



# COMPREHENSIVE GROWTH STRATEGY:

Republic of KOREA

# 1. ECONOMIC OBJECT AND KEY POLICY COMMITMENTS

## 1.1. Economic Objective

The Korean economy has recovered gradually since mid 2013 and the Korean financial market was relatively stable amid last year's market turmoil. The GDP growth is estimated to strengthen further from 3.0% in 2013 to 3.7% in 2014 despite downside risks including EMs slowdown and tightening in the global financial market. Domestic demand, however, is still weak in part due to high household debt and uncertainty surrounding the outlooks, which weigh on both consumption and investment.

Against this backdrop, the short-term policy objective is to close cyclical gap through proactive macroeconomic policies. The IMF forecasted that negative output gap remains at 0.6% in 2013 and 0.5% in 2014. The medium-term policy objective is to boost potential growth from around 3% in 2013 to around 4% in 2017 by implementing Growth Strategies based on "the Three-year Plan for Economic innovation".

Korea aims to lift GDP by more than 2% above the trajectory by closing cyclical gap and enhancing growth potential. The positive spillovers from other countries' reform efforts are expected to contribute to further growth. Through the Comprehensive Growth Strategy including "the Three-year Plan for Economic innovation", Korea intends to achieve the goal of around 4% growth potential, 70% of employment rate and providing basis for USD 40,000 GDP per capita by 2017.

## 1.2. Key Commitment

The Korean government identified following 5 measures that have the greatest impact on GDP.

1. The Korean government recently announced a stimulus package worth KRW 40.7 trillion including fiscal and financing supports in addition to the previously planned 2014 budget of KRW 250.8 trillion and "Fund Expenditure Plan" of KRW 105.0 trillion. The stimulus package is expected to raise Korea's GDP growth by 0.1- 0.2%p in 2014, and by 0.3%p in 2015.
2. The Korean government will introduce "Three Tax Schemes" to support household income and thereby boost domestic consumption which include the following:
  - Provide 10% tax credit for firms (5% for large firms) that have raised wage higher than the average of the past three years, to boost disposable income of households.
  - Decrease the tax burden of shareholders of corporates with high dividend payout ratio by lowering tax on dividends(14→9%), with an aim to revitalize the stock market.
  - To encourage corporates to allocate their profit in investment, wage raise and dividends, an additional tax (10%) will be levied on large firms whose investment, wage raise and dividends do not reach a certain level.
3. The government will scale up infrastructure investment. It will spend around KRW 85 trillion of its budget to invest in SOC in 2014-2017. It will also make use of PPP in infrastructure projects including '2nd Seohaean Expressway' (KRW 2.6 trillion) and Metropolitan Express Railway (KRW 3.1 trillion). In addition to that the government plans to encourage state-owned enterprises such as the Korea Water Resources Development Corporation to spend their KRW 5 trillion surplus funds for infrastructure investment in 2014.
4. The government is reforming its regulatory system such as introducing 'One-in, One-out' regulation regime, the negative list approach and Sunset clause. Also, it will introduce "System for Differential Application of Regulation" and "System for Regulation Improvement Based on Suggestions from Enterprises" in order to resolve uncertainty surrounding regulations.

5. The government aims to achieve 70% employment rate especially by increasing labor force participation of vulnerable groups including female and youth. In line with such efforts, the government plans to minimize job mismatch by strengthening Active Labor Market Policy (ALMP). For instance, it will improve access to job search services by establishing more local job centers, ensure all job training courses focused on the needs of industrial sites and offer tailored job search services to the vulnerable groups.

At the same time, the Korean government will also implement demand-side policies such as raising wage, strengthening social safety net, employment incentive for corporations. For example, more people will be covered as beneficiaries of Earned Income Tax Credit (EITC), which supports income of working vulnerable groups.

## 2. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

### 2.1. Current and Future Growth Prospects

Domestic demand is expected to strengthen as consumption and investment recover and the GDP growth is forecasted to increase to 3.7 percent in 2014. However, a negative output gap will remain in 2014 without supportive macroeconomic policies.

A big concern is that Korea's potential growth would be weakened if structural problems are not addressed effectively. For example, Korea Development Institute(KDI) forecasted that potential growth would fall from 3.6% in 2011-2020 to 2.7% in 2021-2030.

	Key Indicators*					
	2013	2014	2015	2016	2017	2018
Real GDP (% yoy)	3.0	3.7	4.0	4.0	4.0	4.0
Nominal GDP (% yoy)	3.7	5.3	6.1	6.1	6.1	6.1
Output Gap (% of GDP)	-	-	-	-	-	-
Inflation (% yoy)	1.3	1.8	2.3	2.5	2.5	2.5
Fiscal Balance (% of GDP)	Δ1.5	Δ1.7	Δ2.1	Δ1.8	Δ1.3	Δ1.0
Unemployment (%)	3.1	3.5	3.3	3.0	3.0	3.0
Savings (% of GDP)	-	-	-	-	-	-
Investment (% of GDP)	-	-	-	-	-	-
Current Account Balance (% of GDP)	6.1	5.0	4.4	-	-	-

### 2.2. Key Drivers

The post-crisis growth has been driven mainly by exports, and both consumption and investment remain sluggish resulting in weakened dynamism in domestic demand. Net contribution of exports to GDP growth stood at 3.1% in 2011 but that of the domestic demand was only 0.6% in the same year. However, domestic demand has slowly recovered in 2013, its contribution rate to GDP growth reaching 1.4%, while that of the exports dropped to 1.5%. On the other hand, service industry makes up relatively smaller portion of GDP(58%) in comparison with other advanced economies and service sector productivity is only about half that of manufacturing.

