
The Beginning of Korea's New Economy

The Kim Administration's 100-Day Plan

May 1993



Korea Institute for International Economic Policy

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• **Note**

The Kim Young Sam Administration, inaugurated in February, 1993, has actively been pursuing the Plan for the New Economy to revitalize the stagnated Korean economy. The Korea Institute for International Economic Policy (KIEP) has summarized this Plan for the New Economy in English with the intention of informing interested foreigners of such endeavors. This English version was primarily excerpted from the Korean version of *The 100-Day Plan for the New Economy* published by the Planning Committee for the New Economy in March, 1993.

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I . Basic Scheme of the New Economy

1. New Engine of Economic Development

1-1. Development Process of the Korean Economy

Since Korea launched its major economic development plan in 1962, it experienced an annual average growth rate of 8.7% until 1988. As a consequence, Korea was ranked 15th in terms of its GNP and 12th in terms of its trade volume relative to other countries in the world in 1989, earning its place as one of Asia's popularly described four "dragon countries." Per capita GNP increased to US\$ 4,127 in 1988 from US\$ 82 in 1961 and advances in industrial structure were also achieved. The manufacturing sector's share in GDP increased from 14.4% in 1962 to 32.5% in 1988, while the share of the heavy and chemical industry in total manufacturing production increased from 28.6% in 1962 to 60.5% in 1988. Chronic high inflation during the early stages of economic development was stabilized significantly by the mid-1980s, while the trade balance shifted from chronic deficit to surplus in 1986, reaching a total of US\$ 28.6 billion in the three year period from 1986 to 1988.

This remarkable performance by the Korean economy during the past three decades may be attributed in part to the effective combination of abundant, high-quality labor, coupled with low-cost foreign capital and technology. Furthermore, the government-led development strategy worked as an engine of growth in the same period. On the other hand,

government guidelines and regulations permeated into every corner of the economy during this period of rapid economic growth.

However, the Korean economy began to show signs of deterioration beginning in 1989. Although the growth rate remained at 8.2% during the 1989~91 period, it dropped dramatically to 4.7% in 1992, the lowest since 1980. In the second half of 1992, the growth rate was even lower at a weak 3.0%. In particular, the decline of the manufacturing sector appeared to be most serious with a major loss in its competitiveness in the overseas market. In the meantime, the domestic market began to overheat, especially in the construction and service sectors; this, coupled with the excessive consumption pattern, led to an almost 10% increase in the consumer price index between 1990~91. Additionally, the trade balance shifted back to deficit in 1990, reaching US\$8.7 billion by 1991, as a result of a decline in exports and a surge in imports.

Although the inflation rate decreased and the trade deficit was reduced in 1992 (a trend that was attributed to the government's stabilization policy), the Korean economy could not avoid its fundamental problems. Salient symptoms included: drastic sluggishness in economic growth, its weakening competitiveness in export manufacturing, and its continued current account deficit.

In retrospect, one of the major causes of Korea's economic difficulties was its rapid pace of democratization, which ignited frequent and violent labor disputes, as well as wage hikes, which far exceeded productivity growth. Pent-up demand exploded, resulting in the decline in savings, while the so-called "collective egoism" hindered many public projects, such as the improvement of nuclear power plants, new highways, etc. The illusion that Korea was becoming an advanced country also began to loosen the work ethic of entrepreneurs and workers, alike, causing rapid

wage increases, the degradation of product quality, and a slowdown in the development of technology. Hence, Koreans became deeply concerned about the future course of their economy and felt the necessity for drastic reforms in order to revitalize the economy and enhance its competitiveness.

1-2. Changes in the Domestic and International Environment

In recent years, the Korean economy has been trapped in a high-cost, low-efficiency structure as it moves towards democratization. At the same time, as social conflicts have intensified, national harmony has been severely hampered. In addition, many small and medium-sized firms, as well as rural farmers, have begun to worry about their survival, as further opening of the domestic market has become inevitable.

With the end of the Cold War, economic competition among countries has replaced ideological confrontations in the international sphere. On the one hand, a borderless, global economy characterized by unlimited competition has emerged, where advanced technology of developed countries and low-cost labor of developing countries are combining. On the other hand, the world economic superpowers, including the U.S., Japan, and the EC, are vying for dominance in the world market. While multilateral efforts are being made for the successful resolution of the Uruguay Round of GATT, regionalism as well as trade and technology protectionism have gained widespread popularity as important topics in the world economic environment. Quite clearly, the world is entering an era of potential economic war, where prosperity may be open only to the winners.

