
Shifting towards the New Economy

Korea's Five-Year Economic Plan

1993-97

Synopsis

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The Making of Korea's Five-Year Plan for the New Economy

Formulation of the "Five-Year Plan for the New Economy" was launched under the new administration of President Kim, Young Sam on March 3, 1993. The Economic Planning Board was instructed to play a central role, in cooperation with other ministries, in devising a comprehensive plan for economic reform and management during the five years (1993-97) of Kim's presidency. Completion of the plan was scheduled for June, 1993 and implementation was set for the latter half of 1993.

The guidelines for devising the five-year plan were established at the Economic Ministers Meeting on April 16, 1993 and were delivered to the relevant ministries. Subsequently, working groups for all of the 26 subjects addressed were formed to draw up draft plans. Each working group was composed of government officials, academicians, and research institutes and private sector representatives, with a total of 572 persons participating.

The draft plans were discussed and adjusted in several stages. During the period from May 19 to June 10, 1993, conferences were held on each subject to elicit views from professionals and various interest groups. The draft plans were then put to deliberation by the Planning Committee for the New Economy. Other important issues related to institutional reform were addressed at the Economic Ministers Meeting.

Finally, the "Five-Year Plan for the New Economy" was put before the Planning Committee for the New Economy at the Economic Ministers Meeting on June 24-25, 1993. The draft was then adopted by the Economic and Social Development Planning Council (chaired by Korea's prime minister) on June 30, 1993 and was finalized in a report to the President on July 2, 1993.

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I. Development Strategy under the New Economy

1. Korea's Economy: Past and Present

Korea's rapid economic growth over the past few decades was propelled by a government-led development strategy under an authoritarian political regime. Unrelenting efforts to guide and control the economy, including the mobilization of human and other resources in targeted sectors, were made by the government. As it expanded, the economy's structure grew increasingly complex and this, combined with the progression of political democratization, rendered the government's strategy ineffective. Moreover, Korea's economic dynamism tapered off significantly during the late 1980s as the work ethic withered among workers and entrepreneurs. This negative trend resulted from the explosion of pent-up demand in all sectors of society, as well as the proliferation of the so-called "collective egoism" exercised by many interest groups, which was nurtured by Korea's rapid democratization process.

Economic problems soon arose in the form of a deteriorating balance of payments and inflation. The current-account balance reverted to deficit beginning in 1990, and the consumer price index increased nearly 10% per annum in 1990 and 1991. Furthermore, the GNP growth rate dropped to 4.7% in 1992, showing only a 3.0% growth rate during the second half of 1992, the lowest figure since the first quarter of 1980. Such statistics show cause for serious concern among policy makers and the general public alike, who fear that Korea's economy has lost the dynamism that once fueled its rapid growth.

Meanwhile, changes in the domestic and international environment have created additional difficulties for the Korean economy. Currently, Korea seems to be trapped between certain developed countries, which are trying to maintain their economic superiority, and other developing countries, which are rapidly closing in on Korea. Moreover, Korea has sought the arduous task of simultaneously pursuing developed economy status, while preparing for future reunification.

2. New Direction of the Economic Policy

Korea must develop a new policy framework to sustain its economic development. To do so, democratic principles, such as voluntary participation and creative initiatives by the private sector, should replace government guidance and control as the economy's engine of growth. The fundamental purpose of the New Economy is two-fold. First, strong work incentives must be provided and the burdens and benefits of economic development must be evenly shared. Second, the simultaneous pursuit of economic development and democracy through voluntary participation and creative initiatives of the Korean people must be encouraged.

To this end, the new administration will implement institutional reforms and attempt to establish a new pattern of economic behavior, led by a strong democratic leadership. Such reforms aim to encourage voluntary participation and creative initiatives of Korea's citizens in all economic activities. Reform, via various policy measures, will attempt to achieve three basic goals: i) securing Korea's economic growth potential, ii) expanding its foreign market and strengthening internationalization, and iii) improving the nation's standard of living.

