-Hyun Administration (2003.2-2008.2)

The reformative attempt was focused on improving regulations instead of reducing the number of regulations, centering on bulk/bundle regulations that reached across many ministries. In August 2004, the Presidential Council for Promoting Regulatory Reform convened by the president and the Ministerial Meeting for Regulatory Reform presided over by the Prime Minister was established. The temporary task force team or the Regulatory Reform Task Force was formed as an affiliated organization.

The Regulatory Reform Committee established other regulatory reform bodies, which ran counter to the integration of regulatory reform bodies at the end of Kim Young-Sam's administration. In response to this criticism, the government let the Regulatory Reform Task Force improve key regulations while allowing the Regulatory Reform Committee examine regulations that were newly created or strengthened as well as regulations subject to improvement according to the Basic Law on Administrative Regulations.

As a result, the Regulatory Reform Committee, which improved regulations during Kim Dae-Jung's administration, was placed under the Regulatory Reform Bureau and the Regulatory Reform Cabinet Meeting. Also, the Regulatory Reform Bureau had the right to examine government regulations.

2.7 The Lee Myung-Bak Administration (2008.2-Present)

As regulatory reform was recognized as a means to increase national competitiveness during the launch of the Lee Myung-Bak Administration, the government installed the Presidential Council on National Competitiveness to be in charge of the bundled and

15 Kim Yong-Woo (1998)

essential regulation reform and improving existing regulations. This indicated that the president would get involved in pushing regulatory reform, which signified that regulatory reform would be an important government priority.

The Presidential Council on National Competitiveness established the Private-Public Partnership Task Force Team, run by the private-government joint collaboration under the government and the Korea Chamber of Commerce. Additionally, the PCNC's downsized the Regulatory Reform Bureau into the Regulatory Reform Office. The Regulatory Reform Committee evaluates the regulations that are newly introduced or reinforced.

This dual structure is similar to the two-tier system operated for regulatory reform bodies during the Rho Moo-Hyun's administration. However, the current government is aware that regulatory reform serves to solidify national competitiveness and creates jobs.

3. Regulatory Reform Performance by Administration

3.1 The Park Chung Hee Administration (1963-1979.12)

The Committee considered 849 cases out of 3,616 target regulations. Technically speaking, attempts to improve government regulations during this period can be hardly seen as regulatory reform at all.

3.2 The Chun Doo-Hwan Administration (1980.9-1988.2)

The Committee selected 46 major policy tasks and 760 autonomy improvement tasks for ministries and also relaxed regulations. The policy for relaxing government regulations at this time helped to reduce the burden on people by abolishing unnecessary regulations and simplifying processes for the sake of the people's convenience.

However, it was also criticized for neglecting the importance of regulations and their prime goals by easing government regulations for administrative convenience. According to Choi Byeong-Seon (2003), criticism was raised because stakeholders were not allowed to participate in the process of deciding and enforcing the regulatory reform policy. Moreover, decision-making for reforms was influenced by political reasons with less consideration for public interest.

3.3 The Roh Tae-Woo Administration (1988.2-1993.2)

According to Kim Il-Jung and Hong Seong-Jong (1994), the Committee for Deregulation of Administration and the Civil Advisory Commission for Deregulation of Administration improved the system to reform a total of 893 target regulations. Of them, 255 were relaxed, 231 were simplified and 322 were abolished. The table below shows the performance of the Committee for Relaxation of Government Regulations.

Table 3-1 | Performance of GRC during the Roh Tae-Woo Administration

	total	abolished	merged	Deregulated	simplified	strengthened	others
incumbent regulations	764	290	17	207	193	5	52
new regulations	129	32	-	48	38	1	10
total	893	322	17	255	231	6	62

Source: The Ministry of Government Administration, 1992. Recited by Choi Yu-Sung (2009)

Deregulations were not quite successful. Despite the attempt to ease regulations, approval and permit requirements were seriously remained. The deregulation effort was mainly focused on nonessential policies such as the reduction of process time and the number of documents required for submission. Some government offices showed no sincerity in this effort in fear that they might be downsized or lose their authority.

3.4 The Kim Young-Sam Administration (1993.2-1998.2)

The Kim Young-Sam administration selected 4,477 target cases and eased 3,918 regulations during its term. To improve regulations created by the past authoritarian administrations in a short period of time, they were eased quickly without preserving enough time to review them or collect opinions.

3.5 The Kim Dae-Jung Administration (1998.2-2003.2)

The Regulatory Reform Committee, whose decisions had binding force, had all regulations under the jurisdiction of different government offices, according to the Basic Law on Administrative Regulations. A total of 11,125 regulations were registered, and the committee, with the goal of eliminating 50% of them, abolished 5,430 cases, or 48.8%, and improved 2,411 cases, 21.7%.

In 1999, the committee reviewed the remaining 6,811 cases that were neither abolished nor improved in 1998 and abolished 704 cases, or 7.4%, and improved 570 cases, or 8.4%. In 2000, it reviewed 2,533 regulations stipulated in lower administrative orders such as public announcements, guidelines and bylaws and 1,675 quasi-administrative regulations enforced by associations and public corporations modifying 2,045 cases, or 57.2% of the total.

The committee adopted and put into effect advanced regulatory reform systems including the regulation registration system, the regulatory impact analysis, the regulation sunset system and the prior examination of regulations that were newly introduced or strengthened. However, it is difficult to say whether these systems took root and were performed efficiently.

As described before, the Kim Dae-Jung administration achieved great regulatory reform success, if only in quantitative terms. Yet it failed to deregulate strategically. It had to be pushed in a systematic manner, because it was overly focused on the abolishment of regulations.

3.6 The Roh Moo-Hyun Administration (2003.2-2008.2)

The Regulatory Reform Task Force set up 54 plans for improving key regulations in seven sectors. The Roh Administration tried to reform 1,473 individual tasks and improved 954 cases. The Roh Moo-Hyun's administration tried to focus on improving the quality of regulations rather than on reducing the number of regulations.

3.7 The Lee Myung-Bak Administration (2008.2-Present)

The current government selected a total of 3,122 target regulations and reformed 1,871 cases as of 2010.

Its regulatory reform led by the Presidential Council on National Competitiveness stresses the improvement of key regulations. Meanwhile the former administration's reform effort was to improve the regulations of which there were complaints, simplifying the reform process and deregulating the regulations quantitatively. The key regulations that have been toughest to improve include development control regulations for the Seoul metropolitan area, restrictions on total equity investment for large corporations, restrictions on the separation of banking and commerce, in addition to regulations on telecommunications, broadcasting and mass media.

Table 3-2 | The Economic Policy Purposes of Regulation by Government

	Goal of Regulatory Reform	Environment	Institution	Mechanism
Chun Doo-Hwan Administration	Recovery of economic growth: Market opening and autonomy	Start of regulatory reform	Committee for Improving Restraints of Growth and Development	
Roh Tae-Woo Administration	Strengthening national competitiveness		Joint Private-Government Council for Modification of Settlement Laws and Regulations/ Committee for Deregulation of Administration/Civil Advisory Commission for Deregulation of Administration	
Kim Young-Sam Administration	Globalization	Aggressive	Legalized	Legalized
Kim Dae-Jung Administration	Recovering from crisis	Aggressive	RRC&more	Established
Roh Moo-Hyun Administration	Qualitative Regulatory Reform	Passive→ Aggressive	RRC&more	Established
Lee Myung-Bak Administration	Firm-friendly	Aggressive	RRC&more	Established

Chapter 4

Evaluation of Korea's Regulatory Reform

1. Current Reform Systems: Regulatory Reform Committee

2. Major Reform Measures

Evaluation of Korea's Regulatory Reform

1. Current Reform Systems: Regulatory Reform Committee

1.1 Overview of the Regulatory Reform System

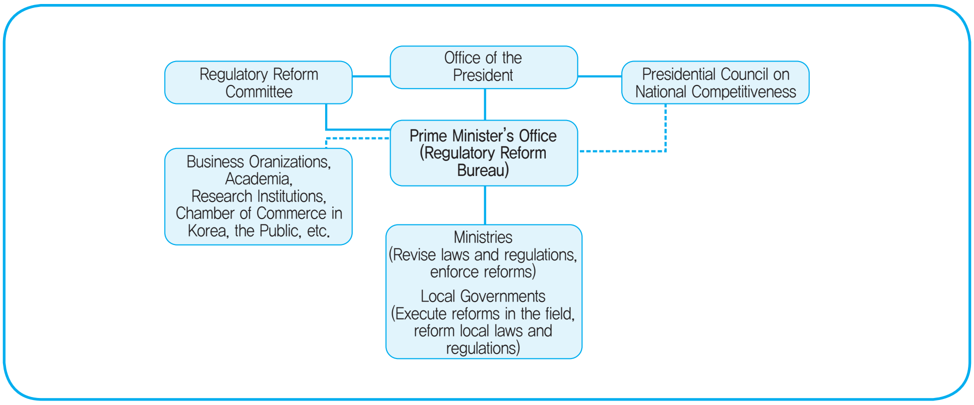
Regulatory reforms in Korea can be largely divided into one time large-scale deregulation and constant regulatory reform processes, depending on the implementation frequency.

Considering the fact that Korea has been overloaded with regulations, Korean governments have taken large-scale deregulatory measures using different organizations to a great extent since the 1980s. The current government organized the Presidential Council on National Competitiveness to enforce the deregulation of bundled regulations and essential regulations with great repercussions involving many different government departments.

Constant regulatory reform refers to the task of the Regulatory Reform Committee reviewing and approving new and modified regulations. The Regulatory Reform Committee performed both roles during the Kim Dae-Jung administration, but has been mainly concentrating on constant regulatory reform since the Roh Moo-Hyun administration. The Regulatory Reform Committee designed Temporary Regulatory Relief measures of large-scale deregulation as explained below. However, the committee's main role is still confined to constant regulatory reform.

Considering these facts, the following section will examine the current regulatory reform system with the focus on the Regulatory Reform Committee.