1-3. Engine of Growth under the New Economy

The engine of economic growth adopted by previous regimes can no longer contribute to continued growth in Korea's new democratic environment and in the rapidly changing international economic scene. A new engine must be developed in order to sustain Korea's growth especially in the context of the new setting which advocates a market economy and market opening policies. In the new environment, voluntary participation and initiatives of private economic agents will be essential elements for economic growth. The cornerstone of the New Economy lies in increasing productivity based on voluntary participation and private-sector initiative and in sharing burdens and benefits of growth.

The year 1993 will be a fundamental turning point, marking a change from the development mechanism under a government-led regime to a new mechanism under democracy. This fundamental change will require institutional reforms in many fields, including reforms in administrative, fiscal, and financial areas, intended to reduce government control over private economic activities. At the same time, the "way of thinking" on the part of economic agents should be reformed in order to induce voluntarily participation for reform measures and a sharing of responsibilities.

1-4. Institutional Reforms

Deregulation

Government regulations and controls in the domestic economy have been excessive in Korea, a legacy of past government-led economic growth. These restrictions have retarded creative initiatives of the private sector. In this light, Korea needs to promote the deregulation of its econo-

my and transform the government so that it will provide services to the private sector. In this way, voluntary participation and creative initiatives of the private sector will naturally emerge, leading to the continual growth of the Korean economy in a democratized and liberalized environment.

Fiscal Reform

Korea's fiscal system contains structural rigidity in the allocation of government expenditures, which has resulted in the shortage of public investment needed to boost growth potential and in the lack of public services necessary for meeting public demands. Moreover, the unfair tendency of the administration to impose taxes for convenience sake, exists. Therefore, the fiscal system should be reformed to change the priorities in public investment and to improve the fairness of taxation.

Financial Reform

The financial sector in Korea has been underdeveloped mainly due to a variety of government regulations imposed upon it in order to support government-led resource allocation. Therefore, voluntary participation of economic agents is absent in the financial sector, a trend which hinders development and stunts real sector growth of the economy. Financial reform will emphasize improving the efficiency of the financial sector by reducing regulations and promoting competition.

Reform of the Administrative Organization

The current government organizations for economic affairs still maintain the framework of the previous period of government-led growth. It will be reorganized to effectively support reforms in government regulations, the fiscal system, and the financial sector. The general focus will aim at reducing government intervention, while simultaneously improving the government function of providing information and services.

Administrative authority will be delegated to local governments and lower-level organizations. Also, overlapping functions of ministries will be cleared, thereby clarifying the rights and responsibilities of each ministry. The specialty of civil servants will be emphasized and compensation will be improved.

1-5. Reform in the “Way of Thinking”

Institutional reforms for the New Economy cannot achieve their objectives without concomitant reforms in the “way of thinking” of all members of society. The essence of reform is that all economic agents must abide by the “rules of the game” which pursue self-interests based on fair competition and cooperation. A nationwide campaign is necessary to effectively implement reforms in the “way of thinking”. Reform in the “way of thinking” targets the whole society, comprising of the government, financial, private, rural, and consumer sectors.

The purpose of reform in the government sector is to incorporate new principles of public service, namely autonomy, consistency, and transparency in the decision-making process. The principle of autonomy is accomplished through the decentralization of authority, from the government to the private sector, from the central to the local government, and from the upper-level to the lower-level organization. The principle of consistency emphasizes that public policies need to maintain their main tenets over time and across government organizations. Finally, the principle of transparency requires that policies should be designed and implemented in an open and legitimate environment through official channels.

The essence of reform within enterprises lies in recovering the companion spirit among members of enterprises, breaking from the con-

frontational attitude often fostered between owners and workers. Enterprises need to be managed in a democratic manner, while the decision-making authority should act according to the delineation of its functions and responsibilities. All members of each enterprise need to break away from the authoritarian attitudes from the past.

Individuals should recover their community spirit. The engine of economic growth in a democratic society stems from the communities in which individuals voluntarily participate. The communities need to voluntarily promote important issues, such as environmental protection, crime prevention, education, cultural events, traffic control, etc. The notion that autonomy under democracy is not equal to the uncontrolled burst of desire must be disseminated.