The economic reforms aim to abolish unnecessary regulations and

restrictions limiting economic activities and to fairly reward its citizens for their hard work. Institutional reform of the fiscal system, the financial sector, and administrative regulations will be implemented to ensure fair competition, autonomy, and economic fairness. In addition, a national campaign will be launched to revamp professionalism and high ethical standards among the Korean people, encouraging them to voluntarily participate and actively exercise their creative abilities as economic agents.

II. Key Areas of Economic Reform

1. Fiscal Reform

The primary objectives of fiscal reform are: maximizing the government's efficiency while minimizing its size, reducing unnecessary government expenditures, and expanding investment projects which will enhance its international competitiveness; establishing a fair and efficient tax system to ensure economic fairness; and raising the ratio of tax revenue to GNP to 22-23% by 1997 to finance increases in public investment.

1-1. Reduction of Unnecessary Government Expenditures

- Freezing the size of the government work force, thereby reducing the share of payroll expenses in the total government budget while raising employees' wages.
- Reducing defense spending as much as possible by readjusting investments in the industry.
- Curbing increases in welfare costs and maintaining conservative positions when introducing new welfare programs.
- Keeping monetary control costs, such as interest payments on government securities, within budget constraints.

1-2. Expansion of Fiscal Resources

- Moderately raising prices for public services (i.e. railway transportation,

postal services, highways, and airports) and increasing beneficiaries' burden for educational and social welfare-related expenses.

- Channeling financial resources, including pension funds and postal deposits, which have traditionally been invested in financial assets, into public investment and loans.
- Using savings from improvements in the government's rice purchasing program – obtained by gradually reducing purchasing volume and price differentials between market and government prices – for structural adjustment of the agricultural and fishery industries.
- Identifying financial sources, such as a "specific purpose tax" changed from the special consumption tax on petroleum products, to rapidly increase investment in transportation and environmental programs.

1-3. Tax Reform

Income Tax

- Reducing tax exemption categories on interest and dividend incomes, and gradually extending the scope of the comprehensive taxation system to earnings from financial assets.
- Raising the proportion of workers paying income taxes from the current 46 % to over 50%, while maintaining the amount taxed by modifying the tax rate and tax deduction system.
- Increasing effective tax rates by reducing tax exemptions, while gradually lowering nominal tax rates.

Property Tax

- Assessing the Comprehensive Land Tax based on officially announced land prices beginning in 1996, and increasing effective tax rates up to two to three times (five to eight times for owners of extensive property holdings) that of the current level.

Economic Reform

- Restructuring the property tax, levying heavier taxes on those owning more than one house.
- Balancing the assessment criteria for land and building taxes by shifting to a comprehensive property tax system in the long run.
- Dramatically reducing tax exemptions and deductions on capital gains tax.
- Preventing tax evasion through disguised inheritance or non-profit organizations, and establishing a monitoring system to track property transactions of the affluent.

Tax Exemption

- Reducing tax exemptions and deductions to enhance tax equality and neutrality and to increase revenues.
- Enhancing the effectiveness of tax benefits in areas in which tax incentives will strengthen the growth potential of the Korean economy, including investments in technology development, productivity improvement, and small- and medium-sized firms.

Consumption Tax

- Tightening eligibility requirements for exemptions and deductions on value-added tax.
- Rationally adjusting coverage and rates of the special consumption tax and liquor tax to reasonable levels.
- Raising the rates of the special consumption tax on petroleum products and converting it to a "specific purpose tax."
- Converting the current specific tax on cigarettes to an ad valorem tax or raising the tax on each pack of cigarettes.

Tax Administration

- Computerizing the tax system, simplifying tax terminology and tax laws for the convenience of taxpayers and for the protection of their rights and in-

terests.

1-4. Budget Reform

- Streamlining and simplifying the budget structure by merging special account funds.
- Amending the appropriations and settlement system so that actual budget outlays are reflected in budget proposals.
- Transforming annual fiscal guidelines into mid-term fiscal programs to make the most of national financial resources.
- Strengthening ties between the financial systems of the central and local governments by introducing a comprehensive regional development program.