## 2.3. Macroeconomic Policy Settings

Korea has continued its supportive macroeconomic policy to ensure recovery.

- **Fiscal Policy:** A supplementary budget of KRW 17.3 trillion was adopted in May 2013 and complementary measures of KRW 3.8 trillion including restructuring the fund management plan and increasing public institution's expenditure were implemented. In addition, front-load around 60% of the 2013 budget was executed in the first half of 2013.
- **Monetary Policy:** Bank of Korea (BoK) has been taking accommodative monetary policy. Amid uncertain global outlook and subdued inflation, the Base Rate has been kept at 2.50% following a 25 basis-point cut in May 2013.
- **Risk management:** The Government strengthened monitoring on downside risks including financial market instability and also updated contingency plans.

At the same time, the government has continued its structural reforms efforts including implementing "70% Employment Rate Roadmap" and "Action Plan for Creative Economy". However, structural weakness of the Korean economy still remains to be addressed.

## 2.4. Assessment of Obstacles and Challenges to growth

**Cyclical factor:** There are signs of recovery in domestic demand but the momentum is not yet strong enough that domestic demand remains below the pre-crisis level. In particular, a decrease in facility investment raised concerns over weakening growth potential.

Externally, the growth of the global trade volume has stagnated and positive impact on Korea's economy is likely to be limited to some extent compared to the previous recovery period from the crisis. There are downside risks in the global economy such as financial tightening associated with the monetary normalization in key advanced economies, the rise of geopolitical tensions, and prolonged low inflation.

**Structural factor:** In a medium-term perspective, the growth potential is likely to fall for following reasons;

- **Labor:** The labor force is projected to decline from 2017 mainly due to rapid population ageing.
- **Capital:** The facility investment declined in part due to contraction of investment sentiments, weighing on capital accumulation.
- **Productivity:** The service sector suffers from low productivity mainly due to strict regulation including entry barriers. The inefficiency in the public sector also undermines innovation and competition.
- **Imbalance:** There are structural vulnerabilities including gap between exports and domestic demand, between manufacturing and service sector and between large firms and SMEs.

### 3. POLICY RESPONSES TO LIFT GROWTH

#### 3.1. New Macroeconomic Policy Responses

The Korean government recently announced a stimulus package worth a total of KRW 40.7 trillion in order to boost domestic demand since the growth slowed in the second quarter amid a drop in consumer spending.

- **Fiscal Policy:** The Korean government introduced diverse fiscal measures of amounting to KRW 11.7 trillion (0.82% of GDP) by revising “Fund Expenditure Plan” and increasing the budget execution rate. The government will also draw up next year’s budget as expansionary as possible without hindering its mid-term fiscal soundness.

<b>Fiscal Policy</b>	<ul style="list-style-type: none"> <li>• <b>Strengthen fiscal support by KRW 11.7 trillion during the second half of 2014</b></li> <li>• <b>Draft the budget for 2015 as expansionary as possible</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• By revising the 2014 “Fund Expenditure Plan”, the Korean government will expand for financing supports for housing and credit guarantee by KRW 8.6 trillion.               <ul style="list-style-type: none"> <li>- To help low-income families purchase or rent houses (KRW 6 trillion)</li> <li>- To increase loans and guarantees for funding small businesses (KRW 2.4 trillion), the tourism industry (KRW 0.1 trillion) and the distribution industry of agricultural and fishery products (KRW 0.1 trillion).</li> </ul> </li> <li>• It will increase a rate of budget execution in order to expand central and local government spending by KRW 2.8 trillion in 2014.</li> <li>• It plans to draft the next year’s budget as expansionary as possible without hindering its mid-term fiscal soundness.</li> </ul>

- **Monetary Policy:** Considering the uncertainties surrounding the global economic outlook and the continued sluggishness of domestic demand, the Monetary Policy Committee of the BOK decided to cut the Base Rate by a 25 basis-point in October following a 25 basis-point cut in August from 2.50% to 2.00%. Also, the Korean government will spend KRW 29 trillion to expand loans and loan guarantees for small businesses and to operate funds that support economic policies.

<b>Monetary Policy</b>	<ul style="list-style-type: none"> <li>• <b>Increase loans and loan guarantees by KRW 29 trillion for small businesses and operate funds to support economic policies.</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• The Korean government will scale up financing support for SMEs through state-run banks by KRW 10 trillion in 2014. (KRW 181.9 trillion → KRW 191.9 trillion)</li> <li>• It will increase loans to firms to invest in the facilities by USD 5 billion through the Foreign Exchange Stabilization Fund in 2014 (USD 10 billion → USD 15 billion)</li> <li>• The BOK will spend KRW 3 trillion more for “bank intermediated lending support facility” in 2014.</li> <li>• The Korean government will establish an investment fund worth KRW 5 trillion in 2014 to encourage firms to upgrade their safety-related facilities.</li> <li>• It will mobilize the SMEs’ facility investment fund of KRW 3 trillion in 2014.</li> <li>• It will issue additional P-CBO of KRW 2 trillion to provide liquidity to the market from 2015.</li> </ul>

- **Exchange rate policy:** The government maintains a policy position that the exchange rate should be determined by the market, based on economic fundamentals as well as supply and demand of foreign currencies.

## 3.2. New Structural Policy Responses

### 3.1.0. *Boosting Domestic Demand (Balanced growth with exports)*

The growth has been mainly driven by exports since the global financial crisis. The domestic demand including consumption and investment has slowed down. One of the reasons is high household debt and slower growth of disposable income. Investment has declined in part due to contraction of investment sentiments. In particular, the service sector consistently lagged behind the manufacturing. These features hamper rebalancing of the economy towards more domestically-driven growth.

