

## ANNEX A3

# Progress in structural reforms

*This annex reviews action taken on recommendations from previous Surveys. They cover the following areas: sustaining Korea's convergence to the highest income countries, promoting social cohesion and achieving the low carbon, green growth vision in Korea. Each recommendation is followed by a note of actions taken since the April 2012 Survey. Recommendations that are new in this Survey are listed in the relevant chapter.*

This annex presents under each theme:

- Recommendations of the 2012 Survey.
- ❖ **Actions taken.**

## Taking stock of structural reforms: Sustaining Korea's convergence to the highest-income countries

### **Encouraging labour market participation, particularly of women, the elderly and youth**

- Encourage better work-life balance, in part by expanding flexibility in working hours and reducing them, lengthening maternity and paternity leave and encouraging their take-up by increasing parental leave benefits and reserving part of the leave for the exclusive use of fathers.
  - ❖ **The government has increased the flexibility of maternity leave and made it possible for parents to take additional leave or work part-time after the end of maternity leave.**
- Increase the availability of affordable, high-quality childcare.
  - ❖ **In March 2013, the government introduced a universal childcare subsidy to all parents with children aged five and under, regardless of their financial conditions. It continues to increase the number of public childcare facilities.**
- Reduce labour market dualism to create better job opportunities for women and young people.
  - ❖ **The government announced a plan in 2013 to convert around 26% of fixed-term workers in the public sector to regular status by 2015.**
- Encourage greater use of flexible employment and wage systems to promote the continuous employment of older workers, while expanding and upgrading lifelong learning and training opportunities to improve their job prospects.
  - ❖ **Large firms have been required to run training programmes for workers who will soon retire.**
- Set a minimum mandatory retirement age and gradually increase it with an aim of eventually abolishing mandatory retirement.
  - ❖ **A 2013 law raises the minimum age for mandatory retirement to 60 in big firms from 2017.**
- Ensure better access to employment support programmes to encourage youth to work.
  - ❖ **The number of cases of job counselling, job search, job placement and employment at youth job centres increased from 145 thousand in 2011 to 364 thousand in 2013. Job information at outstanding SMEs has been collected by central and local governments and disseminated on the Internet since October 2012.**

### **Improving the education system to promote productivity growth**

- Raise the proportion of children attending kindergarten by expanding tuition subsidies, especially for low-income children, and increasing the capacity of public kindergarten by including them in primary school buildings.
  - ❖ **The universal subsidy introduced in March 2013 for early childhood education and care (ECEC) includes children attending kindergarten. By April 2013, 74.2% of primary schools included kindergartens.**
- Improve the quality of private childcare facilities by upgrading the accreditation process and making it mandatory and relaxing fee ceilings on private childcare, which impinge on quality.
  - ❖ **A law requiring more information disclosure on childcare centres was passed in 2013.**
- Improve the quality of teachers by increasing the requirements in ECEC.
  - ❖ **The government has introduced tailored training depending on age to strengthen the specialties of teachers.**
- Gradually integrate childcare and kindergartens to improve quality, while achieving cost savings.
  - ❖ **The harmonised curriculum for kindergarten and childcare programmes was extended to three and four-year-olds in 2013.**
- Increase school autonomy and enhance co-operation between local governments and local educational authorities, with the eventual aim of merging them.
  - ❖ **Co-operation has been enhanced recently through increased personnel exchanges, a more active role for the local councils of education administration and joint training programmes.**
- Expand school choice to encourage schools to excel, while continuing to expand diversity in the types of high schools to promote competition and excellence.
  - ❖ **In October 2013, the government announced a plan to strengthen general high schools by granting them more autonomy in setting curriculum and thereby increasing scope to specialise in certain areas.**
- Develop vocational education by increasing the number of Meister schools and enhancing the role of colleges, in part by developing National Competency Standards (NCS) that link education and the labour market.
  - ❖ **The government is providing comprehensive support to develop NCS that reflect industrial demands for certain competencies.**
- Promote the internationalisation of the university sector by facilitating the entry of foreign students and tertiary institutions in Korea to enhance competition.
  - ❖ **In October 2012, the government announced the Study Korea 2020 Project, which aims to attract 200 thousand foreign students to Korea by 2020.**
- Use the rankings that designate the lower 15% of institutions to improve management and foster restructuring; incorporate more national universities to promote autonomy.
  - ❖ **In 2013 and 2014, the government designated 43 and 35 private universities, respectively, as ineligible for government grants in an effort to promote needed reforms.**

- Make an upgraded accreditation system effective, while easing regulations to promote innovation and diversity.
  - ❖ **Although accreditation is not mandatory, more universities are participating as the results are publicly disclosed and linked to government funding programmes beginning in 2014.**
- Expand the role of universities in innovation by strengthening links between research institutes in government, business and academia, in part by promoting the labour mobility of researchers.
  - ❖ **The government is encouraging universities to appoint professionals from the business sector as faculty members and dispatch university faculty to industrial research centres.**