2. Financial Sector Reform

Financial reform entails liberalizing interest rates, deregulating financial institutions and promoting self-regulative management for lending operations. Such efforts are intended to promote autonomy and stimulate a shift to indirect control of the money supply. Improvements will be made in the financial sector to maximize the effects of financial deregulation. Internationalization and opening of the domestic financial market will then be gradually implemented.

2-1. Financial Deregulation

- Implementing interest rate liberalization measures in accordance with the pre-announced "Four-Stage Interest Rate Liberalization Plan."
- Liberalizing the issuance rates of bank debentures, monetary stabilization

Economic Reform

- bonds, government and public bonds ahead of schedule by 1993, and all deposit and lending rates, excluding the demand deposit rate, by 1996.
- Lifting existing regulations on bank management, including the selection of bank presidents, capital increases, dividend payments, branching, and the development of new financial products to encourage managerial innovativeness and to improve the quality of financial services.
 - Turning policy loans of commercial banks over to special banks so that the latter will receive financial assistance from the government, thus enhancing the autonomy of the former in managing funds.
 - Relaxing excessive and unnecessary credit regulations for large firms so that credit regulations are used solely to prevent a concentration of funds.
 - Resolving the problem of nonperforming loans, an obstacle to the achievement of financial liberalization.

2-2. Reform of Monetary Control and Financial Supervision Policies

Shift to Indirect Control of the Money Supply

- Actively exercising open market operations through free market mechanisms and adopting a new rediscount system, which emphasizes liquidity management rather than policy loans.
- Adopting a new liquidity indicator that better reflects liquidity conditions.
- Developing a short-term financial market and a bond market to improve the effectiveness of the monetary policy.
- Using various economic indicators, such as money supply, interest rates and exchange rates, to guide the monetary policy.

Financial Supervision

- Carefully supervising financial institutions to establish a sound financial environment.
- Specializing personnel and developing advanced supervisory techniques to

- bolster the competence of supervising authorities of financial institutions.
- Enabling various financial associations to self-regulate themselves.
- Introducing a deposit insurance system to protect customers against default risk.

2-3. Structural Adjustment of the Financial Sector

- Expanding the business areas of financial institutions, allowing them to establish subsidiaries and operate businesses of other financial institutions to enhance the efficiency of the overall financial industry, while maintaining the three basic industry categories of banking, securities and insurance.
- Strengthening regulations that prevent large shareholders from controlling financial institutions.
- Making new restrictions on the ownership of non-bank financial institutions, while reducing current restrictions on the ownership of banks (currently 8%).
- Facilitating financial transactions by improving financial infrastructure, namely by promoting the development of an advanced accounting and credit-rating system and by opening the securities futures market.

2-4. Internationalization of Financial Markets

Liberalization of Foreign Exchange Transactions

- Actively coping with the changing international economic environment and facilitating overseas business operations of domestic firms, relaxing regulations on foreign exchange transactions by: relaxing the foreign exchange concentration system, widening the daily band for exchange rate fluctuations, easing requirements on banks' foreign exchange positions, easing documentation requirements for foreign exchange transactions, and internationalizing the Korean won.

Liberalization of Capital Movement

- Gradually implementing a capital market liberalization program to improve macroeconomic policy operations depending on the policy environment, namely the balance of payments, domestic and foreign interest rate differentials, and monetary conditions.
- Expanding the business categories in which foreigners may invest and liberalizing overseas investment by domestic firms.
- Incrementally raising the limit on investments made by foreigners in the domestic stock market, liberalizing overseas securities investments by domestic investors, and giving foreign investors access to the domestic bond market.
- Relaxing regulations on overseas financing and the management of foreign capital by domestic firms and financial institutions.

2-5. Introduction of the Real-Name System in Financial Transactions

- Introducing, as early as possible, the use of real names in all financial transactions.

3. Deregulation of Administrative Control

Administrative reform will be undertaken as the government's top priority and regulations will be relaxed to the level of developed countries by 1997. The relaxation of regulations will give the public more opportunity to actively participate in reform efforts. Achieving these goals hinges on changing the mentality of front-line government officials. Therefore, reform efforts should improve government officials' attitudes toward public service and volunteerism. Furthermore, the relaxation of regulations will be promoted continuously and consistently with the institutionalization of reform.