Figure 4-1 | Korea's Regulatory Reform System



Source: Prime Minister's Office&Regulatory Reform Committee (2010), Regulatory Reform in Korea

1.2 Evaluation

1.2.1 Environment

It is believed that there is a high social consensus on the necessity of regulatory reform based on the common experience of '50% reduction of registered regulations' in 1998, and the effects of regulatory reforms themselves. Furthermore, policymakers are well aware of the necessity of regulatory reforms and their awareness serves as the foundation for the Regulatory Reform Committee to continue its role.

However, there is still a strong repulsion in the process of improving regulations since regulations are related to the characteristics and authorities of government departments. This symptom is the one that almost all governments are suffering. The success of future regulatory reform depends on how smoothly this can be solved in the process.

In particular, as the legislations submitted by Assemblymen[16] are not reviewed by the Regulatory Reform Committee, many laws, and regulations, are immune to the scrutiny of the regulatory reform system. This is a problem that must be resolved for the sake of regulatory reforms in Korea. If government departments try to introduce regulation by persuading Assemblymen into legislation, more often than not, the current regulatory reform system will become less effective.

16 In Korea, both Assemblymen and government can submit a legislative bill to the National Assembly for legislation.

1.2.2 System

The Regulatory Reform Committee was established in 1998 in accordance with the Basic Act on Administrative Regulations passed by the Kim Young-Sam administration. The Act's form and function, however, were mostly completed during the Kim Dae-Jung administration. It can be said that the institutional elements of the regulatory reform system were almost completed by the Basic Act on Administrative Regulations, which guarantees the institutionalization and permanency of the system.

The Regulatory Reform Committee consists of 25 members: 17 civilian members, six government members, and two co-chairs (the Prime Minister and a civilian co-chair). The Regulatory Reform Bureau under the Office of the Prime Minister serves as a secretariat as it prepares analysis report for new or modified regulations submitted to the committee, while also handling external affairs.

The Regulatory Reform Committee is responsible for deciding the basic direction for regulatory policies as well as reviewing and improving regulatory systems. In addition, the committee is responsible for establishing and implementing the overall plan for regulatory improvement; registering and notifying regulations; collecting and handling opinions on regulatory reforms; and evaluating each administrative agencies' improvement of regulations. The committee takes care of almost all affairs related to regulatory reforms.

The central administrative agencies and local governments operate their own regulation review committee consisting of civilian representatives and government officials like the Regulatory Reform Committee. When the central administrative agencies improve or modify regulations, they have their own regulation review committee review the regulations prior to submission to the Regulatory Reform Committee. They set up and implement their own annual regulation review plan.

Under the current regulatory reform system, all regulations must be based on legislation, and the central administrative agencies must register the regulations to the Regulatory Reform Committee. This register system makes the reform goal easily established and the outcome of reform quantified by numbering the regulations. The Regulatory Reform Committee built a computerized database system in 1999, and has since published it on the internet.

The limitation of the prior sunset law system was lifted following the adoption of a new sunset law system, called the "sunset review system" under which the expiration time of existing regulations are reviewed at regular intervals. In January 2009, the government first set the expiration date for 558 economic regulations, or 26% of the total of 2,148 economic regulations, and again for 1,044 social and administrative regulations, 22% of total social and administrative regulations in June 2010.

To promote regulatory reforms, the governmental agencies are required to set their regulation improvement plans to keep up with changes, and the agencies who set well-established plans are rewarded based on regular evaluations. The Regulatory Reform

Committee conducts annual surveys to measure the satisfaction level of civilians and government officials with regulatory reform, and collects recommendations regarding regulatory reforms via e-mail, telephone and fax. These results are linked to feedback for regulatory reforms and ultimately help enhance public awareness of regulatory reform. According to recent survey on satisfaction with regulatory reforms, civilians and government officials showed their enhanced satisfaction with regulatory reforms.

<Table 4-1> summarizes the results of regulations reviewed by the Regulatory Reform Committee. Without the Regulatory Reform Committee, the regulations that have been recommended for withdrawal or improvement could have been enacted. This shows the role and importance of the Regulatory Reform Committee in Korea. Given that the government agencies reviewed and improved their regulation plans thoroughly before submission, the reform efforts of the committee can be appreciated more.

Table 4-1 | Review of the Regulatory Reform Committee

	No. of Regulations Examined			Examination Results			
	Unimportant Regulations (a)	Important Regulations (b)	Total (a+b)	Determined as Original (c)	Withdrawal Recommended (d)	Improvement Recommended (e)	Ratio of Improvement/ Withdrawal Recommended (d+e/b)
'07	862	397	1,259	154	25	218	61.2%
'08	746	231	974	106	17	108	54.1%
'09	782	174	956	62	22	90	64.4%
'10	729	325	1,054	168	52	105	48.3%
Aug. 2011	477	131	608	59	15	57	55%

1.2.3 Decision-Making Mechanism

When central governmental agencies introduce new regulations or reinforce existing regulations, they must first perform RIA and have own review committee review the regulations prior to submission to the Regulatory Reform Committee. The Committee determines whether they are important regulations. In the determination process, the Regulatory Reform Committee considers the effect of the regulations on daily life and socioeconomic activities of the people. The Committee notifies which regulations are deemed unimportant to the government offices in charge of implementation.

The Committee has 17 members from the private sector and six members from governmental agencies. The increased number of individuals from the private sector reflects the considerable participation of the private sector. The Committee's examination process includes the stages of coordinating and communication to give stakeholders sufficient time to reveal their own opinions and thoughts.

RIA is required by the Basic Law on Administrative Regulations to be conducted before submission to the Regulatory Reform Committee. This proves that the eventual decision-making mechanism consists of all the necessary components.

High-ranking government officials are enthusiastic about participating in the decision making process because the public has a high level of awareness of regulatory reforms. The Presidential Council on National Competitiveness, established by the current administration, streamlines important regulations and bulk regulations involving many governmental agencies.

2. Major Reform Measures

2.1 1998 Regulatory Reform

2.1.1 Environment

Various regulatory reform measures had been implemented prior to the Kim Young-Sam Administration, but the social awareness of regulatory reforms, nonetheless, was very low at the time. The private sector argued for deregulation, but was regarded as a voice of vested groups on a number of occasions. Policymakers or the general public wsa then seen to have a low awareness of regulatory reform.

However, the financial crisis which broke out in December 1997 formed an awareness of and a consensus about the necessity of social and economic reforms in Korea. Reform no longer meant simple regulatory reforms, but a more comprehensive improvement of the system as a whole that was absolutely required for the country to overcome the crisis. In this regard, one can surmise that the best environment for regulatory reforms was created at by a sudden and unexpected event.

2.1.2 System

Many institutional mechanisms for deregulation and reform had been implemented before the Kim Young-Sam administration, but organizations or systems were changed, or even abolished with each new government. The system for continuous regulatory reforms was not in place.

However, at the end of the Kim Young-Sam administration, the Basic Law on Administrative Regulations was passed in the National Assembly, and the current regulatory reform system was born. When this law went into effect in the first year of the Kim Dae-Jung Administration, following the financial crisis, the Regulatory Reform Committee was established and became entrenched into what it is today.

In the Regulatory Reform Committee, the highest-level organization for regulatory reform, civilians and government officials jointly participated in the decision-making process. The committee is co-chaired by the Prime Minister and a civilian member, and has 20 members: 12 civilian committee members and six government committee members. The reason why there are more civilians on the committee than government officials was due to the belief that the general public or regulated community should take regulatory reform a significant step further through direct participation.[17] Also, the administrative secretariat of the Regulatory Reform Committee was the Regulatory Reform Bureau[18] in the Office for Government Policy Coordination, which included three secretarial offices and 11 teams. It can be surmised that a permanent organization for regulatory reforms was completed during this period. To reinforce expertise, about 10 expert advisers were appointed from each area. It was a move to reinforce expertise necessary for large-scale regulatory reforms, under the motto of '50% reduction of registered regulations.'

The Regulatory Reform Committee enforced large-scale deregulation at first to reform the economy, while gradually improving the regulatory reform system. Almost all features of currently a comprehensive system for efficient regulatory reforms were completed during this time.

2.1.3 Decision Mechanism

From a procedural point of view, the '50% reduction of registered regulations,' which was introduced in 1998, is led by the Regulatory Reform Committee and the Regulatory Reform Bureau supporting the committee. As the Regulatory Reform Committee is co-chaired by a civilian and the Prime Minister, and more importantly as there are relatively more civilian committee members than government officials, the committee can be deemed to have a decision mechanism that assures civilian participation.

Looking at the process of making decisions, however, it is clear that the president's will is the decisive factor. First of all, the level of regulatory reform was greatly reinforced by the president's will. A cabinet meeting in April 1998 concluded with plans to cut regulations down to two-thirds of its level at the time, which was thought of as too ambitious. However, on June 17, President Kim Dae-Jung announced to the head of the Office for Government Policy Coordination, "The government departments' own plans do not meet expectations. So make new plans and improve (abolish or improve) more than 50% of all regulations before the end of 1998."[19] He ordered a more intensive regulatory reform than the decision from the cabinet meeting.

17 See Zu-sun Rhee (2011), p10.

18 It is currently Regulatory Reform Bureau in the Prime Minister's Office.

19 Documents from Presidential Archives

The president's will to enforce regulatory reforms can be said to motivate regulatory reform to continue by checking the regulatory reform process through constant reports and meetings. Most of the Regulatory Reform Committee's systems have been set up during his administration.

However, as the regulatory reform in 1988 was large in scale, and government departments were required to submit their decision to improve or abolish regulations, no RIA was conducted. Only expert advisers dispatched from research institutions and government officials analyzed and coordinated the performance of each department, with regards to the abolition or improvement of regulations. This system for analyzing reform measures may be inescapable and best fit for considering both the lack of RIA experiences and scale of the reform. In fact, RIA was seldom prepared during the government's large-scale deregulatory measures in Korea.