### **Raising productivity in the service sector**

- Further lower entry barriers, including in network industries, through regulatory reform, and upgrade competition policy by raising the deterrent effect of surcharges and criminal penalties.
  - ❖ **Medical corporations have been allowed to set up subsidiaries and foreign indirect ownership limits in telecom carriers (excluding Korea's dominant wired and wireless telecommunication service providers) were liberalised.**
  - ❖ **The government established "detailed assessment criteria" to evaluate violations of the fair trade act.**
- Strengthen international competition in services through greater inflows of foreign direct investment by removing ownership restrictions and improving the business climate.
  - ❖ **The government has eased foreign ownership and investment restrictions, including liberalising ownership limits in telecommunications and allowing foreign educational institutions to establish joint venture schools with Korean partners.**
- Scale back government assistance to SMEs, including subsidies, financial assistance, credit guarantees and tax incentives, to make small companies less dependent on public support.
  - ❖ **The "Comprehensive Management System for SME Support" was launched in 2014 to determine which firms receive multiple benefits from the government, which will be used to decide whether to scale back government assistance to SMEs.**
- Comprehensively quantify the various forms of explicit and implicit support to manufacturing as a first step to level the playing field.
  - ❖ **The "Comprehensive Management System for SME Support" will also provide information about support to manufacturing firms.**

### **Taking stock of structural reforms: Promoting social cohesion**

#### **Use well-targeted increases in social spending to address inequality and poverty**

- Relax the eligibility conditions for the Basic Livelihood Security Programme (BLSP) and ensure adequate funding, while improving the work incentives of recipients.
  - ❖ **During 2013, the government relaxed the asset criteria for family support and reduced the conversion rate for housing. The eligibility for transitional benefits, such as temporary medical and educational support, for people leaving the BLSP will be expanded in 2014.**

- Expand the earned income tax credit (EITC) by relaxing the eligibility conditions and aiming, in the long run, to include the self-employed.
  - ❖ **The EITC was expanded in 2014 to include single persons and more self-employed workers.**
- Target the Basic Old-Age Pension System on low-income elderly and increase the benefit, while promoting private savings for retirement by accelerating the introduction of company pensions.
  - ❖ **The BOAP is being doubled to 200 000 KRW, while maintaining broad coverage.**
  - ❖ **In 2013, new firms were allowed to create company pensions without an agreement with workers.**
- Ensure that the National Health Insurance (NHI) meets its goal of universal coverage and further lower co-payments ceilings to provide adequate care to low-income households and persons with chronic health problems.
  - ❖ **The co-payment ceiling for low-income households was lowered in January 2014. In July 2013, the government decided that the NHI will pay for all treatments related to cancer, heart and cerebrovascular illnesses and rare diseases until 2016.**
- Gradually expand long-term care services by emphasising home-based care to contain cost increases, while enhancing their quality.
  - ❖ **The eligibility standards for long-term care were eased in 2012-13, expanding the number of patients by 50 000.**

#### **Reduce labour market dualism through labour market reforms**

- Reduce employment protection in practice for regular workers so that firms can realise adequate employment flexibility without relying as much on non-regular workers.
  - ❖ **The Three-year Plan for Economic Innovation aims to improve dismissal conditions and procedures in order to reduce gaps in employment protection between regular and non-regular workers.**
- Expand the coverage of non-regular workers by workplace-based social insurance, notably by better compliance, to improve their welfare and cut the cost advantages of non-regular workers.
  - ❖ **The government has provided financial support since 2012 for the premium payments by low-income workers (including non-regular workers) at small workplaces for unemployment insurance and the National Pension Scheme.**
- Increase training and career consultation to enhance employability of non-regular workers and their transition to regular employment.
  - ❖ **Non-regular workers who voluntarily participate in training can receive a government stipend for living costs since 2012.**
- Revise the 2007 non-regular law, which is increasing employment instability and leading to a concentration of non-regular workers in more vulnerable types of employment, by extending the time limit on fixed-term contracts.
  - ❖ **No action taken.**

- Relax regulations on temporary agency workers by moving from a positive-list system to a negative list.
  - ❖ *The roadmap for a 70% employment rate and the Three-year Plan for Economic Innovation include steps to expand the use of temporary agency workers by allowing their use in farming and fishing villages and allowing workers age 55 and over and high-income professional workers to be employed as temporary agency workers.*