3-1. Reduction of Entry Barriers

- Lowering entry barriers to stimulate an influx of new entries into traditionally over-protected industries having high premiums that arise from licensing and approval restrictions.
- Relaxing restrictions on business areas, which were divided according to administrative districts.
- Removing entry restrictions on domestic firms ahead of foreign firms in those sectors affected by the market liberalization plan.
- Increasing the professional workforce by relaxing stringent qualification requirements and numerical quotas.

3-2. Deregulation of Business and Factory Establishment Procedures

- Simplifying administrative procedures required to establish businesses and factories in accordance with the Special Act on the Deregulation of Business Activities, set to take effect in July, 1993.
- Promoting the development of industrial sites by simplifying procedures and encouraging active participation by the private sector.
- Expediting firms' activities by relaxing regulations on plant construction and demolition.

3-3. Deregulation of Production, Distribution, Imports and Exports

- Accepting firms' self-certification, excluding safety-related tests, when conducting product approval tests and quality inspections.
- Relaxing entry barriers and regulations on business activities to prepare for the market opening of distribution services set for 1996.
- Relaxing regulations on exports and imports, including entry restrictions on trading companies, export inspections, approval and customs procedures,

to the level of developed countries.

3-4. Deregulation of Price Controls

- Leaving the prices of manufactured products and services, other than government-monopolized products and public services, to be determined principally by market mechanisms.
- Gradually rationalizing prices for public services by 1997, while giving local governments the authority to determine prices of region-specific public services.
- Letting the local governments regulate prices of private services based on local conditions of each region.

3-5. Rationalizing Regulations on Environment, Industrial Safety and Health Care

- Gradually changing the basis of the regulatory system from the ex-ante rule, which requires the activities of firms to be inspected according to an uniform standard, to the ex-post rule, which holds the firm responsible for the outcome.
- Providing incentives to abide by regulations and charging financial penalties, rather than filing criminal charges for minor violations.
- Mitigating firms' financial burden by rationalizing the legal requirement for firms to employ environmental, safety and health managers.

3-6. Improvement of Public Services

- Promoting the immediate processing of civil petitions by simplifying and computerizing documentation requirements.
- Continuously monitoring the progress of deregulatory efforts made by

lower-level bureaucrats working at the front-line windows.

3-7. Institutionalization of Administrative Reforms

- Removing restrictions based on administrative guidelines and practices lacking legal foundation, and minimizing documentation and attendance requirements created solely for the convenience of government bureaucrats.
- Gradually giving regulatory authority to lower levels of the government and clarifying precisely where responsibility lies.
- Initiating a study, if necessary, on the introduction of the Basic Law for De-regulation.

4. Forming a New Pattern of Economic Behavior

Under the New Economy, sustained economic growth will be fostered by reforming the mentality and behavior of all economic agents. To encourage voluntary participation by the private sector, public officials must model a new pattern of economic behavior. Furthermore, the economics-related curricula in schools will be strengthened for the early development of sound economic behavior among economic agents.

4-1. Why Reform is Necessary

- Under previous authoritarian regimes, government control over the economy weakened the private sector's creativity and willingness to voluntarily participate in economic activities.
- To overcome recent difficulties and to achieve economic growth led by the principles of 'participation' and 'creativity' as stipulated in the 'New Economy,' reform in the mentality and attitude of all economic agents should ac-

company institutional reform of the overall economy.

- Reform of the general public's behavior, which requires voluntary participation and creative initiatives, is essential for successful and rapid implementation of the New Economy.

4-2. Sound Pattern of Economic Behavior

- To resist individual and collective egoism in Korean society and to build an advanced democratic nation, economic agents must realize that they are all members of 'one community.'
- For sustained economic progress, 'professionalism,' a 'progressive mindset,' 'rational thinking' and a 'positive attitude' towards Korean unification should be promoted.
- Government officials should develop a democratic 'way of thinking' to ensure that economic policies are formulated and implemented under the principles of autonomy, consistency and transparency.
- Management and workers should realize that the success of the firm hinges on their "partnership," thus dismissing confrontational attitudes towards each other.
- Farmers, fishermen and independent businessmen should realize that as professionals they, too, play a significant role in economic development.
- Each individual, as a member of the local community should show "community spirit" and act as a rational consumer.