Table 4-2 | Results of 1998 Regulatory Reform

Total number of regulations	Decisions in 1998			Remained
	Subtotal (%)	Abolition (%)	Improvement (%)	
11,125	7,841 (70.5%)	5,430 (48.8%)	2,411 (21.7%)	3,290 (29.5%)

Source: The Regulatory Reform Committee, "Regulatory Reform White Paper 1998," 1999

2.2 Regulatory Reform Task Force

2.2.1 Environment

The regulatory reform system during the initial phase of the Roh Moohyun's administration was not very different from those of the previous Kim Dae-jung's administration. While the count of regulations was 11,125 as of April 1998 (the initial phase of the Kim Dae-jung's administration, it dropped down to 7,520 as a result of continuous efforts for deregulation and improvement by early 2003 during which the Roh Moo-hyun's administration was launched).

However, despite the quantitative decrease, there have been limits to qualitative improvement of regulations. Although the count of individual regulations significantly decreased, the bundled and essential regulations were yet to be modified and improved. Most of the bundled and essential regulations were related to a number of government departments rather than a single government branch. Since it was not easy to reconcile opinions among government branches and the ripple effect was significant, it has been difficult to achieve qualitative improvements during this time.

In addition to the view that too much focus had been placed on quantitative easing, there were critics who accused that the main agents of regulatory reform of failing to sufficiently reflect the private sector's view. This was because a system to collect their opinions and to connect them to regulatory reform had not been established at this time.

The Roh Moo-hyun's administration judged that quantitative regulatory reform was no longer meaningful because the previous government had already reduced the count of regulations by approximately 50%. Instead, with a goal of qualitative improvement, the necessity of mass regulatory reform concerning a number of government branches was acknowledged. Individual regulatory reform only requires revision of the related legislations. However, the bundled and essential regulation reform needs a new supra-branch, professional and powerful organization since it concerns a number of government authorities. This led to the launch of Regulatory Reform Task Force. As an organization independent from the existing Regulatory Reform Committee in charge of regulatory reform operations, the Regulatory Reform Task Force conducted regulatory reform operations in two sectors that had previously been promoted uniformly at the inter-governmental level.

2.2.2 Institution

The Regulatory Reform Task Force extensively handled the bundled and essential regulations. Rather than a permanent system, the Regulatory Reform Task Force was established as a temporary organization to perform its duties for two years from August 2004 to August 2006. However, in August 2006, economic organizations, such as the Federation of Korean Industries and the Korea Chamber of Commerce, made a proposition to extend the term for this organization. With the proposition, the term was extended for anothre two years to August 2008.

The regulatory reform coordinator holds the position of adjunct head of Regulatory Reform Task Force. Managed in team units, the Regulatory Reform Task Force is composed of approximately 50 persons in a total of three teams, the planning supervision team, regulatory reform team 1 and regulatory reform team 2. 12 of the members are from enterprises, two are from economic organizations, 10 are researchers and 26 are public officials. As such, it attempted user-centered reform. The director-level public officials or nongovernmental experts could serve as team leaders. The organization has been restructured since and the member count[20] was lowered to 35. The three teams in the original plan were changed to a total of five teams, with the society and culture team and implementation management team added.

20 Consisting of 19 public officials and 16 non-governmental experts

2.2.3 Decision Mechanism

A characteristic feature of the Regulatory Reform Task Force is the substantial participation by nongovernmental experts. Although regulatory reform organizations of the previous governments also had private participation, they were never ready to promote substantially user-centered regulatory reform. However, the Regulatory Reform Task Force performed operations centering on the actual fields concerned by identifying issues and details of regulatory reform demand from the view point of nongovernmental staff, such as employees dispatched from enterprises. The task forces also collected data through non-governmental interviews in order to have the contents directly reflecting the interests of the private sector. In addition, regulatory reform took place in a direction of canvassing private demands through collection of public opinions.

First, the Regulatory Reform Task Force selected improvement tasks, prepared and confirmed improvement plans in relation to the tasks selected and then implemented follow-up measures.

The improvement tasks were selected through a public invitation of proposals or by directly collecting suggestions from enterprises based on cooperation with economic organizations or through local governments. As a principle of selection, tasks related to a number of government branches and with large ripple effects of regulatory reform were selected quarterly and, based on the tasks selected, alternative improvement plans were prepared so as to reflect demands of the related parties as much as possible. After sufficiently collecting opinions by visiting these sites, the task force was able to investigate the status of regulatory operation, listen to opinions of the related persons and interview the public officials concerned, alternative improvement plans were prepared by analyzing cases of regulatory application and irrational applications, reviewing purport and contents of the regulations and considering market conditions.

From the alternative improvement plans, internal and external experts selected the optimal alternatives and, by organizing discussions and public hearings, opinions of the stakeholders and civic groups were collected and reflected. Then, with the related government branches, improvement plans were reviewed, issues of dissenting opinions were deliberated upon, and the plans were finally adjusted at the vice-ministers' meeting, being confirmed at the regulatory reform ministers' meeting. Since ministers directly participated in regulatory reform, the acceptance level of regulatory reform by the related government branches was high.

Once improvement plans are confirmed, they are notified to the government branches. Upon notification, the government branches concerned must establish detailed enforcement plan and submit it to the Regulatory Reform Task Force. With the detailed enforcement plan, the Implementation Management Team of the Regulatory Reform Task Force managed implementation status of the plan and, at the same time, the results were disclosed to the public through online regulatory reform monitoring system.

As such, the significance of the Regulatory Reform Task Force is that it prepared improvement plans for a mass of regulations raised as problematic ones by users and therefore secured a foundation for a systematic regulatory improvement. In addition, in the midst of promoting reform, the Regulatory Reform Task Force thoroughly increased users' confidence in and satisfaction with the regulatory reform by laying down a principle of user-centered and field-oriented methods. This resulted from the fact that the Regulatory Reform Task Force was a public-private organization, and because the private sector played a significant role within the organization.

In March 2007, the OECD announced its regulatory reform monitoring results. The method of private participation in the Regulatory Reform Task Force was highly praised for "implementing a user-participatory regulatory reform promotion system." Furthermore, the Regulatory Reform Task Force was assessed to be an original and effective organization that is unparalleled anywhere in the world. Although the previous governments also had private participation in regulatory reform, they ended up being little more than formal participation and failed to produce any substantial results. However, the Regulatory Reform Task Force was the first organization to enable substantial private participation with its non-governmental members permanently stationed to participate in the reform efforts.[21]

2.3 2009 Temporary Regulatory Relief Program

2.3.1 Environment

Temporary regulatory relief program is moratorium of the enforcement of a regulation because it may impose a burden on economic activities for a set period of time. As a new regulatory reform system, temporary regulatory relief program refers to the government temporarily suspending or alleviating burdensome regulations, until the economic crisis at hand can be overcome.

Due to the global financial crisis during the second half of 2008, OECD countries' growth fell by an average of 2.1% in the first quarter of 2009. In response to this, the Korean government strived to overcome the economic crisis by expanding fiscal outlays, including an earlier-than-usual execution of the budget during the first half of 2009. However, efforts to stimulate economy by increasing private investment and consumption failed to produce any sufficient effects to overcome the crisis at the time.

Along with the expansion of fiscal outlays designed to overcome the economic crisis in Korea (triggered by global financial crisis), the government enforced the temporary regulatory relief program to suspend the effects of regulations from March 2009. Since the reform of deregulation, or deregulation iself, had been implemented to a considerable extent during the previous administration, most of the regulations still remaining in the Lee Myung-Bak's administration have political necessities. In other words, the political stakes

21 Academia has expressed another point of view.

for these regulations are intertwined, and therefore the permanent abolishment of them could result in conflicts or accompany significant cost.

The sunset clauses, a means of regulatory reform, prescribe to abolish a regulation after its set term of existence. These also pose limitations in the effects of regulatory reform to be produced promptly. Therefore, encouraging promotion of private investment by postponing application of regulations for a period set by the government can function as an appropriate alternative in times of crisis when swift politic handling is necessary. The temporary regulatory relief program was a measure introduced to activate private investment within a short period of time from enterprises that had been putting off investment due to various regulations. It was also to increase more prompt and substantial economic activation effects in terms of regulatory reform by jointly enforcing the government's expansion of fiscal outlays. The ultimate goal of such policies was to overcome economic crisis even with the existence of a significant number of regulations that are difficult to be abolished or deregulated due to politic.

For tasks that are subject to the temporary regulatory relief, effects of the regulations concerned are restored, as a rule, once the relief period is over. However, if no adverse effects occur or positive investment promotion is achieved during the period of relief, follow-up measures can be taken to abolish or improve the regulations.

2.3.2 Institution

For two months after the introduction of the temporary regulatory relief program in March 2009, approximately 1,000 applications were received. When deciding which of tasks are to be the targets of regulatory relief, the selection criteria are important. The government largely set out three criteria, which were, first, how helpful the task is to substantial economic recovery; second, how much effect the private investment would produce in a short period of time; and third, if there are any risks to the life and safety of citizens, or elements that may endanger legal stability and equality. Tasks conforming to these criteria are proposed by enterprises, the government and the people, reviewed by the Deputy Minister for Regulatory Reform in the Prime Minister's Office and confirmed after deliberation and coordination during a meeting of related government branches.

By applying the criteria, 280 regulations were selected. Of the tasks selected, the highest percentage was related to the alleviation of burden on enterprises for business activities. In order to lower the burden on enterprises, various regulations limiting business activities were adjusted to suite reality and group training and administrative inspection were improve to reduce inconvenience in business activities.

For example, at the time, it was prohibited to install lodging facilities in a golf course. However, installation was allowed once the set criteria were satisfied. By alleviating this criteria, installation was permitted in locations where the total water pollution load system was implemented within special management areas pursuant to the Framework Act on

Environmental Policy. It was also required that the course to built in locations that were not within 7km upstream from intake points where the total water pollution load system was implemented pursuant to the Act on Water Management of the Four Rivers. In addition, the requirement to install nine holes or more was abolished.