#### **Promote equality through educational reforms**

- Enhance the access of disadvantaged children to high-quality ECEC by increasing tuition subsidies for low-income children.
  - ❖ *In March 2013, the government introduced a universal childcare subsidy to all parents with children aged five and under, regardless of their financial conditions. The universal curriculum for kindergartens and childcare centres was extended to four and five-year olds.*
- Increase the capacity of public kindergartens by including them in primary schools.
  - ❖ *By April 2013, 74.2% of primary schools included kindergartens.*
- Develop the “admissions officer” system for universities to reduce the importance of the CSAT, thereby reducing the role of hagwons.
  - ❖ *This system, now known as the “school records system”, is being strengthened by better training the persons responsible for university admissions.*
- Reduce dependence on private tutoring, including hagwons, by improving the quality and diversity of secondary schools and strengthening vocational education and career guidance.
  - ❖ *A pilot project that allows middle school students a free semester to develop talents through job exploration and first-hand experiences was launched in 2013 and will be extended to every high school from 2016.*
- Improve access to after-school tutoring by further expanding Internet and broadcast teaching systems and expanding the after-school programmes in schools.
  - ❖ *The government is providing support for ICT use in schools in rural areas to improve access to distance learning. Participation in after-school programmes is increasing.*
- Expand student loans through the new programme that makes repayment contingent on income after graduation.
  - ❖ *The interest rate on the loans was lowered from 3.9% to 2.9% in 2013 and loans for living expenses were expanded.*

### **Taking stock of structural reforms: Achieving the low carbon, green growth vision in Korea**

#### **Mitigating climate change**

- Achieve final approval of the bill to create an ETS, preferably before the end of the National Assembly session in May 2012.
  - ❖ *The bill was approved in May 2012.*
- Announce a schedule to phase out grandfathering and expand the auctioning of permits.
  - ❖ *The free allocation of permits has been set at 100% over 2015–7, 97% over 2018-20 and less than 90% over 2021-25 and thereafter.*

- Allow the banking and borrowing of permits to reduce price volatility.
  - ❖ **Firms can carry over and borrow permits within the commitment phases (2015-17, 2018-20 and 2021-25).**
- Introduce a carbon tax to reduce emissions in sectors not covered by the ETS.
  - ❖ **No action taken.**
- Reform the electricity pricing system by raising prices to reflect unit costs in each sector and replacing the sectoral price structure with prices set by voltage to effectively reflect costs.
  - ❖ **Electricity prices have been raised three times since 2012 and the relative pricing structure between electricity and other energy sources was improved. The cross-subsidies between sectors have been reduced by increasing the price for the industrial sector, and basing it on voltage and time of use.**
- Stop earmarking environmental taxes for transport construction, especially roads.
  - ❖ **No action taken.**
- Monitor the market for renewables to avoid excessive reliance on low-quality options, while promoting long-term contracts to stabilise prices.
  - ❖ **The weight of each renewable source is reassessed every three years and long-term contracts are required for a portion of the mandatory share of renewables.**
- Phase out the Target Management System, once the ETS and the carbon tax are in place.
  - ❖ **Entities exempt from the ETS will remain subject to the Target Management System.**

### **Creating new engines for growth**

- Effectively use the large-scale expenditures in the Five-Year Plan to promote green investment and innovation that will underpin sustained growth and give rise to new economic opportunities.
  - ❖ **Korea has narrowed the green technology gap with advanced economies and the renewable energy industry has expanded.**
- Focus more on basic research in green technologies in public research institutions, emphasising a technology-neutral approach, and attract more industry and academic involvement.
  - ❖ **The government budget for R&D in green technology rose at 5% annual rate over 2009-13, while the share of basic research in total R&D in green technology has risen markedly.**
- Encourage closer co-operation between government research institutes, universities and firms by facilitating joint projects, enhancing the mobility of researchers and expanding access to the research of government institutes.
  - ❖ **Government investment in collaborative research in green technology between universities and firms accounted for 37% of the total amount of public investment in green technology R&D in 2012.**
- Channel necessary funds to green businesses through the existing market-based systems and private firms rather than directly through public institutions.
  - ❖ **Public financial institutions supporting green business do so using measures such as on-lending and indirect investment funds through private financial institutions.**

- Continue to foster green financing for firms, while enforcing rigorous certificate criteria and limiting the inherent risks of “picking winners”.
  - ❖ **Green certification standards are amended by private-sector experts each year. Funds are channeled as evenly as possible to prospective technologies/industries to manage risks.**
- Enhance labour market flexibility and expand effective training systems for skills needed for green growth.
  - ❖ **In September 2012, 24 occupations in environment-friendly and high value-added services were added to the vocational training programmes for national key and strategic industries.**

### **Improving the quality of life through a better environment**

- Continuously reduce overall emission caps under the cap-and-trade system to improve air quality and shift allocation from grandfathering to an auction scheme to enhance efficiency.
  - ❖ **A cap-and-trade system for total air pollution in the Seoul metropolitan area is being prepared for 2016. Permits are free up to a standard level, but firms must pay for additional emissions.**
- Improve the accessibility and convenience of public transport, promote the use of bicycles and raise the Average Fuel Efficiency standards for vehicles to reduce pollution, notably in the capital region, until a price on carbon is introduced.
  - ❖ **The government is preparing a strengthened fuel efficiency evaluation standard in 2014.**





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