4-3. Reform Measures

Government Sector

- Extending the current education program to improve attitudes and the mentality of government workers in economic-related ministries to all government ministries.

- Developing programs sponsored jointly by the private and public sectors, to facilitate government reform efforts by increasing officials' awareness of the difficulties encountered in the private sector.
- Creating opportunities for policy-making officials to visit company factories and offices to better understand actual difficulties encountered by the private sector.

Private Sector

- Encouraging individuals in the private sector to voluntarily and autonomously reform their mentality and attitudes for a new pattern of economic behavior.
- Supporting research activities that seek ways of reforming the pattern of economic behavior in the private sector, and supporting private institutions through a new council, which works towards developing a sound pattern of economic behavior.

Economics Curricula in Schools

- Improving the contents of school textbooks to encourage sound economic behavior among all economic agents.
- Expanding teacher-training programs to include curricula for reforming the pattern of economic behavior.
- Improving textbook quality and book distribution at the Center for Economic Education and the Korea Education Development Institute.

III. Major Goals of the New Economy

1. Enhancing Growth Potential

Under the 'New Economy,' the growth potential of the Korean economy will be secured through an improvement in overall competitiveness. Industrial competitiveness will be strengthened through the structural adjustment of industries, technological innovations, improvement of information networks, and the enforcement of fair competition rules. For example, small- and medium-sized firms, as well as the agriculture and fishery sectors, will become more competitive through structural adjustments. The overall competitiveness of the Korean economy will be improved by expanding social overhead capital, improving labor relations, and promoting the efficient use of human and other resources.

1-1. Promotion of Industrial Structural Adjustment

- Expanding investments in R&D and new equipment in high-tech industries, rationalizing industries undergoing structural adjustment.
- Developing industry-specific strategic technologies and encouraging knowledge-intensive service industries, such as design and engineering services, which will contribute to developing technology- and knowledge-intensive industries.
- Encouraging large conglomerates to specialize in a narrower range of businesses to become "most competitive" global enterprises.
- Reforming the industrial policy-making system; that is, close cooperative

methods will be used between the private and government sectors to prepare blueprints and strategies for industrial development.

1-2. Establishment of Rules for Fair Competition

Reducing the Concentration of Economic Power

- Lowering limits on the size of cross-guarantees on debt repayment and the number of cases of inter-firm equity investment in each of Korea's thirty largest conglomerates.
- Revising the criteria for firms to be designated as "large conglomerates" by considering the number of affiliated companies, the structure of ownership shares, as well as the total volume of assets.

Innovative Management Strategy to Strengthen Competitiveness

- Encouraging public stock offerings to disperse ownership and reduce the limit of non-voting stock issues from a half to a quarter of the total issued stocks.
- Eliminating the accounting practice of treating interest payments as pecuniary losses and strengthening regulations on provisional payments to improve the financial position of firms.
- Expanding the range of corporations required to draw up consolidated financial statements to increase transparency in business management.

1-3. Promotion of Technology Development

- Supporting the private sector's R&D efforts and expanding personnel and scientific information services to make technology more innovative.
- Making government-funded research institutes highly specialized and task-oriented, and supporting private firms' efforts to initiate joint-research with such institutes, universities, and other private firms for more efficient tech-

Major Goals

nological development.

- Increasing investments in R&D to 3-4% of the GNP by 1998 and efficiently initiating government R&D projects.

1-4. Development of the Information Industry

- Upgrading strategic information industries that include subminiature personal computers, multimedia, next-generation switching systems, and technologies, which will help Korea's competitiveness in the near future.
- Accelerating computerization in the public sector by constructing a second-stage national information network and promoting a local information network.
- Constructing an information network for trading and distribution services and supporting the computerization of small- and medium-sized firms.