Reform in the “way of thinking” should not be a government-sponsored campaign, but a civilian campaign led by the private sector. Only reforms in the government officials’ “way of thinking” will be exercised by the government. Various civilian campaigns compatible with the core spirit of the New Economy will be advanced in accordance with the characteristics of each region and sector. Consulting committees composed of leaders in various fields will be formed to maintain the basic direction of the campaign. Active participation of the mass media and other civilian organizations will also be encouraged.

2. Outline of the Five-Year Plan for the New Economy

2-1. Purpose

The new Five-Year Plan offers a blue print for policy directions and the action plan of the new Administration, thereby removing uncertainties

and promoting voluntary participation and initiatives by the private sector. It also offers guidelines for a consistent implementation of economic reforms pledged to the people.

2-2. Preparation Schedule

The plan will be drawn up under the guidance of the Economic Planning Board by the end of June, 1993. In this process, several committees composed of scholars of various universities and institutes, and government officials will be formed to reflect the opinions of the private sector. The plan will be implemented from the latter half of 1993.

2-3. Implementation Stages

The First Year (1993)

- Emphasis will be placed on a revitalization of the economy to spur a positive economic environment and to solidify grounds for implementing the reforms.
- Institutional reforms in the internal sector of the economy, especially the deregulation of the economy, will be implemented.
- Reforms in the “way of thinking” will begin with government officials before they are expanded to incorporate the entire society. This is expected to raise the government’s credibility in the eyes of society.

The Second Year (1994)

- Along with the completion of internal institutional reforms, institutional reforms in the external sector will be launched.
- Efforts to improve Korea’s standard of living will be strengthened while the civilian-led campaign to reform the “way of thinking” will

- be actively pursued.
- Economic conditions will be significantly improved, fostering the recovery of the economic growth rate to its level of potential, the maintenance of price stability, and the achievement of an equilibrium in trade.

The Third Year (1995)

- Institutional reforms in the external sector will be advanced based on the completion of the reforms achieved in the internal sector. In particular, financial deregulation will be advanced and fair competition among domestic and foreign firms will be promoted.
- As reform in the “way of thinking” develops into its mature stages, community spirit and work ethic will be enhanced.

The Fourth Year (1996)

- With the completion of institutional reforms, the internationalization of domestic institutions and practices will be achieved, based on which Korea will enhance its international position and actively participate in the international economic order.
- The key policy issue will be the improvement of the standard of living by means of accumulating national economic strength. Emphasis will be placed on improving the conditions of housing, environment, transportation, and programs for elderly and rural people.

The Fifth Year (1997)

- The objectives of the New Economy will be accomplished. Specifically, the autonomy of firms will be guaranteed, the principle of “compensation according to contributions” will be realized, and an economy in which the whole community actively participates, will be achieved.

3. Purpose of the 100-Day Plan for the New Economy

The 100-Day Plan is a short-term program designed for the revitalization of the economy, which has been formulated in the context of the broader Five-Year Plan for the New Economy.

The Korean government drafted this plan based on the firm conviction that the success of the Five-Year Plan for the New Economy will hinge on its first one hundred days. The 100-Day Plan aims to prove worthy of Koreans' confidence in the new administration's ability to manage and revitalize the sluggish economy through various reforms, which will reshape the economic environment. Among the economic reform measures, priority will be given to administrative deregulations.

The 100-Day Plan consists of the following seven primary prescriptions:

- Boosting the economy through the promotion of investment
- Strengthening the competitiveness of small- and medium-sized firms
- Expansion of R & D investments
- Encouraging autonomy of business activities through administrative deregulations
- Restructuring of the agricultural sector
- Maintaining price stability for daily staples
- Reform in the “way of thinking” of all members of society to support successful economic and institutional reforms

II. Major Tasks and Measures of the 100-Day Plan

1. Revitalization of the Economy

Most Koreans are deeply concerned about the recent economic sluggishness, particularly the slump since the third quarter of 1992, and feel the need for drastic measures to revitalize the economy. If revitalization efforts are delayed, stronger actions may have to be implemented which will, in turn, exert a negative impact on prices and on the international balance of payments. Therefore, the Korean government has decided to implement stimulating financial and fiscal policies to promote investment in manufacturing and export industries before it is too late.

Such stimulating policies include: a reduction of interest rates, relaxation of financial regulations, expansion of tax benefits, and an earlier implementation of the government's procurement and public works projects.

1-1. Lowering the Rediscount Rate

In March, 1993, interest rates, which had already dropped in January, were further lowered through reducing the central bank's rediscount rate. The Korean government will implement a financial policy that maintains low market interest rates.