For group training required annually for food and public health business people running restaurants, bakeries and bathhouses, the regulation was relaxed to substitute group training with on-line training for two years. After the deregulation measure was implemented, the government reviewed problems of group training and lowered inconveniences to small-scale business people by permanently allowing group training to be substituted with on-line training.

Of the 280 regulations selected, the second largest percentage was related to resolving difficulties in venture capital investment. As regulations originally introduced to prevent indiscriminate development in urban areas and green belts, restriction on extensions and combined development regulations got in the way of establishing business and inducing investment. To enable a more efficient way to establish business or expanding of the existing plants, these restriction were lifted. The building-to-land ratio for plants in preservation zones was adjusted from 20% to 40%. In addition, for combined development within use zones, the regulation to limit the scale of development by totaling the base area and development area was postponed for two years.

Furthermore, to activate the local economy and expand support targets in order to alleviate difficulties experienced by small businesses and common citizens, regulatory relief aiming at expanding support to small businesses in regional areas was implemented. The criterion of employees count for qualification as an auxiliary research lab to a small business was lowered from five to three individuals. In addition, the state properties' rental rates for small businesses were cut down from 5% to 3%. The period of income tax exemption was also temporarily postponed, by extending the period for two years until 2011.

2.3.3 Performance

In the process of preparing temporary regulatory relief, more than 1,000 tasks were registered by government departments, local government and economic organizations. Those tasks which could not be determined in a short period of time, because doing so would require amendment with the the National Assembly were minimized. Only tasks that could take effect only with a simple revision of enforcement ordinances and regulations were selected, and temporary regulatory relief for 280 regulations was selected.[22] In less than two months, 150 of the target tasks were revised, and except for a few tasks for which the legislation process is delayed at the National Assembly as of April 2011, improvements are being applied.[23] Eventually, 42% of these tasks have been permanently improved.[24]

In the process of selecting targets for temporary regulatory forbearance, regulations for preventing indiscreet development, i.e. extension restrictions and adjacency regulations, were deferred. As a result, factory extension permits were granted to 15 companies in Gyeonggi-do Province within six months, and KRW 73 billion was invested with increased sale, thereby creating more than 360 jobs.[25] The annual mandatory education for food and public sanitary business operators like restaurants and bakeries were substituted with online education for two year. As a result, inconvenience to about 790,000 small-scale businessmen was mitigated. The number of researchers in the SME-affiliated research centers was reduced from five to three, benefiting about 880 SMEs. Finally, income tax deductions for regional startups and venture companies was extended for another two years until 2011, thereby giving them benefits worth about KRW 170 billion.

22 Choi , Byung-Sun, KIET (Korea Institute for Industrial Economics and Trade) Interview (2011)
23 Prime Minister's Office (2011), A story about Lee Myung-Bak Administration's regulatory reform
24 Prime Minister's Office (2011), A story about Lee Myung-Bak Administration's regulatory reform
25 Prime Minister's Office (2011), A story about Lee Myung-Bak Administration's regulatory reform

Chapter 5

Economic Effects of Korea's Regulatory Reform

1. Cost Benefit Analysis of 1998 Regulatory Reform
2. Potential Effects of Regulatory Reform in Korea
3. Potential Effects of Deregulation
4. Effect of Implicit Regulation

Economic Effects of Korea's Regulatory Reform

1. Cost Benefit Analysis of 1998 Regulatory Reform[26]

1.1 Methodology

The cost benefit analysis of 1998 Regulatory Reform started with the president's order to show the benefits of the reform. By doing so, the president believed that the government could maintain momentum for further reform initiatives.

However, this was perceived to be a very difficult directive, mainly due to a lack of experience in cost benefit analysis. In seeking a suitable method to estimate the benefits of the 1998 Regulatory Reform, the following three factors were considered.

First, the effect of various reform measures could be calculated, and the effects calculated would be summed for further analysis. The regulatory reform measures taken in 1998 include economic measures, social measures and even administrative measures. The calculated benefits would be different in characteristics, and a different method for each regulation could be applied.

Second, there were no available statistics measuring the effects of regulatory reform measures. The effects were then being realized, or had yet to be realized since many measures were only scheduled to be implemented, or had just been implemented at the beginning of this analysis.

Third, the results of the analysis could not be compared for assuring reasonable estimates, due to relatively limited experience in deregulation. There was only a scant amount of empirical analysis on regulations in Korea.

26 Ha, Byungki (1999A) was summarized.

For the reasons the above, a method that was, as consistent as possible, had to be applied to quantify cost and benefit of each regulation, thereby producing an aggregate that combines different benefits. The following steps were therefore taken.

Firstly, the reform measures chosen for the analysis were categorized as foreign investment, job (and business) creation, business burden easing, citizen convenience, and anti-corruption measures based on the characteristics of related regulations. The task of categorization was performed by experts in the Regulatory Reform Committee in addition to officials in charge of each regulation.

Secondly, the method applied for calculation was narrowed to calculate the direct effect or benefits, as much as possible. Applying an indirect and detailed approach, which could be complicated further in every consecutive step of analysis, seemed to be not feasible within the scope of this analysis, and would make it almost impossible to calculate the tangible overall effect.

Thirdly, the benefits or effects were categorized as having an effect on employment, easing burden on the private sector and government savings.[27]

Fourthly, government officials were asked to calculate the basic effect or benefit of each measure. The officials in charge of regulations had more knowledge, statistics and specialties on the impact and structure of regulations scheduled to be abolished or improved.

The analysis on so called "package regulations"[28] including measures related to foreign direct investment, were performed by expert advisors of the Regulatory Reform Committee and researchers.

The benefits derived from these procedures can be interpreted as costs of regulations abolished, as the benefits of deregulation are calculated. The methods applied in this analysis can be included in the category of a partial equilibrium analysis, since only the related facts are considered in the process of calculation.

Based on the calculations of related government institutions, this analysis is similar with U.S. OMB's report,[29] although the latter analyzed the costs and benefits of working regulations. However, the analysis conducted in this paper can be termed as an overall approach, or a combined approach of various cost benefit analyses.

1.2 Estimated Effects

The analysis shows that regulatory reform in 1998 could have produced significant benefits through creating a business-friendly environment, reducing unnecessary government interventions and streamlining administrative procedures as shown in <Table 5-1>.

27 Government savings, which initially meant the net saving of the government, is divided into government saving and ex post facto government revenue.

28 Refer to a bundle of regulations that regulates a similar or identical situation.

29 See US Office of Management and Budget (1999).

Table 5-1 | Summary of Benefits
(5 Year Total over the Period between Year 1999 and 2003)

	Benefits	Notes
Employment	1.066 million (minimum 680,000) jobs	Inward FDI accounts for 49.6%.
Private burden ease	18.690 trillion Won (15.575 billion dollars)	Amounts to 4.4% of 1997 nominal GDP.
Government saving	590 billion Won saving	1 trillion and 210 billion Won of revenue reducion[1]
Inducement of inward FDI	36.500 billion dollars (minimum 26.900 billion dollars)	Based on the forecast that inward FDI will reach to 48 billion dollars over the five year.

Note: Includes the revenue reduction resulting from abolition of "cap on the area of land for housing."

1.2.1 Employment

Regulatory reforms in 1998 were estimated to create 1.066 million jobs in total over the period between 1999 and 2003, a considerable figure. This estimate amounts to 4.9% of the total labor force in 1998.

As shown in <Table 5-2>, even in 1998, 119,000 of the jobs are estimated to be created or maintained. Until 2003, over 200,000 individuals were expected to obtain or keep positions at the workplace, if the measures were implemented as scheduled.

In the year 2000, the effect of employment was calculated to be the largest. This is because the level of the employment created or maintained by newly introduced foreign direct investment was the most substantial. Measures, such as abolishing the obligatory employment clause that cause some negative employment effects in 1999, were not expected to show a further negative effect. Furthermore, measures like the abolition of the "public sanitary law" would continue to provide a positive impact on employment for one or two years in 2000. Considering all this, effects of the reform measures were expected to be gradually weakening.

In particular, reform measures in foreign direct investment were expected to be a main contributor to employment, by creating or maintaining 528,000 jobs. Employment related to foreign direct investment accounted for 49.6% of total jobs estimated.

If the analysis included jobs indirectly created through enhanced flexibility of the labor market, vitalized entrepreneurship and strengthened industry competitiveness, the employment effect may be larger than estimated above. The abolition of the obligatory employment clause reduced employment temporarilly, but eventually provided more flexibility to the labor market, which is expected to gradually mitigate the amount of reduced employment.

Table 5-2 | Employment Effects

(Unite: person)

1998	1999	2000	2001	2002	2003	Total
119,318	220,518	227,343	209,046	203,911	205,332	1,185,469 (1,066,151)

Note: The number in parenthesis represents the total over 1999 –2003.

1.2.2 Private Burden Ease

The private burden eased (expenditures forgone to business and citizens) over the five year period was valued to be 18.690 trillion Won (15.575 billion dollars calculated at 1,200 Won per U.S. dollar), which amounted to 4.4% of nominal GDP in 1997.

The value of burden eased has continued to increase from 1 trillion won in 1998 to 3.990 trillion Won. In 1998, the first year of regulatory reform, the effect was mild, since only some measures had been effective. Thereafter, the burden eased continued to increase in line with the assumed economic growth. This increase could be expected since the benefit calculates the difference compared between a hypothetical case with regulations, and a future case without regulations or with improved regulations.

The opportunity cost of time, a converted value of time forgone otherwise, contributes mostly to the value of the burden eased. On the other hand, monetary transfer to government, fees and penalties, was a minor contributor. The monetary transfer, reflecting reduction in government revenue explained in the following, accounted only for 6.5% of the total burden eased.

Table 5-3 | Private Burden Ease Effect

(Unit: Million Won)

1998	1999	2000	2001	2002	2003	Total
1,003,182	3,506,381	3,661,354	3,749,976	3,826,366	3,948,486	19,695,745 (18,692,563)

Note: The number in parenthesis stands for total over 1999 –2003.