1-5. Development of Small- and Medium-Sized Firms

- Fostering technical assistance programs to secure technological capabilities and expanding joint research projects among private firms, universities, and research institutes, while continuously pursuing structural adjustment programs.
- Encouraging cooperation within the private sector to strengthen ties between large firms and small- and medium-sized firms.
- Assisting local small- and medium-sized firms to take advantage of indigenous specialties, while enhancing the role of local governments.
- Improving, in stages, regulations limiting fair competition, such as "business categories exclusively reserved for small- and medium-sized firms," and integrating and simplifying supportive systems to prepare for market opening.

1-6. Development of the Agricultural and Fishery Sectors

- Changing traditional policies of the agricultural, forestry, and fishery sectors from output-expansion or price-supporting policies to restructuring policies to improve competitiveness of these sectors, and rearranging the priorities of fiscal investments to restructure rural areas.
 - Lowering production costs of rice through mass-production and mechanization.
 - Encouraging farmers to specialize in raising livestock and to improve the quality of livestock products.
 - Developing special farming complexes for fruits, vegetables, and flowers, along with the automation and modernization of facilities.
 - Encouraging fish farming and the efficient use of forest land.
 - Educating the agricultural workforce and supporting R&D for discovery of innovative technology.
- Encouraging participation and creative initiatives of associations of producers in production and distribution areas.
 - Independently operating the central administrations of the National Agricultural, Fishery, and Livestock Cooperative Federations by separating credit allocations.
 - Encouraging economic activities by the National Agriculture, Fishery, and Livestock Cooperative Federations, such as production, sales, and processing of food products.
 - Strengthening government support so that local producers in farming areas head distribution of specific products.
 - Establishing the principle of fair trade by expanding distribution facilities in production areas, certifying product quality, and shipping standardized products.
 - Establishing and utilizing information networks in the agricultural, forestry, and fishery industries.

Major Goals

- Improving the overall living conditions and welfare of the agricultural and fishing sectors.
 - Improving the overall welfare of agricultural and fishing areas; that is, improving the living environment and enhancing the income base.
 - Enlarging non-farming income sources by making the most of indigenous advantages, marginal arable land and resources.
 - Revitalizing agricultural and fishing villages by making effective investments in the agricultural and fishing industries and reforming the farmland system.

1-7. Reform of Vocational Education and Labor Relations

- Expanding vocational high schools to secure a skilled labor force.
- Transforming public training centers into "skill colleges" to supply skilled technicians and establishing "institutes of technology" to nurture professional engineers.
- Fostering productive labor relations by carefully considering industrial realities and employer-employee relations.
- Enhancing the welfare of employees by providing housing subsidies, adequate preventive measures from and compensation for injury resulting from industrial hazards.
- Introducing an employment insurance system in 1995 to stabilize the turnout of the workforce and workers' standard of living.

1-8. Improvement of the Land-Use System

- Increasing the amount of arable land from 16% to 30-40% of all land by simplifying complicated land-use regulations and reducing zoning categories from the current 10 to 5 divisions.
- Reforming the current management of farmlands and forests so that rural

villages become an economic base for agricultural, as well as for other economic activities, and using farmlands and forests according to local regional characteristics.

- Permitting the building of housing and business facilities by local residents in "Green Belt Areas" where land development has been restricted.

1-9. Balanced Regional Development

- Simplifying zoning in Seoul metropolitan area from 5 to 3, and changing regulatory methods from physical restrictions to economic means.
- Improving local economies for implementation of an autonomous local governing system, and establishing a comprehensive plan for balanced regional development.

1-10. Expansion of SOC and Reform of the Distribution System

- Increasing financing for social overhead capital (SOC) through bond issues, private investments, readjustment of usage fees, and raising priorities in fiscal expenditures.
- Increasing the efficiency of infrastructure investment by dividing up uses of transportation, such as roads, railways, seaports and airports, and constructing a comprehensive transportation system.
- Improving distribution networks by constructing distribution centers, and accelerating computerization by developing EDI national standards.
- Strengthening competitiveness by relaxing regulations in the distribution sector.

1-11. Efficient Use of Energy and Resources

- Increasing energy efficiency of economic and industrial structures by using

Major Goals

efficient technology and substituting chemical energy, and making efforts to reduce the energy consumption rate below the GNP growth rate.

- Lowering entry barriers for energy-related industries and enhancing the market mechanism in determining energy prices.