To address such problems and pursue balanced growth, the Korean government recently announced a stimulus package of KRW 40.7 trillion. The government will also boost consumption and investment by creating a virtuous circle of higher wages and increased corporate profits. For instance, the Korean government plans to introduce “three tax schemes” to expand household income.

As included in the preliminary version of its growth strategy, the government is also swiftly carrying out policies for rebalancing. First, we will promote consumption by easing burdens on house hold debt, housing expenditure and costs of private education. Second, we will promote the service sector by leveling the playing field with the manufacturing, for example by providing the same preferential tax treatment as the manufacturing. Third, we will introduce foreign currency “on-lending system” that facilitates the imports of equipments and facilities from abroad and promote investment.

Rebalancing the economy toward domestic demand would contribute to narrowing the global imbalance and it would have positive spillover effects on other countries. A combination of above policy measures will contribute to decreasing this year’s current account surplus.

<p><b>1. Help increase household income</b></p>	<ul style="list-style-type: none"> <li>• <b>Reform Tax System (Three Tax Schemes) to boost household income</b></li> <li>• <b>Raise the non-taxable ceiling on financial income of the elderly</b></li> <li>• <b>Expand income deductions on check cards and cash receipts</b></li> </ul>
<p><b>Implementation path and expected date of implementation</b></p>	<ul style="list-style-type: none"> <li>• The Korean government will introduce “Three Tax Schemes” to support household income and thereby boost domestic consumption which include the following: <ul style="list-style-type: none"> <li>- Provide 10% tax credit for firms (5% for conglomerates) that have raised wage higher than the average of the past three years, to boost disposable income of households.</li> <li>- Decrease the tax burden of shareholders of corporates with high dividend payout ratio by lowering tax on dividends(14→9%), with an aim to revitalize the stock market.</li> <li>- To encourage corporates to allocate their income in investment, wage raise and dividends, an additional tax(10%) will be levied on those with investment, wage raise and dividends that do not reach a certain level.</li> </ul> </li> <li>• It will raise the ceiling (from KRW 30 to 40 million) of non-taxable for financial income of the elderly in 2014.</li> <li>• It will expand income deductions on check cards and cash receipts from 30% to 40% on increased amount of spending for one year (from July 2014 to June 2015) and extend tax deductions on credit card spending (scheduled to end by the end of 2014 under the sunset clause) by two years.</li> </ul>
<p><b>What indicator(s) will be used to measure progress?</b></p>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<p><b>Explanation of additionality (where relevant)</b></p>	<p>These are new policy measures launched in 2014.</p>

<p>2. Promote domestic consumption:</p>	<ul style="list-style-type: none"> <li>• Improve household debt structure</li> <li>• Reform housing market regulation such as LTV and DTI</li> <li>• Stabilize rental housing markets</li> <li>• Reduce the cost of private education</li> </ul>
<p>Implementation path and expected date of implementation</p>	<ul style="list-style-type: none"> <li>• The Korean government will <b>increase supply of long-term policy-mortgages</b> from KWR 25 trillion in 2013 to KWR 29 trillion in 2014 in order to restructure mortgage loans from floating interest rate to fixed one to help reduce household debt.</li> <li>• It will improve regulations including eliminating levy on profits from renovations and partially lifting the resale ban on new houses within a specified period in 2014.</li> <li>• It will raise the ceiling on the Loan-to-Value ratio (LTV) and Debt-to-Income (DTI) regulations to normalize the subdued real estate market. The LTV will be applied to 70 %, while the DTI will be fixed at 60% regardless of financial institutions and regions from August 2014.</li> <li>• It will stably supply 500,000 public housing through REITs(real estate investment trusts) by 2017. And it introduced tax deduction of 10% of monthly rent in January 2014.</li> <li>• As for education, to reduce the cost of private education (KRW 19 trillion in 2013), <b>it will improve the quality, diversify types of public education and provide after-school programs tailored to consumer demand.</b> To this end, the government will enact and implement “Enforcement Decree to Special Act on Public Education Reform” by 2014.</li> </ul>
<p>What indicator(s) will be used to measure progress?</p>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.</p>
<p>Explanation of additionality (where relevant)</p>	<p>These are new policy measures launched in April 2014.</p>

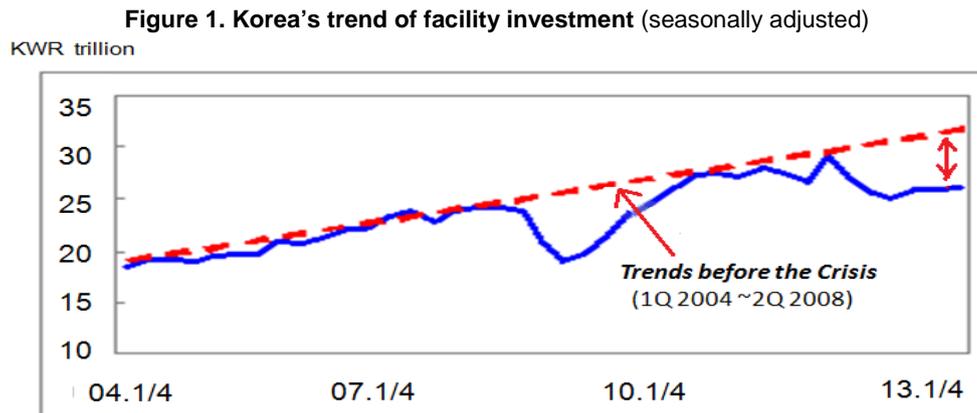
<b>3. Resolve issues of discrimination between manufacturing and service sectors:</b>	<ul style="list-style-type: none"> <li>• <b>Provide the Same Preferential Tax Treatment as Manufacturing in Tax incentive, Financial support and Government Funding Support</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>The Korean government will develop tax measures to increase service sector investment and employment</b> to close gap in tax incentives between service sector and manufacturing sector by 2014.</li> <li>• The government will introduce new system which evaluates intellectual property of service companies so that they can use it as credit guarantee in 2014.</li> <li>• To foster the service industry, it will increase service sector R&amp;D budget from KRW 82.6 billion in 2013 to KRW 140 billion in 2017.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in April 2014.</p>