1-2. Relaxation of Financial Regulations

Flexible management of money supply

Money supply will be managed flexibly in order to increase the availability of funds for firms' investment projects and to keep market interest rates low. Consequently, there will be a moderate increase in money supply, but it is not expected to have a large impact on price levels due to the contraction of aggregate demand and low capacity utilization rates of firms.

Expanding the availability of funds for facility investment

The government will improve its approval procedures and terms for foreign currency-denominated loans for the purchase of domestically-produced machinery, which were introduced in October, 1992 to facilitate the supply of facility investment funds. For example, lending activities, which are currently limited to the Korea Development Bank and the Industrial Bank of Korea, will be extended to commercial banks and local banks in order to reduce the burden of collaterals that the borrowing firms should provide. The coverage ratio of the loan will also be raised to 90% from the current 80% for large firms and to 100% from the current 90% for small- and medium-sized firms. The supply of facility investment funds for the purchase of domestically-produced machinery will be expanded to 9,740 billion won with an additional amount of 570 billion won.

Easing restrictions on overseas financing

Restrictions on overseas financing through the issuance of securities denominated in foreign currency will be relaxed in consideration that the domestic financial market is not large enough to satisfy the demand for

a large amount of facility and technology investment funds. For example, eligibility requirements on the issuance of securities denominated in foreign currency will be relaxed and the upper limit for overseas security issuance will be raised. Moreover, the maturity of usance bills drawn for the purchase of imports used to manufacture products for export will be extended from the current 90 days to 120 days to ease the burden of operational funds on export industries.

Facilitating direct financing

To facilitate funding for facility investment through direct financing, the total amount of additional stocks and corporate bonds issued by manufacturing firms will be expanded to 18 to 20 trillion won, an increase of 3 to 5 trillion won over last year's amount. In particular, the limit on the amount of additional stocks or corporate bonds issued by small- and medium-sized firms will be removed.

Expansion of trade loans

To reduce the financial burden of operational funds that small- and medium-sized exporting firms carry, trade loans will be expanded by raising the unit lending price from 650 won to 700 won per dollar. In addition, the EXIM Bank will increase its annual financing for plant exports from 20 to 30 billion dollars, in light of the recent increase in plant exports.

1-3. Taxation and fiscal policy

Tax reforms

The tax deduction deadline for investment expenditures will be extended to December, 1993 from the original date of June, 1993. According to the Investment Tax Deduction System, tax deductions of 7% for large firms and 10% for small- and medium-sized firms on investment

expenditures for the purchase of domestically-produced machinery are applied. To facilitate exports of small- and medium-sized firms, eligibility requirements for the use of a simplified tariff refund system will be eased from the current "refund performance of less than 20 million won" to a "refund performance of less than 50 million won" in any given year.

Previous implementation of government spending

Sixty percent of annual budgets for public works projects to be implemented by the government and government-related institutions will be used during the first half of the year. Such fiscal rescheduling is expected to promote aggregate demand with an increase of about 6 trillion won, compared to the first half of 1992.

2. Structural Improvement of Small-and Medium-Sized Firms

Special attention will be given to the structural improvement of small- and medium-sized firms so that they may make the strongest contribution to revitalizing the economy. Significant steps will be taken to mitigate difficulties in their business operations including financing and sales of products.

The current system that supports small- and medium-sized firms focuses on financial services, but lacks other services that provide assistance in technology, manpower, information and collateral, which are essential for business operations. Therefore, the support system will be improved in such a way that it becomes more easily accessible to small- and medium-sized firms and substantially helpful to them.

2-1. Acceleration of Restructuring Efforts.

A public fund of 1 trillion won, raised mostly from budgetary savings, cuts in salary and of government employees, will be created and invested in the purchase of goods produced by small- and medium-sized firms, as well as in restructuring projects such as factory automation and technology development. In particular, priority will be given to small- and medium-sized firms which push for restructuring in cooperation with large scale firms. Large scale firms will also be given priority for support if they show initiatives for joint cooperative efforts with small- and medium-sized firms to strengthen international competitiveness.

2-2. Mitigation of Financial Difficulties

Small- and medium-sized firms will be allowed to use properties for non-business purposes or properties owned by third parties for collateral needed for bank loans to upgrade their loan eligibilities. They will also be allowed to enjoy unlimited discounts on commercial bills, while the duration of rediscounts on commercial bills, which is applicable to small- and medium-sized firms, will be extended to 120 days from the current 60 days.