2. Strengthening Internationalization

Economic reforms under the New Economy will help internationalize Korea's economy, which, in turn, will support its modernization. By actively reforming the international trading system and effectively coping with the trend toward regionalism in the world economy, Korea will increase its access to the world market. Based on its unification policy, which pursues the "maximum welfare of all Koreans" and "prosperous coexistence," the Korean government will encourage projects for strengthened economic cooperation between South and North Korea and create a relevant institutional framework.

2-1. Internationalization of the Korean Economy

- Increasing the transparency of trade-related policies and regulations, and promoting fair competition by making domestic regulations consistent with international standards.
- Improving the domestic investment environment by abolishing obstacles to foreign investment in Korea.
- Implementing measures to strengthen economic competitiveness in conjunction with step by step liberalization of services and agricultural sectors.
- Continuously opening markets and improving domestic regulations to procure official membership into the OECD by 1996.

2-2. Reforming the International Trading System

- Actively participating in key multilateral negotiations, such as the Uruguay Round and global environmental negotiations, to ensure that Korea's position is fully represented in the recent restructuring efforts of the international trade order.
- Improving Korea's international status by resolutely opening markets, internationalizing its domestic economy, and advocating active economic diplomacy.
- Expanding direct investment in major economic areas as the EC and NAFTA, and carefully making efforts to form a regional economic cooperation that includes Korea.
- Maintaining friendly bilateral trade relations with major trading partners, including the U.S., Japan, EC and China, and promoting investment and technological cooperation based on such relationships.
- Improving international economic policy by amending administrative systems and investing in training programs for the provision of consistent international economic policy and international trade experts.

2-3. International Competitiveness and International Cooperation

- Enhancing Korea's export capabilities by promoting the production of high-quality and high value-added commodities, encouraging the development of domestic brand names, and establishing overseas distribution networks.
- Relaxing existing regulations on overseas investments to promote investment abroad, and encouraging joint ventures with foreign firms.
- Expanding market access in developing countries by increasing financial aid to these countries and by establishing joint investment projects between the government and the private sector.

2-4. Economic Cooperation between South and North Korea

Expanding South-North Economic Cooperation

- Stage 1 : Establishing direct trade between the South and North, executing showcase projects, and establishing an institutional framework for further economic cooperation, including investment guarantees.
- Stage 2 : Increasing economic cooperation between the South and North; that is, improving the South-North trading relationship by developing a list of tradable goods, and conducting joint projects in various fields, including manufacturing, development of natural resources, and tourism.
- Stage 3 : Beginning full scale economic cooperation by maximizing mutual complementarities between South and North Korea, full-scale expansion of South-North trade and joint projects to promote a common economic community, and establishing transportation and telecom-munication networks.

Promoting South-North Korean Joint Projects Abroad

- Expanding market access to third countries by combining South Korea's capital and technology with North Korea's labor force.
- Internationally marketing North Korean products with the help of foreign branch networks set up by South Korean firms and KOTRA (Korea Trade Promotion Corporation).

Foundation for a Common Economic Community

- Conducting research projects to investigate industrial structures and economic systems of South and North Korea, and developing a rational approach to form a common economic community.
- Identifying various sources of financing needed to form a common economic community between South and North Korea.

3. Improving the Living Environment

Continuous efforts will be made to improve Korea's standard of living. In particular, housing, environmental, and metropolitan traffic problems, issues of concern that arise along with economic growth and higher income level, will be improved substantially as the Five-Year Plan for the New Economy is implemented. Moreover, the social welfare system will be enhanced to equally distribute benefits of economic growth to all levels of society. At the same time, the social status of women and consumer rights will be improved, in accordance with Korea's economic development.

3-1. Housing Supply

- Raising the rate of home-ownership to 90% by 1998 with supply of 500 to 600 thousand new housing lots per annum, of which 250 to 300 thousand will be public apartments for low-income families not owning houses.
 - Providing at least 50% of all public housing in the form of rental apartments to urban low-income workers by 1997.
- Enhancing housing supply by expanding housing loans and increasing land supply for housing construction.
 - Raising the financing capacity of the National Housing Fund and expanding the Private Housing Fund.
 - Rationalizing land-use regulations to increase the supply of housing lots, and encouraging land development projects by the private sector.
- Restraining land speculation by raising property taxes for owners of multiple residences, and stabilizing housing rental rates with institutional support for the housing rental industry.