1.2.3 Government Saving

The Korean government can expect to save 590 billion won over five years by reducing the working time of public officials and expenditures for managing regulations if the deregulation is implemented effectively as scheduled. This five year saving amounts to 0.43% of total government finance in 1997, 137.419 trillion Won.

However, reduction in government revenues offsets the level of savings. Fees and penalties, which is assumed to be reduced or eliminated altogether through deregulation, has been estimated at 1.210 trillion Won. This reduction exceeds savings by 620 billion won. The greatest reduction comes from the abolition of a “cap on the area of land for housing,” according to which all the citizens violating this cap were required to pay a 200 billion won of penalties every year from 1999. Excluding this penalty, revenue reduction is thwarted significantly to 210 billion won over the five year period.

Government savings should not be underestimated since this is not the main objective, but a side effect of regulatory reform. If saved work time can be properly reallocated to the other sectors within the government, the Korean government can enhance efficiency and thereby improve its reliability and confidence. This reallocation may be an important factor for regulatory reform as important as restructuring itself. An excess labor force, which may arise in the process of regulatory reform, can bring about problems for restructuring and government reliability. In a much worse case scenario, it may produce additional regulations, or perpetuate unnecessary regulations.

Table 5-4 | Impact on Government Saving and Revenues

(Unit: Million Won)

	1998	1999	2000	2001	2002	2003	Total[1]
Saving	75,110	110,631	114,067	117,663	121,856	126,198	665,525 (590,415)
Revenues reduced	7,686	237,793	242,067	242,067	242,067	242,067	1,213,747 (1,206,062)
Net Effect	67,424	-127,162	-128,000	-124,404	-120,211	-115,869	-548,222 (-615,647)

Note: 1) The number in parenthesis stands for total over 1999 –2003.
2) The numbers from 1999 on include the revenue reduction resulting from abolition of “cap on the area of land for housing”.

2. Potential Effects of Regulatory Reform in Korea

2.1 Methodology

The methodology used in estimating potential economic effects is a direct application of OECD (1997) methodology. This research was implemented mainly to prepare for OECD’s Korea regulatory quality review in 2000. The effects were derived on the assumption that Korea would perform ideal deregulation in relevant sectors.

The effects are derived through three stages. In the first stage, the effects of regulatory reform in five sectors were estimated by industry experts: electricity, construction, distribution, road transport and telecommunications. The objective is to obtain quantitative estimates of the potential impact of new or additional programs of regulatory reform in these sectors, thereby obtaining estimates of macroeconomic effects from pending regulatory reform policies.

The second stage provides estimates of the overall impact of regulatory reforms in the five sectors. The second stage analysis consists of first-round and second-round effects. The first-round effects are calculated by weighting together the estimates of the impact on productivity, profits, prices and employment among other factors in each sector by using each sector's contribution to GDP or employment. The second-round effects, which measure the interaction with other sectors, are estimated by using Korea's 1995 input-output table.

The third stage investigates the macroeconomic effects of regulatory reform, using the KIET macro-econometric model. In the KIET model, five shocks of productivity, employment, producer price and wage were applied. Those shocks were derived from the second stage.

2.2 Macroeconomic Effects of Ideal Deregulation

Table 5-5 | Effects of Deregulation on Prices and on Input Costs of Other Industries

	Producer Prices	Consumer Prices	Export Prices	Main indirect beneficiary (percentage fall in total costs in parenthesis)
Korea	-2.21 (-1.76)	-1.88	-0.89	Office supplies (-1.4), Electricity (-1.0), Inorganic chemical basic products (-1.0), Wholesale and retail trade (-0.9), Coal mining (-0.8), Cement and concrete products (-0.8), Non-classifiable activities (-0.8), Gas and water supply (-0.8), broadcasting (-0.7), Wood and wooden products (-0.7)
United States	-0.30 (-0.19)	-0.33	-0.13	Metal ore mining (-0.5), Pipelines and transport services (-0.3), Public enterprises (-0.4), Hotels and lodging places (-0.2), Retail trade (-0.2)
Japan	-2.09 (-1.42)	-2.77	-1.44	Non-ferrous metal products (-1.3), Gas and water (-1.0), Construction (-0.8), Restaurants (-1.1), Postal Services (-1.0)
Germany	-1.31 (-0.86)	-1.62	-0.83	Mining (-1.0), Non-ferrous metal products (-1.0), Water (-2.0); Railways (-1.1), Restaurants (-0.7), Food products (-0.5)

	Producer Prices	Consumer Prices	Export Prices	Main indirect beneficiary (percentage fall in total costs in parenthesis)
France	-1.51 (-1.02)	-1.83	-0.81	Iron and steel (-0.8), Non-ferrous metal products (-1.0), Construction (-0.4), Restaurants (-0.5), Financial services (-0.5)
United Kingdom	-1.18 (-0.77)	-1.44	-0.52	Non-metallic mineral products (-0.7), Railways (-2.2), Postal services (-0.4), Financial services (-0.3), Real estate and business services (-0.3)

Note: 1) First three columns show the sum of the direct and indirect effects of sectorial deregulation. The final column shows the main indirect beneficiaries of lower input costs from the sectors of each country.

2) Direct effect from lower output prices in parenthesis.

Source: Calculations for Korea from KIET and other calculations from OECD (1997d).

In order to investigate the macroeconomic effects of reform, various policy simulations are implemented. By applying this simulation, the analysis attempts to answer how and how much macroeconomic variables such as real GDP (RGDP), consumer price (CPI), employment (EMP), unemployment rate (UEM) and real wage (RW) changes compared to actual values, when each shock changes by the corresponding number in the table.

First of all, a positive TFP shock reduces the inflation gap by increasing the potential GDP through the production function and directly decreases the producer price. With a reduction of the inflation gap and producer price, the consumer price also declines. This price reduction contributes to expanding net exports by raising the price competitiveness of domestic goods, and then to increase the GDP to the expanded level of potential GDP. The positive shock decreases the employment and increases the wages through the rise of the nominal wage, and the decline of prices. However, in the long-run, the decreasing rate of employment declines with the increase of GDP, and the increasing rate of real wage reduces with the decrease of nominal wage due decreases in the prices.

Secondly, negative price shocks decrease the producer price directly followed by the consumer price. The price decline results decrease the GDP and employment to a lesser degree at first, but in the mid- and long-run it contributes to expanding net exports and GDP through the enhanced price competitiveness of export goods, thereby increasing employment as well. And due to the decline of consumer price, nominal wage decreases and real wage also declines because the decreasing rate of nominal wage is greater than that of consumer prices.

Table 5-6 | Macroeconomic Effects by Shock

(Unit: %)

	Present	After 1 Year	After 3 Years	After 5 Years	After 7 Years	After 10 Years
TFP shock						
RGDP	2.31	3.30	5.53	5.79	6.11	7.82
CPI	-2.54	-3.01	-4.84	-5.78	-6.18	-6.53
EMP	-2.31	-1.79	-0.63	-0.49	-0.32	0.56
RW	3.72	2.71	0.95	0.26	-0.06	-0.36
UEM	2.25	1.75	0.61	0.48	0.32	-0.54
Price shock						
RGDP	-0.20	-0.07	1.31	1.81	1.18	0.83
CPI	-1.68	-3.70	-4.69	-2.74	-1.33	-0.85
EMP	-0.11	-0.04	0.72	1.00	0.65	0.46
RW	-2.36	-4.12	-4.08	-2.01	-1.01	-0.72
UEM	0.11	0.04	-0.70	-0.97	-0.64	-0.44
EMP shock						
RGDP	-0.02	-0.03	-0.22	-0.18	-0.10	-0.13
CPI	0.36	0.60	0.45	0.18	0.15	0.18
EMP	-1.68	-0.02	-0.12	-0.10	-0.06	-0.07
RW	0.51	0.60	0.34	0.12	0.14	0.16
UEM	1.64	0.02	0.12	0.10	0.06	0.07
Wage shock						
RGDP	0.0000	-0.0004	0.0013	0.0011	0.0000	0.0002
CPI	0.0000	-0.0039	-0.0032	0.0000	0.0005	-0.0003
EMP	0.0000	-0.0002	0.0007	0.0006	0.0000	0.0001
RW	-0.0130	-0.0150	-0.0124	-0.0097	-0.0099	-0.0105
UEM	0.0000	0.0002	-0.0007	-0.0006	-0.0000	-0.0001
All shocks						
RGDP	2.09	3.18	6.54	7.44	7.23	8.57
CPI	-3.83	-6.05	-8.92	-8.24	-7.32	-7.18
EMP	-4.05	-1.85	-0.10	0.36	0.25	0.94
RW	1.78	-0.94	-2.89	-1.69	-0.97	-0.95
UEM	3.95	1.82	0.10	-0.35	-0.25	-0.91

Thirdly, a negative employment shock decreases the potential GDP by way of the production function followed by an increase in consumer prices with an expanded inflation gap. The rise in consumer prices reduces net exports with an increase of import volume due to the decline in the relative price of import goods to domestic goods. Affected by the reduced net exports, the GDP is lowered to the reduced potential GDP level. The negative shock also increases the real wage with the rise of nominal wage greater than that of consumer prices.

Fourthly, a negative wage shock, even though its effects are small, decreases the producer price directly followed by a decrease in consumer prices. The price decline contributes to increased GDP and employment levels, with an enhancement of price competitiveness for export goods. The real wage declines due to the reduction of nominal wages, although the price decrease contributes to increasing real wages.

Finally, considering all shocks resulting from regulatory reforms in the five sectors, the GDP increases by 2.1% at first and its growth rate expands to 8.6% in the long-run. The consumer price declines by 3.8% at first and by 8.9% after three years, but from on then its decreasing rate reduces gradually to about 7.2% after 10 years. Employment declines by 4.1% at first, and its decreasing rate reduces in the mid-run. In the long-run, employment increases by 0.9%. Although real wages increase by 1.8% at first, from the following year it begins to decline and its decreasing rate expands to 2.9% after three years. From then, its decreasing rate reduces continuously and after 10 years, it drops to 1.0%.

