Regulatory Reform: Processes and Strategies

A Case of Korean Regulatory Reform

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Context of 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.
The reform attempts not very successful.

- The concept of reform too narrow.
- Fragmented reform
- Model: *private sector against bureaucrats*
- Bureaucrat-led reform: “bottom-up” approach
- Regulatory capture
- No innovation in regulatory methods
- “Sacred Regulations”
Context of Regulatory Reform in Korea

- In 1997, South Korean economy was hit by the Asian financial crisis.
- Four major sectoral reforms launched.
  - Financial sector reform
  - Labor market reform
  - Corporate sector reform
  - Public sector reform
- The four sectoral reforms were regulatory reform in broad sense.
The Basic Act on Administrative Regulation (BAAR) enacted in 1997

BAAR requires:
- Establishment of Presidential Regulatory Reform Committee (RRC)
- 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 Reform of 1998: ’Guillotine’

- 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 Presidential Regulatory Reform Committee

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

- 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
The RRC’s Review Process

- All introduction and strengthening of regulations must go through a review process by RRC.
- Proposing ministry should prepare RIA, and prove the need for and appropriateness of regulatory methods.
- All law, by-laws, administrative orders, decrees are reviewed.
Emergency regulations may file RIA later.

There are two classes of regulations: important and less important. About 30% of total proposals fall into the ‘important’ category.

RRC maintained consistent set of principles to control the quality.

About 1,000 regulations go through RRC review each year.
The 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 to a positive system.

3. Transparency of regulations will be increased. Excessive discretion by field-level bureaucrats will be reduced.
The RRC’s Review Principles

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

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<tr>
<th>Category</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Created Jobs</td>
<td>1,066,200</td>
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<tr>
<td>Reduced Public Burden</td>
<td>18.7 trillion won (4.4% of GDP in 1997)</td>
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<tr>
<td>Reduced Government Costs</td>
<td>590 billion won</td>
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<tr>
<td>Increased Foreign Direct Investment</td>
<td>$36.5 billion extra FDI over 5 years</td>
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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

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<td>Real GDP growth in 10 years</td>
<td>8.57%</td>
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<td></td>
<td>(0.64% annually)</td>
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<tr>
<td>Consumer Price</td>
<td>-7.18%</td>
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<tr>
<td>Employment</td>
<td>0.94%</td>
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<tr>
<td>Unemployment Rate</td>
<td>-0.91</td>
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Source: Byung Ki Ha(1999), *The Economic Effects of Korea’s Regulatory Reform (in Korean)*, KIET
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.
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.
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.
Recommendations

- Build coalition for the reform within the society.
- Make a permanent system of reform within the government. Make the reform a part of the government’s administrative function: *Bureaucrats against bureaucrats*.
- Create an independent agency under the head of government. Strong political leadership and support is needed for a reform to succeed.
- Maintain consistent reform principles across the government.
Topics for Discussion

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