Limitations on the amount of additional stocks or corporate bonds issued by small- and medium-sized firms will be removed, while credit guarantees for corporate bonds issued by the firms will be drastically expanded. In addition, the government will call for commercial banks to extend facility loans of 250 billion won to promising small- and medium-sized firms experiencing difficulties in financing their facility investments.

The current procedure for foreign currency loans to small- and medium-sized firms will be simplified by opening “special windows” to expedite the project approval procedures and to obtain loans as early as possible.

2-3. Sales Support

One of the difficulties that small- and medium-sized firms face in technology development and restructuring is the insufficient demand for their products. Hence, administrative support for increasing demand for their products, such as government procurement, will be provided.

In particular, 65% of public funds (about 1 trillion won) will be provided to facilitate purchases of products of small- and medium-sized firms during the first half of 1993 and “the plan for the purchases of products of small- and medium-sized firms” will be announced in early April. In order to support firms which develop and export products with their own trademark, independently or jointly, a “center for supporting the export of products of small- and medium-sized firms with their own trademark” will be established under the Korea Trade Promotion Corporation. With the support of related economic associations and the Korea Trade Promotion Corporation, exhibitions of outstanding products, which have already been used in domestic and foreign markets, will be actively utilized by small and medium-sized firms.

2-4. Readjustment of the Support System

The current complex public loan system used by small- and medium-sized firms will be simplified and rearranged to make more efficient use of restructuring funds. The loan that the Small and Medium

Industry Promotion Corporation indirectly provides via banks will be converted into a direct loan; this action is intended to reduce commission fees and simplify procedures. To facilitate the use of tax benefits for small- and medium- sized firms, tax counseling centers will be established at seven regional offices by the National Tax Administration.

A plan advocating free grants for technologies developed by government-funded research institutes will soon be prepared for small- and medium-sized firms. In addition, a “small and medium computerization agency,” which supports business automation and production automation of small- and medium-sized firms, will be established under the Small and Medium Industry Promotion Corporation. In an effort to promote the sale of newly-developed products, government’s procurement decisions will depend on firms’ technology and quality in addition to their offering prices. Issuance of quality certificates and certification marks indicating government verification will also be actively implemented.

2-5. Provision of Credit Information to Local Firms

Many small- and medium-sized firms face insecurities and risks when they begin new relationships with other firms, which arise from their lack of knowledge of the latter’s credit standing. Therefore, an information system, under which local small- and medium-sized firms can easily gain access to other firms’ credit information, will be established.

2-6. Establishment of a “Special Committee for Small-and Medium-Sized Firms”

A special committee will be established that will regularly examine small- and medium-sized firms’ difficulties and will attempt to resolve

them through concerted efforts of related ministries, financial institutions, and various economic associations.

3. Promotion of Technology Development

Technology development will be restructured in such a way that the government's R & D investments can lead to an increase in the total productivity of the Korean economy. To this end, concerted efforts between the government and private sector are needed from the initial stages of technology development. In addition, the domestic environment for foreign direct investment will be significantly improved to foster technology transfer from foreign firms.

3-1. Expansion of Equipment and R & D Investment in Growth-Promising Industries

The Industrial Policy Screening Meeting (chaired by the Deputy Prime Minister), by means of a private and public joint-panel for industrial development consisting of government officials, private entrepreneurs, and bankers, will corroborate and carry out a technological development scheme for the expansion of equipment and R & D investments in growth-promising industries such as information, automobiles, aerospace, etc.

3-2. Promotion of Foreign Investment to Accelerate Technology Transfer from Foreign Companies

The government will set a 5-year liberalization timetable for the 224 industries in which foreign direct investment in Korea has been restricted.

The government will also reduce administrative restrictions in order to simplify the procedures for foreign direct investment. Restrictions on land acquisition and overseas financing by foreign firms will also be relaxed.

3-3. Reform of the R&D System

Reform of government-funded research institutes

The government will gradually reform the current research fund support system from the “Unilateral Donation to Research Institutes” to “Bilateral Contract by Research Task” in order to enhance the efficiency of R & D investments. At the same time, a more open and competitive atmosphere will also be fostered to provide incentives to more competent research teams. To this end, the organization of government-funded research institutes will be transformed into a more flexible, task-oriented system.