In sum, regulatory reform can boost economic growth in Korea more than other OECD countries even considering the limitations on direct comparison due to the differences in model and method used. The growth effect of 8.6% in Korea is higher than that of Japan, both in absolute number and as a ratio of GDP growth to share in GDP of sectors analyzed, as shown in <Table 5-7>.

Table 5-7 | Comparison of the Effects on Economic Growth

	Korea	United States	Japan	Germany	United Kingdom
GDP growth (%)	8.6	0.9	5.6	4.9	3.5
GDP/Share in GDP (ratio)	0.36	0.18	0.34	0.23	0.18
Memorandum items:					
Share in GDP (%)	24.1	4.9	16.6	21.6	19.0
Share in employment (%)	17.4	1.4	22.3	19.5	22.0

Source: Calculations for Korea from KIET and other calculations from OECD (1997d).

3. Potential Effects of Deregulation

The analysis of economic effects from Korea's regulatory reform has been a major source of concern for researchers and policy makers. For this analysis, diverse methods including the cost-benefit analysis have been used. The advantage of using various methods is to see the economic effects of regulatory reform in quantitative terms by analyzing the benefits of regulatory reform. In this section, attempts of regulatory reform are examined with focus on methods and results.

Korea Institute for Industrial Economics&Trade (2005)[30] reviewed the methodologies used in analyzing the effects of regulatory reform. KDI (2005)[31] analyzed the effects of regulation, and regulatory reform policies that were implemented to improve Korea's business environment.

KIET (2009)[32] analyzed the effects of entry regulation reform, and drew their effects on business start-up and job creation. Since contents of a reform were not explained in the previous chapter, characteristics of the reform are briefly introduced here.

3.1 Effects of Charge Regulation Reform

Using inter-industry analysis and the optimization model, KIET (2005) estimated the macro-economic effects of abolishing unnecessary or overlapping regulations based on charge regulation reform cases that have been conducted since 1998. The charge system requires a person involved in a public project to pay the costs necessary to carry out the project. It aims to raise money for the costs of special projects rather than for general fiscal demands. It imposes a financial burden on a person who has an interest in a certain public project.

The government legislated the 'Basic Law on Charge Management' in December 2001 and has implemented the regulatory reform policy by abolishing or integrating ineffective or overlapped charges.[33] As of 2004, there were a total of 102 charges that had been created or abolished since 1995. The following table shows the creation and abolishment of charges by year:[34]

30 "Analysis and Evaluation of Regulatory Reform Effects", Dong-soon Im, Chang-hyeon, Jo and Dae-wook, Kim, KIET 2005.

31 "Study on Regulatory Reform for the Improvement of the Business Environment", Moon-jung Cha&12 people, KDI 2005.

32 "Solution for the Entry Regulation Reform for the Enhancement of Economic Revitalization", Jong-ho Kim, Hyeong-seop, Shim and Jin-gun Yoo, KIET 2009.

33 "Analysis of Economic Effects of Regulatory Reform, a Strategy Task," Korea Institute of Public Administration 2006

34 KIET (2005), Table IV-1, p.145

Table 5-8 | Creation and Abolition of Charges by Year

(Unit: case)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Creation	83	3	6	1	3	3	12	2	6[1)]	2
Abolition	-	-	-	1	-	-	9	1	8	-
Accumulation (Net Increase)	83 (83)	86 (3)	92 (6)	92 (-)	95 (3)	98 (3)	101 (3)	102 (1)	100 (Δ2)	102 (2)

Source: Ministry of Planning&Budget, Report on the Operation of Charges, 2005

Note: 1) Six charges that had been omitted were added.

One charge was abolished through regulatory reform in 1998, nine charges in 2001 and one charge in 2002. The accumulated number of new charges had constantly grown until 2002. In 2003, eight charges were abolished, and 6 charges were added. At the end of December 2004, the number of charges subject to operation and management reached 102.[35]

3.1.1 Methodology

The economic effects of charges eliminated from 1998 to 2003 were analyzed. It was assumed that net effects of eliminating charges would be equal to the decreased amount of charges, and the reduction in charges, a primary effect of eliminating charges, was regarded as the reduction in indirect taxes to the model. The decrease in charges brings about a decrease in indirect taxes, consequently dropping the marginal production costs that apply to individual industries. To see the effect on respective industries, the reduced amount of charges was allocated to related industries considering major features of charges and authorities concerned. In other words, the effect of regulatory reform on respective industries was estimated by allocating the amount of abolished charges to each industry.

First, the effect of tat reduction in charges had on the price declines was estimated. The decrease in charges first affected industries, which signified an improvement of the charge system, and prices fell by 0.032% on average. This effect caused the fall in prices in other industries thanks to the inter-industry linkage effect. Using the inter-industry analysis, the entire fall in prices, including the indirect ripple effect was estimated to be about 0.078%.

The macro-economic effects of charge regulation reform are proven by consumption resulting from the price drops, gross output, added values and employment that are related to flexibility of individual industries. KIET (2005) estimated the change in output using the multi-staged optimization model by applying the price elasticity by industry presented by GTAP (2003), and drew out the increases in added values, and employment effects by

35 "Analysis of Economic Effects of Regulatory Reform, a Strategy Task", Korea Institute of Public Administration 2006

business category. When a change takes place in the price structure as a result of regulatory reform, the whole economy reaches a new state of equilibrium. Changes in macro-economic variables which appear in the new equilibrium after regulatory reform are regarded as the effect of regulatory reform and can be estimated using the optimization model. Two methods were used in drawing out the effects of regulatory reform. One method is used to calculate the estimate by applying price elasticity of consumption to the overall final demand. The other is used to calculate the final demand, resulting from price elasticity only for private consumption.

3.1.2 Results

According to the result of the first method which applied the price elasticity of consumption to the overall final demand, the final demand increased as much as 264.1 billion won during the same period thanks to the charge regulation reform between 2001 and 2003. Consequently, total output of the economy increased by 614.5 billion won, and the number of employed people increased by 7,263.

3.2 Effects of the Entry Regulation Reform

KIET (2009) analyzed the effects of entry regulation reform on business start-up and job creation by dividing industries into manufacturing and service sectors. For this analysis, data such as the rate of entry regulation, the rate of entry and the rate of job creation were constructed, and the panel model was used.

3.2.1 Methodology

Following Hong Kim (2002, 2008), KIET (2009) examined the existence of entry regulation in addition to regulation types by sub-class industry,[36] based on entry regulations that were created, abolished or revised from 2001 to 2008. The history of laws and regulations that constitute the basis for entry regulation was traced based on the data of Ahn, Sang-hoon (2007).

Entry regulations were classified into strong, medium and weak entry regulations, in order to analyze differences according to the intensity of entry regulation. The government monopoly and designation belong to the strong entry regulations. Permission, license, approval and authorization belong to medium entry regulations. Finally registration, report and inspection belong to the weak entry regulations. The intensity of entry regulation by industry, which was the independent variable, was defined as the rate of entry regulation, calculated by dividing the number of industries that are subject to entry regulation by the number of industries included in the whole industry. To measure the degree of market entry

36 Based on entry regulation data by sub-class industry by Kim, Jae-hong (2002, 2008)

of new enterprises, which was the dependent variable, the entry rate by sub-class industry (based on the number of business establishments) was estimated using the statistical data of 1999~2007 "survey on business establishments across the nation." The entry rate, as the index of business start-ups, was gained by dividing the total number of enterprises by the number of business start-ups in the industry concerned.

The panel model, which features data by industry, can include the use of constants or random variables. The average scale of business establishments by industry in the previous year was added, as Ahn Sang-hoon&Cha Moon-jung (2005) did, to control the features by industry more effectively.

The data used for analyzing the relationship between the entry regulation and the job creation by new enterprises are similar to that used for analyzing the relationship between the entry regulation and the business start-up. The rate of job creation by new enterprises, a dependent variable, was calculated using the statistical data of the "survey on business establishments across the nation." To calculate the rate of new jobs created by new enterprises by sub-class, the number of employees of new enterprises in the industry was divided by the total number of employees in the industry.

3.2.2 Results

The results of analyzing the model are divided into the analysis of all industries and the separation of manufacturing and service industries. According to the results of empirical analysis on random effects with all enterprises that have at least one worker in Korea, the entry regulation by industry was negatively correlated with statistical significance to the entry rate of new enterprises. As shown in the results of Model 3 in Table below, the entry rate of new enterprises increased by 0.48% points if medium entry regulations decreased by 10% by industry, and the 10% deregulation of medium entry increased the entry rate of new enterprises by 0.70%. The following Table shows the results of analyzing entry regulation and business start-ups.

Table 5-9 | Entry Regulation and Business Start-Up (All Industries)

	Model1	Model2	Model3	Model4	Model5
Entry Regulation (All)	-0.016** [0.008]				
Strong Entry Regulation		-0.070*** [0.022]			-0.074*** [0.021]
Medium Entry Regulation			-0.048*** [0.009]		-0.046*** [0.010]
Weak Entry Regulation				0.028*** [0.008]	0.009 [0.009]
Average Scale of Business Establishments	-0.001 [0.001]	-0.001 [0.001]	-0.002* [0.001]	-0.002 [0.001]	-0.002* [0.001]
Constant	14.560*** [0.619]	14.012*** [0.446]	14.838*** [0.470]	12.957*** [0.482]	12.887*** [0.579]
Sample Size	1,126	1,126	1,126	1,126	1,126
R^2	0.134	0.145	0.207	0.151	0.255

Source: KIET (2009)

Note: * means statistical significance at 10% level, ** at 5% level and *** at 1% level.