<b>4. Foreign currency loan support through the foreign exchange stabilization fund:</b>	<ul style="list-style-type: none"> <li>• <b>The on-lending system to promote the imports of facilities</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• The Korean government will introduce "on-lending system" that provides foreign currency loan of up to USD 15 billion utilizing the foreign exchange stabilization fund, which promotes the import of facilities from abroad and investment in facilities.</li> <li>• The Foreign Exchange Stabilization Fund provides foreign exchange for domestic banks so that banks lend money to firms to invest in facilities. The government will support this system from May 2014 as a pilot project.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in April 2014.</p>

### 3.2.1. Investment and Infrastructure

Proportion of investment in GDP was relatively high in the early 2000s at roughly 33%, reaching 34% in 2003, but after the financial crisis investment to GDP fell to around 29% in 2011-2012 period. In particular, a decrease in facility investment had a negative impact on GDP growth.

As for infrastructure investment, given the fiscal constraints of government it is essential to attract private capital into infrastructure investment.



Source: Finance Ministry of Korea (2013)

The Korean government seeks policy measures to promote investment and expand infrastructure investment based on “the Three-year Plan for Economic Innovation”. Policy measures to promote investment include reforming regulation system, supporting investment for SMEs, expanding investment in safety facilities, boosting ventures and start-ups, investing in activating suspended business projects due to strict regulations, and increasing R&D investment. In order to expand infrastructure investment, the government will spend KRW 85 trillion of its budget on SOC in 2014-2017, while also promoting large-scale infrastructure projects through PPP. These policy measures will contribute to increase in investment, thereby strengthening economic growth and job creation.

<p>1. Reform regulation system</p>	<ul style="list-style-type: none"> <li>• Introduce ‘One-in, One-out’ Regulatory Regime</li> <li>• Deregulation that follows the negative list approach and sunset clause</li> <li>• Make information on regulations accessible to the public</li> <li>• Reduce regulation for small businesses</li> <li>• Improve regulation based on suggestion from enterprises</li> <li>• Resolve uncertainty surrounding regulations</li> </ul>
<p>Implementation path and expected date of implementation</p>	<ul style="list-style-type: none"> <li>• <b>The Korean government will introduce “One-in, One-out” regulatory regime, which put a cap on the total cost of regulations.</b> A new regulation can be adopted only when existing one with an equivalent cost is identified and removed. Accordingly, the Korean government will revise Framework Act on Administrative Regulations by 2014, and “One-in, One-out” will be fully implemented from 2015.</li> <li>• <b>Regulations will be required to specify expiration dates and use the negative list approach, whenever applicable.</b> Sunset clauses will be applied to 30% of the entire regulations before the end of 2014 and to 50% by 2017.</li> <li>• <b>Regulation-related information will be made accessible to the public via “the Government Regulation Information Portal”.</b> Through this website, people will be informed about all regulations according to their needs, as well as government efforts to ease regulations. And result of “One-in, One-out” policy implemented by each ministry is to be announced on a regular basis. “The Government Regulation Information Portal” is scheduled to be renewed before the end of the first half of 2014.</li> <li>• The Korean government will introduce “System for Differential Application of Regulation” to minimize the burden that regulations impose on small business, especially micro-enterprises (firms with fewer than 10 employees). The government will revise Framework Act on Administrative Regulations by 2014.</li> <li>• The government will introduce “System for Regulation Improvement Based on Suggestions from Enterprises”, in particular, with focus on new investment activities or projects. The government will revise Framework Act on Administrative Regulations by 2014.</li> <li>• The government will come up with procedure for enterprises to request responsible agencies information on regulations, such as confirmation of applicable regulations and interpretation on related legislations. The government will revise Framework Act on Administrative Regulations by 2014.</li> </ul>
<p>What indicator(s) will be used to measure progress?</p>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.</p>
<p>Explanation of additionality (where relevant)</p>	<p>All regulations are subject to review from the starting point (Holistic approach).</p>

