



Business Regulation and Institutional Building: The Case of South Korea

Jong Seok Kim

Professor of Economics, Hong Ik University

Member of Korean Regulatory Reform Committee

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Context of The Regulatory Reform in Korea

- Korea adopted a government-led, export based strategy of economic development.
- Korean economy became one of the most regulated market economies.
- By 1980s, Korean economy became too large and complex for government to handle.
- Inefficiencies and distortion mounted.
- Regulatory reform became an official policy since the early 1980s.
- The drive for reform was mostly out of political need by popular demand from business.

Context of The Regulatory Reform in Korea

- However, the reform attempts to remedy the problem in the 1980s and early 1990s were not very successful.
 - The concept of reform too narrow.
 - Bureaucrat-led reform: “bottom-up” approach
 - Regulatory capture
 - No innovation in regulatory methods
 - “Sacred Regulations”
 - Bureaucrats’ conservative tendency

Context of The Regulatory Reform in Korea

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

The Reform of 1998

- President ordered to eliminate 50% of existing regulations. There were 11,125 regulations.
- Each ministry had to prove the need for its regulations before RRC during the process.
- By the end of 1999, the total number of regulations in Korea decreased to 6,308.
- 2,411 regulations were modified.
- Virtually all areas of Korean economy and life were affected.

The Basic Act on Administrative Regulation

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

The Presidential Regulatory Reform Committee

- Presidential Regulatory Reform Committee (RRC) was established in 1998.
- RRC is under the President and chaired by the Prime Minister and a civilian co-chairman.
- RRC consists of 20 members, 7 of them cabinet ministers.
- Civilian members are appointed by the President.
- RRC has three sub-committees: 6 members each.

The Presidential Regulatory Reform Committee

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

RRC's Review Process

- All introduction and strengthening of regulations must go through a review process by RRC.
- All proposals must attach a RIA document.
- Proposing ministry should prepare RIA.
- All law, by-laws, administrative orders, decrees are reviewed.
- There are two classes of regulations: important and less important.
- Accordingly, there are two types of RIA: 'heavy' RIA and 'light RIA'.

RRC's Review Process

- Emergency regulations may file RIA later.
- About 30% of total proposals fall into the 'important' category.
- Regulators became more aware of the costs and consequences of their regulations.
- Quality of regulations was controlled and improved.
- RRC maintained consistent set of principles to control the quality.
- About 1,000 regulations go through RRC review each year.

RRC's Review Principles

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

The Economic Impacts of the Reform

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

All numbers are projected numbers.

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

The Economic Impacts of the Reform

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

All numbers are projected numbers.

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

Review of the Reform

- The initial reform drive lost momentum as political support waned.
- Number-based deregulation had its limits.
- Quality of RIA is still low.
- RRC needs more expert support and political support to overcome resistance from vested interests.
- Coordination between RRC and the provincial governments was insufficient.

Lessons of the Reform: *Success Factors*

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

Lessons of the Reform: *Challenges*

- Regulatory reforms in Korea focused mostly on legal changes, not actual implementation of those changes on the ground.
- Lack of reform at the local government level undermined visible benefits for citizens.
- It was difficult to harmonize larger policy goals with the regulatory reforms: existence of “sacred regulations”
- The Korean reforms tackled individual rules rather than interlinked groups of rules.
- The Korean reforms did not rely enough on market forces.

Lessons for Other Countries

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

Implications for Kyrgyz Republic

- Create an independent agency under President to maintain consistent reform principles across the government. This agency could have broad authority to improve business and investment environment in the Republic.
- Make 'openness and competition' the guiding principle of the reform.
- Improve the quality of regulations: improve transparency, eliminate redundant procedures and requirements, remove entry barriers, increase compliance, etc.

Topics for Discussion

- Can the Korean experience be replicated in other countries?
- What could be the major challenges to regulatory reform in Kyrgyz Republic?
- What are the most costly aspect of Kyrgyz regulatory system?
- How can we make challenges into an opportunity in regulatory reform?