Overcoming the Challenges: Lessons from Regulatory Reform in Korea

Submitted by: Korea
Overcoming the Challenges: Lessons from Regulatory Reform in Korea

August 18th, 2016
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Overcoming the Challenges: Lessons from Regulatory Reform in Korea

01 Overcoming the Crisis

Growth Model by the Gov’t Intervention
- Economic Growth 8% a year between 1963 and 1993
- Inefficiency and loss in competitiveness due to rapid regulation increase

1997 Financial Crisis
- Severe recession in 1998, with output falling by 7%
- Regulatory Reform along with Structural Reform and Market Opening as a new developmental strategy
01 Overcoming the Challenges: 1997

1998 Full-Scale Structural Reform
- Structural reform in Finance, Corporate, Labor, Public Sector
  - “Big deal” led to reorganization of businesses, unhealthy companies and financial institutions forced out of markets

Comprehensive Regulatory Reform
- “50% Reduction of the Existing Regulations” Drive
  - Guillotine Approach: RRC reduced the regulations by more than 50%

Institutional Setting
- Basic Act on Administrative Regulations (BAAR)
- Regulatory Reform Committee (RRC)
- Regulatory Reform Office (RRO)

01 Overcoming the Challenges: 2009

Overview
- GDP increased only by 0.7% in the bleak and uncertain global economy

Governmental Measures
- International Measures: Fiscal Expansion and International Cooperation
  - For the first time in history, countries around the world increased their budget spending and lowered interest rates altogether.
- Domestic Measures: Economic Stimulus Packages and Regulatory Reform
  - Economic Stimulus Packages including budget, finance and tax cuts
  - Temporary Regulatory Relief and the Regulatory Reform for New Growth Engine Industry
## Overcoming the Challenges: 1997 & 2009

### Comparison of Two Crises: 1997 vs 2009

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<thead>
<tr>
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<th>1997 Asian Economic Crisis</th>
<th>2009 Global Financial Crisis</th>
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<tbody>
<tr>
<td><strong>Cause</strong></td>
<td>Foreign Exchange reserve shortage</td>
<td>US subprime mortgage loan - Credit crunch</td>
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<td><strong>Measure</strong></td>
<td>Stimulus packages, Full scale structural reform, 50% reduction of regulation</td>
<td>Stimulus packages, Structural reform in limited areas, TRR, Regulatory Reform of New growth engine industry, global collaboration</td>
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<td><strong>Effect</strong></td>
<td>- Number of regulations: 11,125 → 5,695, Jobs created: 680,000 (1999-2003)</td>
<td>- Highest GDP growth rate among OECD members in the 2nd quarter (20.0% vs 3.3%), 29% growth in the 3rd quarter, TRADE Surplus $34.6 billion, exceeded $40 billion for the whole year, Foreign Currency Reserve grew by $43.7 billion, gains expected $10 billion this year → total $270 billion</td>
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<td>- Compliance cost reduction: $15 billion, 4.4% of GDP of 1997</td>
<td>- Administrative cost savings: $0.5 billion</td>
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02 Challenges Ahead

Global Economic Downturn
- Low oil prices and lasting decline in global raw material prices
- Rising trade protectionism
- China’s sluggish economy and financial stability
- Continuous international terrorist threats

Concerns over Continued Slow Growth
- Continuous decrease in exports
- Continuing decline in the potential growth rate of the economy and corporate earnings
- High household debt levels
- Low birth rate and rapid aging

03 Strategies & Tools for Regulatory Reform
Recovering Economic Vitality and Regulatory Reform

Short-term Policy to Stimulate the Economy + Strengthening Economic Fundamentals

- Active fiscal and monetary policies
- Four major structural reforms (labor, finance, public sector and education)
- Regulatory reform

Turning Point for the Korean Economy: Crisis or Take-off?

Initiative 2016

Temporary Regulatory Relief

- To freeze or ease current regulations on a temporary basis until a point of economic recovery
- Speed: Right Timing of Policy Action
  - Focus on Areas which can bring Immediate Policy Impacts on the Market
- Subjects of Regulations
  - Regulations that have immediate effects on investment
  - Regulations that can be easily mended through revision of ordinances
  - Regulations less likely to involve controversy and with the least side effects
- Confined to less than one or two years
- The Whole of Government Approach and Public-Private Jointship
Initiative 2016

Regulatory Reform for the Emerging Industry and Frontier Tech Sectors

Subjects of Regulation
- Newly growing industries that suffer from a disadvantageous market position because of outdated regulatory institutions.
- Areas that require a proactive regulatory reform to prepare for changes in our future society and technology.

Establishing a regulatory reform system for emerging industries to be led by the private sector
- ‘Investment Committee on the Emerging Industry’ organized by nongovernmental experts who will decide whether to improve or repeal regulations.

Life cycle management for emerging industry
- Drones, Self-driving Vehicles, Big health, 3D Printing, IoT, Big Data, Clouding, and IoT convergence.

Negative regulatory approach to new industries

Initiative 2016

Investment Committee on the Emerging Industry

Structure
- 70 civilian experts

Principle
1. Civilian experts review and decide to accept or reject the petitions raised by citizens.
2. A negative deregulation method is adopted for regulatory innovation.
3. Minimum level of regulations is ensured in accordance with the international standards.