<p><b>2. Boost Infrastructure Investment</b></p>	<ul style="list-style-type: none"> <li>• Spend around KRW 85 trillion for SOC investment between 2014 and 2017</li> <li>• Promote Public-Private-Partnership(PPP) while enhancing efficiency of public expenditure in infrastructure investment</li> <li>• Set up action plan for large-scale private investment in infrastructure projects worth KRW 5.7 trillion</li> </ul>
<p><b>Implementation path and expected date of implementation</b></p>	<ul style="list-style-type: none"> <li>• The Korean government plans to increase infrastructure investment via SOC expenditure amounting approximately KRW 85 trillion in 2014-2017. In particular, considering the high demand for infrastructure, the focus will be placed on developing ports, industrial complexes, roads and railways.</li> <li>• <b>Korea introduced its PPP scheme in 1994 to supplement its public resource.</b> It first started with BTO (Build, Transfer, Operation) and later expanded its scope to BTL (Build, Transfer, Lease) in 2005. Through PPP, Korea has been able to expand SOC. Korea plans to continue activating private investment through improvement of institution as following. <ul style="list-style-type: none"> <li>- <b>The Korean government provides tax incentives for acquiring and registering real estate assets and offers tax reduction for foreign investment.</b> In addition, various measures are taken to enhance financing for projects. For instance, the Infrastructure Credit Guarantee Fund (“ICGF”) is a public financial institution established under the PPP Act with the objective of extending credit guarantees for the liabilities of contractors in PPP projects or the issuance of Infrastructure Bonds. ICGF guarantees as much as KRW 300 billion for each project.</li> <li>- <b>Recently, the Korean government devised new measures to boost public-private partnership.</b> First, the government will encourage private investors to pay land acquisition cost in advance by offering additional credit guarantees in order to ease financial burdens arising from delayed land acquisition cost payment. This measure will be taken into effect before the end of the first half of 2014. Second, the government will allow private investors to propose BTL projects, on condition that projects meet requirement. Related legislation was submitted in November 2013 and amendment is scheduled before the end of 2014.</li> </ul> </li> <li>• In particular, the Korean government will set up action plans for large-scale PPP infrastructure projects in 2014, including ‘2nd Seohaean Expressway’ (KRW 2.6 trillion) and Metropolitan Express Railway (KRW 3.1 trillion).</li> <li>• The Korean government plans to encourage state-owned enterprises such as the Korea Water Resources Development Corporation to spend their KRW 5 trillion surplus funds for infrastructure investment in 2014.</li> </ul>
<p><b>What indicator(s) will be used to measure progress?</b></p>	<p>The progress will be assessed by the amendment related Act.</p>
<p><b>Explanation of additionality (where relevant)</b></p>	

<b>3. Support investment for SMEs</b>	<ul style="list-style-type: none"> <li>• Expansion of financial support for SMEs</li> <li>• Raising “Facility Investment Fund” for SMEs</li> <li>• Expansion of reduction of tariff for procurement of automated manufacturing facilities</li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• To support financial intermediation for SMEs, the Korean government will expand support in credit guarantee by KRW 1.5 trillion, trade insurance by KRW 0.5 trillion, and policy finance support for SMEs by KRW 0.4 trillion in 2014. In parallel, the government will give an additional KRW 10 trillion as policy financing for SMEs through state-run banks including the Korea Development Bank and Korea Export-Import Bank in 2014.</li> <li>• The Korea Development Bank and Industrial Bank of Korea raised a total of KRW 3 trillion for “Facility Investment Fund” to offer financing support for SMEs. The fund is scheduled to be introduced from September 2014.</li> <li>• The Korean government will provide more tariff reduction from 30% to 50% to SMEs procurement of automated manufacturing facilities. It is scheduled to be introduced from October 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in July 2014.</p>

<b>4. Expansion of investment in safety facilities</b>	<ul style="list-style-type: none"> <li>• Raising fund to support investment of enterprises in safety-related facilities</li> <li>• Expansion of tax credit for investment in safety facilities</li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• The Korea Development Bank and Industrial Bank of Korea will raise KRW 5 trillion fund that encourages firms to invest in safety related facilities. The fund is scheduled to be introduced from October 2014.</li> <li>• The Korean government will also extend sunset period (end of 2014) for 3% tax credit for investment in safety related facilities such as safety management to prevent accidents in gas and mining industries.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in July 2014.</p>

<p><b>5. Boost Ventures and Start-ups</b></p>	<ul style="list-style-type: none"> <li>• <b>Promote Angel Investment</b></li> <li>• <b>Support Venture financing</b></li> <li>• <b>Introduce Crowd Funding</b></li> <li>• <b>Develop “Creative Economy Valley(Korean Silicon Valley)”</b></li> </ul>
<p><b>Implementation path and expected date of implementation</b></p>	<ul style="list-style-type: none"> <li>• The Korean government seeks to expand investment in ventures through comprehensive policy measures from KRW 1.3 trillion in 2013 to KRW 2 trillion in 2017.</li> <li>• <b>To promote angel investment</b>, the Government will <b>provide tax incentives for angel investments</b>, including increasing income tax deduction. The government will <b>give qualifications to professional angel investors</b> who meet criteria including investment performance and work experience and <b>provide them benefit including policy financing support</b>. Enforcement Ordinance of the Special Act on Promoting Ventures will be amended by 2014.</li> <li>• <b>The Government will expand venture investment via policy financing.</b> <ul style="list-style-type: none"> <li>- <b>(Yozma Fund)</b> The government will launch and manage joint capital funds with foreign investors to help ventures enter overseas market. The Fund is targeting to secure KRW 50 to 100 billion by 2014, KRW 200 billion by 2015.</li> <li>- <b>(Female Entrepreneurs Fund)</b> The government will raise public-private joint venture capital for female entrepreneurs. This Fund aims to continue raising as much as KRW 10 billion by 2014 and KRW 50 billion between 2015 and 2017.</li> <li>- <b>(SMEs Fund)</b> The Government will support as much as KRW 950 billion to fund five hundred promising SMEs selected every year for technology development.</li> <li>- <b>(Gazelle Companies’ Fund)</b> The government will fund so-called ‘Gazelle Company’ KRW 1.2 trillion to support their marketing and facilities. ‘Gazelle Company’ refers to fast growing companies that achieve more than 20% growth in sales or employment over three consecutive years.</li> </ul> </li> <li>• <b>Furthermore, the Korean government will introduce crowd funding.</b> Capital Market Act is scheduled to be revised by 2014, where by crowd funding will be introduced and infrastructure for online small investment established.</li> <li>• The government will develop a “Creative Economy Valley” in suburb Seoul, establishing a cluster of government agencies and related entities that provide various supports to the start-ups and ventures. Related ministries and local governments will launch a task force to formulate detailed actions plans in 2014.</li> </ul>
<p><b>What indicator(s) will be used to measure progress?</b></p>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.</p>
<p><b>Explanation of additionality (where relevant)</b></p>	<p>These are new policy measures launched in April 2014.</p>