3-2 Environmental Protection

- Expanding, step by step, usage of clean fuels, such as LNG, and minimizing use of fossil fuels, such as coal and petroleum, at the current rate until 1997 to prevent environmental contamination.
- Substantially expanding environmental infrastructure, such as sewage disposal plants and garbage burning dumps, and promoting private sector investments in environmental protection facilities by offering tax incentives and financial support.
- Promoting the issuance of bonds, foreign borrowing, and the introduction of environment-related taxes to finance the Environmental Investment Fund, and introducing the Special Account for Environmental Improvement to ensure efficient management of the fund.
- Changing regulations on emitted pollutants to result-oriented rules, and restructuring various duty systems, including garbage collection fees and environment improvement fees, to increase economic incentives.

3-3. Alleviation of Metropolitan Traffic Problems

- Expanding public transportation to become the dominant means of transportation in metropolitan areas by continuously expanding the metropolitan subway system, extending exclusive lanes for buses, and subsidizing the public transportation industry.
- Making existing traffic facilities more efficient by improving the traffic light system, extending the one-way traffic system, and improving facilities in congested areas.
- Changing the possession-oriented tax on automobiles into an usage-oriented tax, and introducing, step by step, the permanent parking space certificate system to efficiently manage increasing transportation demands.

3-4. Improving Social Welfare

- Developing a Korean social welfare system that harmonizes economic growth with income distribution, and amending the Act on Social Security to incorporate the Basic Law on Social Welfare.
- Implementing a pension system in the fishery and agricultural sectors in the framework of the existing National Pension System.
- Expanding facilities for child and handicapped care, and improving related systems to encourage participation among firms and individuals in social welfare programs.
- Increasing supervision of special invalids, such as cancer and psychiatric patients, and improving both the emergency medical system and safety management system for food and medicine.
- Revising the Equal Employment Act by improving the sexual discrimination dispute settlement system, and devising measures to dissipate burdens associated with hiring women, including temporary leave for maternity and child care.

3-5. Protection of Consumer Rights

- Monitoring and correcting unfair practices in service sectors which affect the general public, such as funeral and wedding hall businesses.
- Providing consumer product information to the general public, such as quality certification and rules of origin, and raising product quality and safety criteria to meet international standards.
- Supplementing consumer-related laws, including the Consumer Protection Law, and encouraging consumer action by expanding the rights of consumer organizations to publicize investigative reports.

IV. Vision of Korea's Future Economy

The New Economy can be achieved only if the Korean people are willing to voluntarily participate and take creative initiatives in economic activities. With successful implementation of the Five-Year Plan, the Korean economy will become: i) a "Healthy Economy," with strong competitiveness, ii) a "Just Economy," in which efforts are always fairly rewarded, and iii) a "Forward-looking Economy," that anticipates future global changes and prepares for future unification of Korea.

During the five year period of the new economic plan, along with newly advanced economic institutions and a new pattern of economic behavior, all Koreans will share the burdens, as well as the fruits, of economic progress, thereby achieving:

- i) a sustained average annual growth rate of 7%,
- ii) a per capita GNP of US\$14,000 by 1998,
- iii) a balance of payments surplus by 1995, thereby becoming a net creditor nation, and
- iv) economic stability with an inflation rate of 3% (consumer price index).

As Korea's economy begins to show sustained growth, not only will the quality of life for Koreans improve, but the foundation for Korean unification will be prepared as Korea's status in the international economy improves. Social stability will be assured with improvements in overall living conditions, including housing, environmental protection, transportation, and social security. Furthermore, its improved status, that is, internationalization of the economy

and sustained economic growth, will lead the Korean economy into the circle of advanced countries of the OECD. Finally, as its foundation for unification is solidified, Korea will make great strides in its South-North relations, moving all the more rapidly towards unification.

Shifting towards the New Economy

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