Increased technical assistance for small-sized firms' technological development

The government will support the technological development of small- and medium-sized firms by establishing a “Technology Support Center for Small- and Medium-Sized Firms” in conjunction with technical assistance to the small- and medium-sized firms in which the problem of technological bottlenecks is serious. Government-funded research institutes will not only dispatch their experts to small- and medium-sized firms, but will also operate training programs for their workers in order to increase productivity. Joint research and cooperation between government-funded research institutes and private firms will be promoted to commercialize state-held patents and know-how.

4. Enhancing the Autonomy of Firms' Activities

In order to encourage firms' autonomy and creativity and to build a transparent government, the government will drastically relax administrative regulations and controls, which have been the major factor in weakening international competitiveness of firms by restricting their autonomy and creativity.

The new government has already examined 1,079 business regulations that were recommended to be relaxed or abolished and has selected 670 regulations for the deregulation list. Enforcement ordinances, rules, and notifications necessary for deregulation will be completed by the first half of this year, and all legal requirements for National Assembly deliberations will be thoroughly prepared.

4-1. Relaxation of Market Entry Regulations

A wide spectrum of deregulation categories exists including: relaxation of rules and restrictions, procedural simplifications, and rationalizations of regulatory laws and practices. Specifically, rules on gaining government approval or licenses for market entry will be relaxed in such businesses as overseas trade, harbor transportation, overseas construction, automobile repair, grain bargaining, pounding and pulverizing, small restaurants, funeral parlors, etc. The main purpose of deregulation is not only to encourage fair competition, but also to enhance the quality of services.

Regulations on business jurisdiction or supply territory will be relaxed or abolished in such businesses as ground and marine transportation, delivery, liquor and briquette. This action is intended to encourage competition and provide a variety of choices to consumers. In such businesses

as aviation-related, offshore branch establishment of marine transportation, provender sales and laundry, the government licensing, registration, and notification system prevails. These entry barriers will be abolished to promote freer participation in these businesses.

4-2. Relaxation of Factory-Location Qualifications and Simplification of Establishment Procedures

Added expansion of factory size of high-tech industries such as electronics and semiconductors in the metropolitan area, which was previously designated as a restricted area, will be permitted for up to 3,000 m². In addition, plant-annex facilities such as warehouses, offices, and other indispensable auxiliaries will be excluded from the calculation of total factory size.

Rental factories constructed by local, self-governing bodies will also be open to new entrants who do not possess factory licenses. Urban-type businesses, currently 191 in existence, will be adjusted to include more diverse types of businesses. Procedures for designating an industrial complex in the metropolitan area will be simplified and shortened. Moreover, restrictions on farmland conversion procedures for factory expansion will be simplified and eased in cases of less than 1,000 pyong(1 pyong is approximately equivalent to 3.3m²).

4-3. Improvement of Employment Practices and Job-Training Programs

Relaxation of obligatory employment practices

To relieve firms of the burden of obligatory employment rules, the required number of safety guards and health maintenance assistants will be reduced by 1 or 2. Small- and medium-sized firms will be exempt

from these rules by expanding the range of trust management and allowing joint posts for these jobs. Obligatory employment practices will be significantly relaxed by loosening qualifications for environment managers and by permitting joint posts. For energy managers in small- and medium-sized firms, seniority obligations will be replaced by designated education.

Burden relief for job training and expansion of autonomy

The budgetary limit for job training will be increased, while the obligatory vocational training ratio will be frozen at 0.67% of total wages. Training facilities, instructors, and training materials will be rationally selected, and geographic limitations on entrusted vocational training will be abolished.

Relaxation of workplace supervision

Regular supervision of 1,000 workplaces will be suspended during 1993. Regular evaluations of working conditions will be executed annually rather than biannually. Other miscellaneous routines will be rationalized to relieve firms' burdens.

4.4. Simplification of Export-Import Procedures

Repetitive exports of identical products will be allowed over a given period without additional approval, while exports worth less than US\$10,000 will be exempt from approval procedures. Also, obligatory inspection practices of 120 items designated for pre-export inspections by the Industrial Advancement Administration will be gradually abolished. Finally, intermediate manufacturing imports used by domestic manufacturing importers will be exempt from the obligation of presenting certificates of origin.

4-5. Deregulation of Finance, Securities, and Foreign Exchange-Related Restrictions

A credit guarantee limit for loans less than 100 million won given to small- and medium-sized firms will be increased to one third the amount of total sales in order to facilitate their financing. Regulations on direct financing will also be relaxed in such a way that limitations on the issuance of additional stocks and corporate bonds will be abolished for qualified firms.