According to the results of analyzing manufacturing and service industries, the entry regulation by industries was not significantly correlated to the entry rate of new enterprises in the manufacturing industry, regardless of models. The empirical analysis of manufacturing companies that have five or more workers, analyzing the correlation between entry regulation and business start-up with all manufacturing companies and the different effects of entry regulation by the number of workers, did not show a significant difference.

In the service industry, the entry regulation by industry was negatively correlated to the entry range of new enterprises in a significant way. The entry rate of new enterprises grew by 0.57 percentage points if medium entry regulations decreased by 10%. The effect of easing strong and medium entry regulations in the service industry was found bigger than that in the entire industry, but weak entry regulations did not significantly affect the entry rate.

The relationship between entry regulation and job creation was analyzed by dividing industries into all industries and the manufacturing and service industries. According to the results of empirical analysis of random effects with all enterprises that have at least one worker in Korea, it was found that the entry regulation by industry was negatively correlated to the rate of job creation of new enterprises based on the number of workers in a significant way.

Table 5-10 | Entry Regulation and Job Creation (All Industries)

	Model1	Model2	Model3	Model4	Model5
Entry Regulation (All)	-0.014** [0.0070				
Strong Entry Regulation		-0.040** [0.020]			-0.044** [0.019]
Medium Entry Regulation			-0.052*** [0.008]		-0.048*** [0.009]
Weak Entry Regulation				0.029*** [0.007]	0.011*** [0.008]
Average Scale of Business Establishments	-0.003** [0.001]	-0.033** [0.001]	-0.033** [0.001]	-0.033*** [0.001]	-0.004*** [0.001]
Constant	9.704*** [0.563]	9.094*** [0.407]	10.144*** [0.425]	8.1234*** [0.436]	9.966*** [0.531]
Sample Size	1,126	1,126	1,126	1,126	1,126
R^2	0.089	0.085	0.172	0.118	0.201

Source: KIET (2009)

Note: * means statistical significance at 10% level, ** at 5% level and *** at 1% level.

With the manufacturing industry for which the entry regulation is relatively low, and the service industry, for which the entry regulation is high, the relationship between the entry regulation and job creation for new enterprises was compared and analyzed. Only medium entry regulations showed a statistically significant negative correlation to job creation of new enterprises. Every 10% relaxation of medium entry regulations is expected to increase job creation by about 0.2 percentage points.

According to results from analyzing the correlation between entry regulation and job creation of new enterprises with all service companies that have at least one employee, the entry regulation by industry in the service industry had a significant negative correlation to job creation of new enterprises. If strong entry regulations decreased by 10%, job creation increased by 0.64 percentage points.

Since the total number of workers in the service industry was 11.3 million as of 2007, a 10% decrease in strong entry regulations would create about 72,320 new jobs. It was expected that job creation would increase 0.62 percentage points, if medium entry regulations would decrease by 10%, resulting in creating about 70,060 new jobs.

3.3 Impact of Regulation on Industries and the Economic Growth[37]

KDI (2005) measured the effects of regulation in two aspects. One aspect is the relationship between regulation and the entry rate, while the other is between economic growth and the regulation index. Of price regulation and entry regulation, only the latter was incorporated in analyzing the relationship between regulation and the entry rate. The regulation index and the economic growth were analyzed using the explicit regulation index of IMD.

3.3.1 Methodology

a. Regulation Index and Entry Rate

The relationship between regulation and the entry rate was estimated using the ordinary least squares (OLS) estimation method. For the entry rate and the regulation index, variables used in the analysis, this study used the method reported by Kim, Jae-hong (1994, 2002) for the entry rate and the method of the regulation index by industry.

The entry rate was used as an estimated dependent variable and calculated respectively for different industries. Three types of entry rate were used, depending on the ratio of the total number of business establishments in the industry to the number of new business establishments that entered the industry, the ratio of the total amount of investment in the industry to the amount of investment by new business establishments and the ratio of the total number of jobs in the industry to the number of jobs created by new enterprises.

The intensity of entry regulation, an independent variable to the entry rate, was used by constructing the regulation index based on the number of regulations. The four types of regulation index were used by dividing regulations into strong and weak regulations, and then totaling all regulations.

For the entry regulation index based on the number of business establishments, the number that belongs to the subclass and is subject to entry regulation was calculated, and the ratio of the number to all subclass business establishments was calculated. For the regulation index based on the production amount, the production amount of subclass business establishments that belong to respective divisions and are subject to entry regulation was calculated, and the ratio of the amount to the production amount of all subclass business establishments was calculated.

The index of strong entry regulation by division was constructed by calculating the ratio of the number of subclass business establishments that are subject to strong regulation to the number of all subclass business establishments. The index of weak entry regulation by division was constructed by calculating the ratio of the number of subclass business establishments that are subject to weak regulation to the total number of subclass business establishments.

37 KDI (2005)

In the analysis of the relationship between the entry rate and the entry regulation index based on the total number of business establishments, the ratio of capital to labor was used as an independent variable. In the models for which four entry regulation indexes were used as independent variables, a negative estimate coefficient was gained in all except the weak entry regulation index. The regulation index used as an independent variable in this analysis is shown in the following <Table5-11>:

Table 5-11 | Entry Regulation Index Classification

	Types of Regulations		
	All Regulations	Strong Regulations	Weak Regulations
Based on the Number of Business Establishments	Model 1 Entry Regulation Index	Model 2 Entry Regulation Index	Model 3 Entry Regulation Index
Based on the Production Amount	Model 4 Entry Regulation Index	X	X

b. Regulation Index and Economic Growth

This analysis aims to see the effect of regulation on the economic growth. Variables that show the intensity of regulation are needed prior to the analysis, World Bank, OECD, PRS group and IMD report regulation-related indexes. World Bank reports the research on seven items in its Doing Business report, and some of the items that are related to regulation[38] can be used. The OECD examines information about regulations of member countries by reviewing about 1,120 items, and PRS group collects information about political and economic risks from about 140 countries. Finally, IMD publishes the World Competitiveness Yearbook, part of which covers information related to regulations.

This study used IMD data about laws and regulations or economic policies and transparency. The average of indexes in 1999 and 2000 was used as the regulation index, and data for four years from 1999 were used as the variables, including economic growth. As independent variables, GDP, investment, open index, early income and average education and training were used. A total of 42 countries that had an IMD regulation index and other data listed above were analyzed.

3.3.2 Results

The IMD's regulation index, the data used for this analysis consist of responses to the following two considerations: 1) the item showing the index of laws and regulations:

38 For example, the item such as 'the number of start-up procedures to register a business'

"Laws and regulations do not obstruct national competitiveness," 2) the item showing the transparency index: "The government addresses its intension to implement economic policies clearly for economic players." The points range from 0 (most negative) to 10 (most positive). According to this data, Korea's index of laws and regulations and transparency index are 4.7 and 3.7, respectively, far lower than the average of target countries during the same period, and close to the minimum values of 3.47 and 3.35.

The results of analyzing laws and regulations and economic results are shown in the following <Table 5-12>:

Table 5-12 | Regulation Index and Economic Growth-Laws and Regulations (Dependent Variable: Growth Rate of GDP per Capita (1999-2002)) [39]

	Estimation I-1	Estimation I-2	Estimation II-1	Estimation II-2	Estimation III-1	Estimation III-2
Laws and Regulations	0.1636 (0.1537)	2.4759* (1.2729)	0.1168 (0.1718)	2.5509* (1.2795)	0.1145 (0.1749)	2.5464* (1.3000)
Laws and Regulations (2^{h80} Order)		-0.1934* (0.1057)		-0.205* (0.1069)		-0.2047* (0.1085)
Investment	0.1109*** (0.0318)	0.1105*** (0.0308)	0.1071*** (0.0022)	0.1053*** (0.0315)	0.1055*** (0.0349)	0.1046*** (0.0337)
Openness	0.2522*** (0.0604)	0.2500*** (0.0586)	0.2598*** (0.0620)	0.2602*** (0.0599)	0.2640*** (0.0699)	0.2620*** (0.0675)
Education& Training			0.0643 (0.1019)	0.0876 (0.0991)	0.0508 (0.1414)	0.0818 (0.1376)
Initial Income					0.0499 (0.3573)	0.0216 (0.3456)
Constant	-0.8686 (1.1822)	-7.4536* (3.7784)	-1.0530 (1.2270)	-8.1003** (3.8596)	-0.9898 (1,3236)	-8.0628** (3.9598)
F	19.10***	16.04***	14.20***	12.92***	11.06***	10.47***
Adj. R-sq.	0.57	0.59	0.56	0.59	0.55	0.58
n	42	42	42	42	42	42

Note: The figures in parentheses are the standard error; and *** means statistical significance at 1% level, ** at 5% level and * at 10% level.

39 KDI (2005), Table 11-12, p. 549

Though not significant in all models, the regulation index was found to be significant in this particular model, including the second term with 10% of significance. The estimated coefficient of the second term was negative, and the economic growth was influenced most strongly when the regulation index was around 6. This means that relationship between the regulation index and the economic growth is an inverted U-shape. KDI (2005) interpreted that this result might be the problem inherent in the regulation index, or that an appropriate level of regulation would be desirable because a very high level of deregulation was not beneficial to economic growth.

Using the analysis model III-2 shown in Table above, the impact of elasticity of laws and regulations on economic growth was calculated and reported. Korea marked 0.41, while the average of all countries was 0.13. This means that if Korea improves its laws and regulations by 1%, its economic growth improves by 0.41%. KDI (2005) calculated the growth loss and reported that Korea's index of laws and regulations was lower than the average of countries included in IMD's investigation. It also reported that Korea could improve the annual growth by 0.47% if it improved the index as much as the gap between itself and the average of other countries, 4.7 and 6.1, respectively.

4. Effect of Implicit Regulation[40]

Section 5.5 deals with explicit regulation and economic results, the impact of Korea's entry regulation on the entry of enterprises. However, regulation does not exist only in the explicit form. A variety of social, economic, political and institutional environment can function as implicit regulation to impact the economy. The influence of the institutional environment that functions as implicit regulation on economic results is analyzed using the corruption perceptions index.