6. Activate suspended business projects	<ul style="list-style-type: none"> <li>Establish task force for supporting business project</li> </ul>
Implementation path and expected date of implementation	<ul style="list-style-type: none"> <li>A task force, with participants from public and private sector, has been launched to identify challenges that businesses face and provide them with relevant support. Its task includes eliminating restrictive entry barriers, easing environmental regulations, and resolving regulations on location requirement for plants. Policy measures were introduced five times from 2013 to provide support for nineteen investment projects that had been stalled due to excessive regulation. For each of nineteen projects, measures including improvement of system will be completed throughout between 2014 and 2016.</li> <li>The Korean government will continue identifying projects that are facing impasse to provide relevant support.</li> </ul>
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

7. Strategic R&D investment	<ul style="list-style-type: none"> <li>Expand R&amp;D investment focusing on key growth engines</li> </ul>
Implementation path and expected date of implementation	<ul style="list-style-type: none"> <li>The Korean government targets to increase R&amp;D expenditure from 4.3% of GDP in 2013 to 5% of GDP in 2017. <ul style="list-style-type: none"> <li>The government will significantly scale up the budget allocation for 2015 in R&amp;D investment. (KRW 17.8 trillion in 2014 → KRW 18.8 trillion in 2015) <ol style="list-style-type: none"> <li>The government will give its priority to investing in promising industries including the 5<sup>th</sup> generation mobile communications and material convergence. (KRW 998 billion in 2014 → KRW 1,098 billion in 2015)</li> <li>It will expand R&amp;D investment to enhance SME's technology innovation capacity. (KRW 2,977 billion in 2014 → KRW 3,298 billion in 2015)</li> <li>It will also expand R&amp;D investment in energy efficiency technology. (KRW 173 billion in 2014 → KRW 187 billion in 2015)</li> </ol> </li> </ul> </li> <li>To promote private investment in R&amp;D, the Government will set up "Investment Promotion Centre" which is an institution imthat addresses difficulties on R&amp;D investment from the private sector.</li> </ul>
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

### **3.1.2. Employment**

Korea faces the most rapid population aging among OECD countries and Korea's working-age population is projected to decline from 2017. Moreover, female employment rate remains at 53.9% led by discontinuance of female career, largely due to childbirth and childcare. Youth employment rate is also very low recording 39.7% mainly due to mismatch between skill taught in school and those demanded by firms.

In response to this labor supply-side problem, the Korean government sets the policy priority to increase labor force participation, especially of vulnerable groups including female and youth. Korea will promote female employment with the Plan for Supporting Female Workforce in Career Continuance by Life Cycle. And it will also boost youth employment by providing support for every stage of employment from education & training, job-seeking to employment.

In line with such efforts, the government plans to minimize job mismatch by strengthening Active Labor Market Policy (ALMP). For instance, it will improve access to job search services by establishing more local job centers, ensure all job training courses focused on the needs of industrial sites and offer tailored job search services to the vulnerable groups.

At the same time, the Korean government will also implement demand-side policies such as raising wage, strengthening social safety net, employment incentive for corporates. For example, more people will be covered as beneficiaries of Earned Income Tax Credit (EITC), which supports income of working vulnerable groups.

The Korean government also puts efforts to reform the labor market. It will try to meet the demand for a wide range of jobs and change the long working hour culture by promoting flexible work hours. And it will address the labor market dualism.

The Korean government aims to reach 70% employment rate by 2017 with 61.9% of female employment rate and 47.7% of youth employment rate. This will create a total of 2.38 million new jobs.

<b>1. Stimulate female employment</b>	<ul style="list-style-type: none"> <li>• <b>Promote Maternity Protection at Work</b></li> <li>• <b>Build the Customized Childcare Support System</b></li> <li>• <b>Create Female friendly Employment Environment</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>The Korean government will increase benefits of childcare leave.</b> It will also create a pool of workforce who can replace maternity leave workers in 2014.</li> <li>• <b>The Korean government will establish government running childcare services</b> and diversify childcare service offerings including for early morning and night by 2014. It will also launch part-time childcare services.</li> <li>• <b>The government will provide 10% of tax reductions for labor costs over 2 years to SMES</b> that hire women who suspended their careers for family-related reasons by 2015.</li> <li>• It will supplement Maternity Protection at work including promoting the reduction of working hours during child care and encouraging employers to keep hiring workers after childcare leave by 2014.</li> <li>• It will also improve the quality of female employment by increasing the number of managerial position for women in the public sector and promoting job training courses for women to focus on professional jobs by 2014.</li> <li>• In addition, the government plans to announce comprehensive measures of “support for female career continuance” in September 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in 2014.</p>