Outcome
- Since Mar. 2016, a total of 151 regulations reviewed.
  - 141 cases revised (93%)
  - 151 Regulations Reviewed

* 24 on drones, 41 on ICT & convergence, 51 on bio-health, 8 on new energy materials, and 27 on new services.
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Investment Committee on the Emerging Industry

- Individual Business, Economic Associations, Experts
- New Industries Investment Committee
- Regulatory Coordination Meeting
- Regulatory Reform Ministerial Meeting / Trade & Investment Promotion Meeting

Acceptance

The improvements of regulatory proposals

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Negative Review Approach

“Sink all regulations into the water and rescue only those that must be saved” (President)
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Initiative 2016

- Crop-dusting, filming etc (Designated area only)
- All kinds of drone business allowed including delivery service
- Self-driving car test drive allowed anywhere
- Transmit power for 900MHz - 1.5GHz
- Nationwide 5G only network

03 Strategies & Tools for Regulatory Reform

Strong Commitment to Reform from Top Leadership

Regulatory Reform is a Key Instrument to Fundamentally Change the Economic Structure

1. Regulatory reform as the top priority task
2. Five Regulatory Reform Ministerial Meetings held since March 2014
3. Emphasizing the President’s strong will through Meeting on Promoting Trade and Investment, Tourism Promotion Meeting, Cabinet meeting, etc.
Strategies & Tools for Regulatory Reform

Institutional Design

- Establishment of the Basic Act on Administrative Regulation
- Regulatory Reform Committee (RRC) & Regulatory Reform Office (RRO) as a advocacy and central supervisory body
- RRC’s legal authority to review new / reinforced regulations - one of the most influential decision makers
- Regulatory Reform Monitoring Agent & Feedback in annual guideline

Strategies

Defining Clear Objectives-Targets
- The Goal of Enhancing National Competitiveness
- The Quantitative Target of 40% Reduction of the existing regulations

The Whole of Government Approach
- Uniform Code Model for Local Governments
- Training on first-line civil servants, Spreading Good Practices and distributing Regulation Review Manual
- RIA Manual published, The result of assessment must be opened

Defining Clear Objectives-Targets
- Public-private Jointship
- RRC, RRTF from user perspective
- Satisfaction Level Survey and Feedback (into Regulatory Process)
- Consultation Channels with Domestic & Foreign Businesses
Strategies & Tools for Regulatory Reform

Regulatory Information Portal (On-Line)

Regulatory Petition Center, 'Sinnungo' (On/Off-Line)
-acceptance rate exceeding 40%

**Procedure**

14 days
- Responding within 14 days after receiving petition
- Explaining in detail if not accepted
- Recommending regulatory changes by the Regulatory Reform Committee

**Compared to 2013**

- Received cases increased more than 25.7 times
- Acceptance rate 5 times greater

Breaking Down the Barriers between Regulators and the Regulated

Web-based Regulatory Petition, 'Sinnungo' (On/Off-Line)
(www.better.go.kr)

Regulatory Petition Sinnungo is an online channel that gives the people a say in the government's regulatory reform efforts. As of now, about 4 out of 10 petitions are generally accepted. (The decision to install such regulatory reform tool was made at the 1st Ministerial Meeting on Regulatory Reform held on March 2014.)
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e-RIA for Cost-In, Cost-Out (CICO)

CICO is a mechanism to calculate the net costs to balance between In-regulations and Out-regulations.

- Expansion of the CICO Pilot Program:

Web-based Regulatory Impact Analysis (RIA) and RIA report (July 2015)

e-RIA system enables the automatic calculation of costs and benefits, and requires all blanks to be filled out completely to ensure quality of a RIA report. While such system may impose a certain level of burden on the public officials, it is purposely designed that way to train the officials in drafting a RIA report.

03 Strategies & Tools for Regulatory Reform

Regulatory Reform of Local Governments

Central and Local Governments Working Together to Increase Awareness of Regulatory Reform

1. First-ever complete survey on 11 major categories of local regulations
   - Corrupting more than 6,000 cases of regulations inconsistent with central laws and ordinances, regulations without legal basis, passive application, etc.

2. Establishing online system to connect central laws and local regulations, promptly improving unreasonable local regulations

3. Encouraging behavioral changes by exempting active public officials with minor faults from ex ante and post

4. Pursuing the eradication of passive administration such as delaying authorization or permission, rejecting application, etc.
03 Strategies & Tools for Regulatory Reform

**The identification of local regulation to be improved**

**Publicly Announcing improvement results and rankings**

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**e-Legislation Notification System**

- Building an online system to swiftly revise unreasonable local ordinances following the revision of central laws

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03 Strategies & Tools for Regulatory Reform

**Inducing competition and sharing the current status on regulatory reform among local governments via systems like the National Regulatory Map**

A Regulatory Map is drawn from the indicators like the business friendliness level and business sentiment index on regulatory forms.

- Business Friendliness: Variation analysis of regulations in 11 areas, including factory construction, opening a restaurant, and subsidies for new businesses
- Business Sentiment Index: Its criteria include rationality of a regulation, administrative behavior, and administrative system.

**Number of Local Governments that Received the Top Grades of S or A**

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03 Strategies & Tools for Regulatory Reform

A Revision of
11,612
Regulations in Total

Improvement of 5,422 central government regulations

Improvement of 6,190 local government regulations

Achievement of $15 billion USD of Economic Impact

In 2015, a total of 151 reformed regulations produced about $5 billion USD worth of economic impacts. Similarly, a total of 49 revised regulations are expected to yield $10 billion USD worth of economic impacts in 2016.

04 Conclusion

Overcoming the Challenges:
Lessons from Regulatory Reform in Korea
04 Conclusion

Overcoming the challenges
- Temporary Relief Regulation (TRR) program
- Regulatory initiative in the emerging industry and frontier tech sectors

Strong support from the top leadership and the public
- Crisis offers a window of opportunity for comprehensive reform

Strategies and tools
- The whole-of-government approach and public-private partnership
- Clear and quantitative targets
- Monitoring system and management tools

Well-designed institutional settings
- Existence of regulatory advocacy and oversight bodies
- Efficient monitoring system & management tools

Thank you

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