Pre-receipt of export payments will be extended to all exporting firms, while the minimum amount of intermediary bill issuances will be reduced from 100 to 50 million won to facilitate the financing of small- and medium-sized firms. Regulations on overseas firms' activities will be relaxed. To this end, acceptance requirements will be significantly relaxed for small-scale overseas investments less than US\$1 million. For large-scale overseas investments greater than US\$30 million, evaluation duties for reviewing the profitability of overseas operations will be abolished. Overseas branches or subsidiaries will not be subject to continuous registration, accompanied by the expansion of remittance limits to overseas branches or subsidiaries. The issuance of merchandise coupons will be permitted, but the refund of change will be obligatory to protect consumers.

4-6. Improvement of Tax and Customs Payment Procedures

Deadlines for corporate tax and value-added tax payments will be rationally adjusted to relieve financial burdens from deadlines concentrated at the end of each year. For small businesses, the current monthly system of collecting employees' income taxes will be changed to

the quarterly system for the purpose of alleviating inconveniences associated with frequent payments. Self-issued promissory notes of importers will be accepted as collateral to eliminate difficulties associated with customs entry. Exporters' customs procedures will be simplified by eliminating obligatory custody in bonded areas. Bonded exports have until now been transported via designated routes. Henceforth, exporters can freely select their own transportation routes to minimize inconveniences and transportation costs. The customs refund system will be extended to small- and medium-sized firms with customs refund volumes of 50 million won and export volumes of US\$ 100,000.

4-7. Deregulation of Land Use

Deregulation of land use will primarily be applied to farmland. In particular, the limit in transforming farmland for other purposes will be extended from 450 pyong to 3,000 pyong. Currently, buyers of farmland should reside in the same area for at least 6 months prior to purchase. However, exceptions will be granted to new participants involved in farming activities, such as young farming successors and graduates of agricultural high schools and colleges. Due to possible adverse effects of land speculation, the liberalized use of land will be instituted after a comprehensive deregulation plan is prepared during the first half of this year.

4-8. Rationalization of Environmental Regulations

Complex procedures and reports associated with environmental regulations will be simplified, but all appropriate standards for environmental preservation will be maintained. Non-toxic muck classified as special wastes will be re-classified as general wastes to reduce firms'

waste disposal burdens.

5. Restructuring of the Agriculture and Fishery Sector

Farmers and fishermen will be encouraged to actively participate in projects for structural improvement of the agriculture and fishery sector. Moreover, the restructuring process will focus on enhancing the sector's profitability and competitiveness.

5-1. Initiative Led by Farmers and Fishermen

Restructuring efforts led by the government may not adequately nor realistically reflect the situation in the agriculture and fishery sector and they may neglect the creativity of farmers and fishermen as well. To offset these drawbacks, the government will provide financial support for restructuring efforts, while farmers and fishermen will take the initiative in selecting projects to improve the production structure and to develop human resources in the sector.

5-2. Promoting Technology Development for Agricultural Production

Investment for building infrastructure of farming areas, as well as R & D investment for the development of agricultural technology, will be increased to maintain price competitiveness. The current system of technological support will be expanded to include the promotion of joint R & D among the government, academicians, and producers. In addition, various institutions will be reorganized to promote the diffusion of developed technologies throughout the sector.

6. Price Stability of Necessary Goods

Overall price stability will be maintained with special attention being given to prices of consumer necessity items and housing.

6-1. Stabilization of Prices of Consumer Necessity Items

Prices of consumer necessity items will be closely monitored to maintain the purchasing power of workers. Public service fares mainly determined by the government, including subways and electricity, will be frozen by the end of this year, while the stability of private service charges will be maintained. Prices of agricultural and fishery products will be stabilized through careful management of supply and demand. In addition, prices of manufactured products will be checked constantly to prevent excessive increases.

6-2. Sustained Stability of Housing Prices

In order to sustain stable real estate prices, which have exhibited a downward tendency since last year, efforts to prevent speculation will be strengthened, especially in the high risk area of real estate speculation. Moreover, institutional arrangements will soon be established to maintain the structural stability of real estate prices. In particular, reform measures for the real estate tax system will be completed by the first half of this year. This is intended to rationalize the tax base and levy heavy taxes on those owning more than one house.

7. Reform in the “Way of Thinking”

In order to induce voluntary participation and increase creativity of all members of the economic community, reform in the “way of thinking” should accompany institutional reform. Reform in the “way of thinking” will be initiated by government officials before it is diffused to the private sector.