<b>2. Stimulate youth employment</b>	<ul style="list-style-type: none"> <li>• <b>Provide support for every stage of employment from education &amp; training, job seeking to employment</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>The Korean government will introduce the apprenticeship education program of the Switzerland</b> in vocational high school from 2015.</li> <li>• <b>The Korean government will increase the opportunity for internship programs</b> of 12 public institutions including Korea Railroad Corporation in 2014.</li> <li>• <b>It will expand special admissions to university</b> for working high school or college graduates with more than three-year careers to spread “the culture of employment first and education later” by 2014.</li> <li>• It will introduce a joint education program in 2014 that integrates a three-year high school education program and a two-year college education program in order to come up with a vocational training system that meets the demands of the industries.</li> <li>• It will increase subsidies for youth who are first hired as interns at SMEs and then recruited as full-time workers (KRW 2.2→3 million). It will also offer up to KRW 3 million of <b>grants</b> to high school graduates working at SMEs for their seniority and <b>provide incentives</b> to companies who hired people after the end of military services in 2015.</li> <li>• It will provide youth with an opportunity to take an overseas internship program (700 youth) and will run “K-Move schools” that provide customised vocational training in terms of seeking jobs in abroad (1,200 youth) from 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in 2014.</p>

<b>3. Strengthen Active Labor Market Programs</b>	<ul style="list-style-type: none"> <li>• Establish more local job centers and enhance counsellors' competences and their number</li> <li>• Reform to ensure all job training courses focused on the needs of industrial sites</li> <li>• Offer integrated and tailored "Employment Success Package" to the vulnerable groups.</li> <li>• Provide individual training costs to workers aged 50 or more</li> <li>• Integrate job search portals in private and public sectors.</li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• The Korean government plans to establish more local job centers to meet the demand for employment services and enhance counsellors' competences and their number to improve the quality of employment services in 2014.</li> <li>• It reforms current practices to ensure all job training courses focused on the needs of the industrial sites based on 254 National competency Standards (NCS) in 2014. With this reform, it is planning to enhance the quality of job training and address supply &amp; demand mismatch.</li> <li>• The Korean government will launch "Employment Success Package" to offer tailored services to the vulnerable groups including youth, female and welfare beneficiaries in 2014.</li> <li>• It will expand the coverage of providing individual training costs(KRW 2 million per worker) once only for those who work for SMEs and irregular workers to cover workers aged 50 or more starting from 2014.</li> <li>• It will also integrate private and public job search portals from 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in 2014.</p>

<p><b>4. Reform social safety net to encourage willingness to work</b></p>	<ul style="list-style-type: none"> <li>• Raise minimum wages by 7.1% compared to the previous year</li> <li>• Lower the minimum unemployment benefits</li> <li>• Reform the National basic livelihood security system in favour of employed beneficiaries</li> <li>• Expand the coverage of Earned Income Tax Credits(EITC) to include basic living support recipients</li> </ul>
<p><b>Implementation path and expected date of implementation</b></p>	<ul style="list-style-type: none"> <li>• The Korean government is to raise minimum wages by 7.1% for 2015 (from KRW 5,210 to KRW 5,580 per hour). The increase in wage will financially support the low income families and provide them incentive to work.</li> <li>• The government will also cut minimum unemployment benefits from 90% to 80% of the minimum wage in order to motivate people to work.</li> <li>• National Basic Welfare Security System will be reformed so that the government can select beneficiaries for each of the four sectors: livelihood, housing, medicine, and education. Under the reformed system, the beneficiaries can receive minimum benefits they need even if they are working. This reform will encourage people to work as they can still receive benefits from the welfare system with higher income than before.</li> <li>• The Korean government will expand the coverage of EITC from 2015 to include basic welfare support recipients. Before the reform, basic welfare support recipient could not receive EITC even if they meet the eligibility criteria.</li> </ul>
<p><b>What indicator(s) will be used to measure progress?</b></p>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<p><b>Explanation of additionality (where relevant)</b></p>	<p>These are new policy measures launched in 2014.</p>
<p><b>5. Strengthen responsibilities of creating jobs</b></p>	<ul style="list-style-type: none"> <li>• Enlarge the Scope of Evaluation for the Employment Impact on Government Policies and Projects</li> <li>• Consider the Employment Effects when Deciding Projects with a Large Scale Investment</li> </ul>
<p><b>Implementation path and expected date of implementation</b></p>	<ul style="list-style-type: none"> <li>• The Korean government will carry out the evaluation for the employment impact on 30 government projects in 2014.(15 in 2013)</li> <li>• The Korean government will put the employment effect into evaluation items for the preliminary feasibility study by revising relevant guidelines in 2014.</li> </ul>
<p><b>What indicator(s) will be used to measure progress?</b></p>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<p><b>Explanation of additionality (where relevant)</b></p>	<p>These are new policy measures launched in 2014.</p>

<b>6. Address the labor market dualism</b>	<ul style="list-style-type: none"> <li>• <b>Convert Non-Regular Workers in the Public Sector to Regular Status</b></li> <li>• <b>End Discrimination against Non-Regular Workers</b></li> <li>• <b>Increase Non-Regular Worker Protection</b></li> <li>• <b>Address Extreme Regular Worker Protection</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>The Korean government will convert 65,000 non-regular workers in the public sector into regular status by 2015.</b></li> <li>• <b>It will promote helping temporary workers in the private sector to gain permanent employment status</b> and narrow gaps between regular and non-regular workers at main contracts and subcontracts by requiring companies to regularly publicize employment information by 2014.</li> <li>• <b>It will strengthen the connection between wages and productivity</b> and reinforce penalties for minimum wage violations in 2014 to address any discrimination against non-regular workers.</li> <li>• <b>It will prevent extreme regular worker protection by rationalizing the dismissal system for regular workers.</b> To this end, it conducted a fact-finding survey on dismissals for managerial reasons in 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in 2014.</p>