4.1 Methodology

For the corruption perceptions index (CPI) that indicates the degree of corruption, the PRS Group's International Country Risk Guide (ICRG), was used. ICRG's corruption has the minimum point of 0 (highest level of corruption) and the maximum point of 6 (lowest level of corruption). Cross-sectional data, the average between 1991 and 2000, was used for the estimation. In addition, the target period was divided into two terms, 1991-1995 and 1996-2000, with the results compared. The analysis was carried out with a total of 67 countries, whose data over the past 10 years were available.

Korea's CPI was 5, a very low level of corruption, from the beginning to the middle of the 1990s. It gradually declined and marked 3 in 2000 and was reported to remain at 2-3 until 2003. The General Least Square (GLS) estimation method was used to estimate the effect of corruption level on GNP, by adding the CPI to the general growth model.

40 KDI (2005)

Considering the possible non-linear relationship, the model was constructed by including up to the third term.

4.2 Results

According to the results, the estimated coefficient of corruption is negative but significant only at the 10% level of significance. When the third term was included, all corruption coefficients of second and the third terms were significant, and the estimated coefficient of the third term was negative.

Based on these results, the cost for growth, which is caused by implicit regulations that are representative of corruption, was estimated and compared with the OECD average. If Korea was assumed to have the average corruption index of about 4.80, the average of OECD countries for 10 years in the 1990s, the annual economic growth was estimated at 2.19% when all conditions were equal and the effects of other variables were neutral. However, the corruption index of Korea was 4.22, and its economic growth rate was 1.36%. A growth loss resulting from implicit regulations was estimated at about 0.83 percentage points. The following <Table 5-13> shows the growth loss due to corruption.[41]

Table 5-13 | Corruption and Growth Loss

Period	1991~2000	1991~2001	1991~2002	1991~2003
Average Corruption Index Korea OECD	4.22 4.80	4.11 4.75	3.95 4.70	3.85 4.71
Korea's Growth Loss* (%p)	0.83	0.97 (0.78)	1.19 (0.72)	1.37 (0.73)
Korea's Growth Loss ** (%p)	0.72	0.85 (0.70)	1.05 (0.65)	1.22 (0.66)

Note: * was estimated based on the regression equation (3), while ** was estimated based on the regression equation (6). The figures in parentheses refer to the growth loss calculated based on the assumption that Korea's corruption index has been maintained at 4.22 since 2009.

The table above shows Korea's growth loss calculated by comparing Korea's corruption index, which was assumed at 4.22, with that of OECD countries. According to the result, Korea's gross loss due to implicit regulations amounts to about 0.65-0.78 percentage points annually.

41 KDI (2005). Table 12-5, p.590.

Chapter 6

Implication and Checkpoints

1. Implication

2. Regulatory Reform Checklist

Implication and Checkpoints

1. Implication

Korea attempted deregulations after the 1980s by using various systems, but no one considered it a success. However, the financial crisis galvanized regulatory reforms, and since then the momentum for it has been maintained. After the financial crisis, regulatory reform has constantly been carried out by the Regulatory Reform Committee, which was established as a result of the trials and errors experienced in the process of deregulation and regulatory reform.

In particular, regulatory reform is one of the key factors behind Korea's quick recovery following the global economic crisis in 2008. It may even be argued that regulatory reform has been successful since the financial crisis. If deregulations are successfully carried out in four industries, i.e. electric power, construction, distribution and road transportation, Korea's GDP is estimated to increase by 8.6% over the next decade. This analysis can support the meaning of regulatory reform in Korea. In particular, as Korea introduced many regulations in the process of economic development. Also, regulatory reform turned out to have greater economic effects than in other advanced countries. This fact demonstrates that regulatory reform can become an effective means of promoting economic development in other developing countries with many regulations.

Based upon the experience of Korea's regulatory reform, several implications are derived as follows:

First, the success stories of Korea are focused on its regulatory reforms after the financial crisis, but this did not happen through the sudden establishment of a new system. With the Regulatory Reform Committee at the center, the system was completed after historical trials and errors, or the establishment, abolition and modification of various programs in the past. Looking from this vantage point, it is questionable whether Korea's regulatory reforms system can be applied to developing countries identically. Details need to be modified or supplemented in consideration of the various success factors mentioned in this study. The history of regulatory reforms, cultural background and trials and errors of each country must be closely examined. Since it is impossible to have a regulatory reform system that is perfect from the outset, it may be desirable to start with an experimental system at first. In Korea, the experience of carrying out deregulation through various organizations since the 1980s laid the foundation for implementing a permanent regulatory reform system in 1998.

Second, the 50% reduction of registered regulations in 1998 and the subsequent regulatory reform system were greatly attributed to the constant interest and the steadfast will of high government officials. In particular, it is hard to deny that President Kim Dae-Jung's will to carry out regulatory reform was a decisive factor behind the large-scale deregulation and the subsequent establishment of the regulatory reform system in 1998.

Third, the successful 50% reduction of regulations in 1998 can be greatly attributed to the increased public awareness concerning the necessity of overall reforms due to changes in the economic environment through the financial crisis. In other words, it was possible because of the sudden shift in the general public, which became aware of the necessity of overall reforms due to the economic crisis. The resistance of vested groups was almost neutralized by the legitimacy of overcoming an economic crisis. Large-scale reforms, like the regulatory reform in 1988 in Korea, can provide a good opportunity for countries facing a similar external environment.

Fourth, even if a permanent regulatory reform system is in place, large-scale short-term regulatory reforms may be necessary, depending on economic conditions at home and abroad. In Korea, the Regulatory Reform Task Force during the Roh Moo-Hyun administration and the Presidential Council on National Competitiveness during the Lee Myung-Bak administration, are typical examples. Of course, it may be also possible to reinforce the resources of the permanent regulatory reform system. An example is the regulatory reform undertaken in 1998.

These key factors behind successful regulatory reforms in Korea affected the environment and system over time, and paved the way for the regulatory reform system of today. In this sense, the history of Korea's regulatory reform system cannot be overlooked. It indicates that it is not easy to grasp Korea's regulatory reform system in countries with almost no experience of regulatory reforms. It will be more desirable to analyze and check individual success factors than Korea's regulatory reform system itself.

Based on the summary of Korea's experience and implications, each success factor will be examined and possible alternatives will be proposed in the next section.

2. Regulatory Reform Checklist

2.1 Environmental Elements

First, it is necessary to check if the social awareness, an environmental element, sufficiently supports enforcement of regulatory reform policies. If there is not enough societal awareness of regulatory reforms, it may be impossible to design and enforce regulatory reforms. If social awareness is insufficient, using the media and academic community to raise awareness may be as important as regulatory reform itself.

Second, whether policymakers are sufficiently aware must be examined. In the sense that regulatory reform changes the way a government regulates, with some unnecessary regulations being abolished, some policymakers' resistance can be expected to be substantial. In particular, if the administrative organizations do not implement effectively, regulatory reform is highly unlikely to be carried out successfully. In this case, a general solution is to reinforce education for policy-makers. As regulations are connected to policy-makers' inertia and vested rights, it seems that simple teaching by rote will not easily change awareness. In order to solve this problem, the regulatory review committee can be established in each department to educate about regulatory reform.

2.2 Institutional Elements

First, check if the regulatory reform system is in place. It means a permanent system like Korea's Regulatory Reform Committee that constantly examines government regulations. Korea's regulatory reform system, particularly, the Regulatory Reform Committee can be said to be a good target for benchmarking. The regulation registration system can quantify the regulatory level by period and the performance of regulatory reform, suggesting that it is a very efficient system. In particular, it is desirable for heavily regulated countries to adopt a similar system. The sunset review system introduced in 2009 may be considered as well.

Second, check to see if the regulatory reform system or program can be sustainable over the long term. As any legal system is not easy to change, it may be the first condition for permanency. The next condition is that there must be a way for the organization to maintain itself on its own by preparing an institutional mechanism like Korea's Regulatory Reform Bureau. As the Korean experience suggests, if organizations are changed frequently, regulatory reform's succees will be mitigated.

Third, always evaluate the performance of regulatory reform and provide feedback. The feedback will streamline regulatory reform and enhance awareness, and maintains momentum for the future. In Korea, feedback is provided through surveys and research reports. However, in Korea, the level of public awareness was enhanced greatly by the large-scale regulatory reforms of 1998. The 1998 reforms can be a useful reference in countries where the level of public awareness of large-scale regulatory reforms is low.

2.3 Decision Mechanism

First, check if stakeholders are engaged in the decision-making process of regulatory reform. In Korea, civilians have always participated in not only the Regulatory Reform Committee, but also the Regulatory Reform Task Force Team. It is necessary to correctly understand the demands for regulatory reform by engaging civilians or regulated community. Though the degree to which civilian voices are reflected may vary in different countries, it is desirable that the proportion of civilians exceeds 50%. Currently, it is also a good idea to have a process of coordination and opinion collection as the Regulatory Reform Committee does in Korea.

Second, high-level policy-makers must be engaged. As the personal will of policy-makers is closely related to the social awareness of regulatory reform, it is not easy to change the recognition of high-level policy makers. However, it may be possible to host events with international organization like OECD and APEC, or induce decision-making through persuasion of the staff members.

Third, a mechanism like the RIA should be placed. RIA is an important component of regulatory policies that is recommended by OECD as a means of enhancing the quality of regulations. RIA helps improve the quality of regulations, but also makes it relatively easy to enforce regulatory reforms by presenting a cost-benefit analysis. However, since regulations may include many non-quantitative elements, such as cost-benefit analysis (a core element of RIA), is difficult to be performed. In other words, it may not be easy to conduct RIA. Therefore, it may be advisable to engage experts or government research institutions, and have them conduct regulatory impact analysis, thereby making a case for them. The cost-benefit analysis for the regulatory reform measures of 1998 in Korea was conducted directly by government departments while other considerable portions of it were conducted by government research institutes.

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