7-1. Orientation of Government Officials

Reform in the “way of thinking” of government officials will emphasize operational principles of the New Economy. The following details the new principles in orienting government officials:

- the Principle of Autonomy consistent with Democratic Politics, i.e. decentralization in the policy determination process
- the Principle of Consistency corresponding to Predictable Politics, i.e. time consistency of government policies and ending conflicts among ministries
- the Principle of Transparency related to Clean Politics, i.e. policy determination through open and official channels

In addition, the orientation will focus on the psychological aspect that the economic administration is not to exercise authority but to render public services.

7-2. Voluntary Efforts of the Private Sector

In the private sector, reform will be promoted through voluntary partici-

pation of economic agents, as opposed to a uniform and unilateral government campaign.

III. Sharing the Burdens of Building the New Economy

The Korean economy faces problems of declining economic strength and international competitiveness. Economic policies and institutional improvements alone cannot cope effectively with these difficulties. If each private economic entity only propagates self-interests, and if the vicious cycle of wage-price increases, decline in international competitiveness, and economic depression continues, then the effectiveness of government policies cannot be achieved. All economic agents need to voluntarily take part in sharing the burdens of building the New Economy. Potential for economic growth will be increased as burdens and sacrifices are shared at present, so that the benefits of economic growth can soon be returned to all members of society.

1. Government's Initiative

Expenses in the public sector will be reduced by US\$1.25 billion, while savings from this spending cut will be used to financially support small-and medium- sized firms. Salaries for government officials will be frozen before private workers are asked to refrain from wage increases. The number of employees working in the government sector will be reduced. However, in order to prevent budget reductions from causing inefficiency in government administrations, the working environment for low-ranking officials will be improved significantly.

The following lists the sources from which public expenses will be saved by the government:

- reduction of expenses related to various registrations
- reduced size of offices for high-ranking officials
- reduction in the number and expenses of government-hosted events
- reduction in number of government vehicles
- reduction of grants and subsidies
- preventing the establishment of new government-funded research institutes

2. Private Enterprises

2-1. Maintenance of Stable Prices and Employment

Firms, especially those in the service industry, are asked to freeze the prices of their products, as well as their service charges this year through increases in productivity and cost savings. In return for workers' cooperation with wage stabilization efforts, firms will have to maintain a stable employment environment by, for example, effectively using retraining programs for relocation.

2-2. Efforts to Improve Workers' Welfare

Firms should attempt to build their credibility with employees by disclosing business performance, and at the same time should improve workers' welfare so that increased profits resulting from stable wages are returned to employees.

2-3. Cooperation Between Large- and Small-Sized Firms

Large-sized firms should realize that the good performance of small- and medium-sized firms is essential for their own success. Accordingly, large-sized firms should correct unfair practices with subcontracting firms and should not delay payments for product delivery to subcontracting firms past the deadline. Moreover, large-sized firms are expected to build cooperative relationships with small- and medium-sized firms in various dimensions, for example, by maintaining stable demand for newly developed products of small- and medium-sized firms and by providing loan guarantees to subcontracting firms, etc.

3. Financial Institutions

3-1. Correction of Unsound Lending Activities

Financial institutions should abolish unfair practices in their lending activities, such as forcing compensating deposits, which hinder sound activities of firms.

3-2. Enhancement of International Competitiveness

In preparation for financial market liberalization, financial institutions will have to improve their international competitiveness by developing new banking techniques and by promoting office automation.

3-3. Lending Activities Based on Credit Standing

Financial institutions are expected to strengthen the loan screening system, while extending loans based on firms' credit standing and investment prospects, rather than on real estate collateral.

4. Industrial Workers

4-1. Refraining from Wage Increases

Industrial workers are expected to refrain from wage increases as well as make efforts to improve their productivity and the quality of their products. In this way, the vicious wage-price spiral will be eliminated and Korea's competitiveness can be recovered.

4-2. Expanding Workers' Housing Supply

In order to encourage work ethic, the government should supply one hundred thousand residential units for workers without interruption by the end of this year and provide mortgage conditions favorable to these workers.

5. Agricultural Workers

Farmers are expected to refrain from demanding excessive increases in government purchase prices for agricultural products. In addition, they will have to voluntarily participate in reforming and modernizing the agricultural sector to cope with rapid changes in the internal and external agricultural environment.

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The Kim Administration's 100-Day Plan

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