<b>7. Promote flexible work hours</b>	<ul style="list-style-type: none"> <li>• <b>Create Decent Part-Time Jobs in The Public Sector</b></li> <li>• <b>Promote Decent Part-Time Jobs in The Private Sector</b></li> <li>• <b>Promote Flexible Work Hours in the Private Sector</b></li> <li>• <b>Ensure flexible work employees are not discriminated against</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>The Korean government will create and increase decent part-time jobs in the public sector</b> starting from 2014.</li> <li>• It will support the creation of decent part-time jobs by providing companies that create new part-time jobs with subsidy for labor costs and social insurance costs from 2014.</li> <li>• It will also revise legislations for <b>ensuring rights to demand reduced work hours</b> in 2014.</li> <li>• It will encourage for companies to introduce <b>the flexible hour system</b>, and devise incentives such as social health insurance premiums to improve working conditions in the latter half of 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality</b>	<p>These are new policy measures launched in 2014.</p>

### **3.1.3. Trade**

The global trading environment is rapidly changing at the bilateral, plurilateral and multilateral levels. FTA negotiations among large economic blocs, such as the Transatlantic Trade and Investment Partnership(TTIP), Tran-Pacific Partnership(TPP) and Regional Comprehensive Economic Partnership(RCEP), are gaining momentum. The Bali package, which was agreed on at the WTO Ministerial Conference in December 2013 will be followed by further negotiations on the Doha Development Agenda(DDA). At the same time, however, there has also been an increase in trade protectionist measures, including non-tariff barriers in the form of import regulations, customs clearance requirements, standards, and certification.

On a global level, Korea has concluded free trade agreements over the last decade with 50 countries, including Australia and Canada this year, as its trade policy moves toward greater openness. Negotiations with countries such as China and Vietnam as well as regional free trade talks are actively underway. On the multilateral front, Korea notified the WTO in May of its intention to implement all provisions of Section I as Category A commitments as a follow-up to the agreement on trade facilitation reached in Bali and is participating in negotiations on the remaining DDA issues.

Domestically, Korea is seeking to reduce the burden on businesses in the area of certification and customs clearance by combining or abolishing overlapping certification systems and by utilizing advanced IT technology in its customs clearance systems. It is also focusing on reform to improve services, including logistics, finance and software, as well as on promoting innovation in the manufacturing industry in order to foster a trade-friendly environment and lower trade costs. Last but not least, additional efforts to ease e-commerce regulations will lay the foundation for fostering new trade channels, such as e-commerce, parallel importation and foreign direct purchase.

Expected outcomes include a reduction in tariffs and trade costs, as well as an enhancement of trade activity through FTAs and WTO negotiations. Most importantly, the trade policy direction pursued by the Korean government is expected to help boost SMEs' participation in global value chains that will contribute to stronger economic growth.

<b>1. Pursue FTAs and Maximize Their Utilization</b>	<ul style="list-style-type: none"> <li>• <b>Actively Participate in FTA Negotiations</b></li> <li>• <b>Make FTA Utilization More Convenient for Businesses</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>The Korea-Australia Free Trade Agreement</b>, which has been signed, and <b>the Korea-Colombia Free Trade Agreement</b>, for which the ratification process has been completed, will enter into force in the near future. Meanwhile, <b>the Korea-Canada Free Trade Agreement</b>, which has been initialled, and <b>the Korea-Turkey Free Trade Agreement on Services and Investment</b>, which has been substantially concluded, are expected to be signed in the near future.</li> <li>• <b>To maximize SMEs' access to FTA benefits</b>, the Korean government announced the "<b>Plan for FTA Promotion by SMEs</b>" on 29 May, 2014, under which the government will <b>monitor the level of FTA utilization by SMEs, gather and disseminate success cases, and assist businesses' FTA utilization</b> efforts through consultation and expanded access to the management system for rules of origin.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>Progress will be measured by the number of FTAs that have been signed or have taken effect and by the rate of FTA utilization by SMEs</p>
<b>Explanation of additionality</b>	<p>These are new policy commitments launched in 2014.</p>

<b>2. Implement and Develop the Multilateral Trade Agreement</b>	<ul style="list-style-type: none"> <li>• <b>Take Follow-up Measures for the Agreement on Trade Facilitation to Take Effect</b></li> <li>• <b>Actively Participate in Plurilateral Negotiations on Information Technology Products, Environmental Goods and Services</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• The Korean government has taken <b>follow-up measures to ensure that the Agreement on Trade Facilitation comes into effect as scheduled.</b></li> <li>• The Korean government will also actively engage in <b>plurilateral negotiations on expanding product coverage under the WTO Information Technology Agreement with the goal of achieving its early conclusion, and work hard on negotiations on the WTO environmental goods and WTO services sectors</b> with a concrete work plan in 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>Progress will be measured by the implementation of domestic procedures for the Trade Facilitation Agreement, the date the work plan for the DDA is concluded, and the development of plurilateral negotiations.</p>
<b>Explanation of additionality</b>	<p>These are new policy commitments launched in 2014.</p>

<b>3. Stimulate Exports in E-Commerce</b>	<ul style="list-style-type: none"> <li>• <b>Boost Cross-Border, B2C and C2C Transaction in E-Commerce through Streamlined Electronic Transaction Regulations</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>The government has changed its regulatory standards for public verification to a negative-list approach and diversified e-transaction verification methods.</b> The Electronic Financial Transaction Act was revised for this purpose in May 2014.</li> <li>• <b>The Korean government will introduce a simplified export declaration process for e-commerce</b> in the second half of 2014 in an effort to boost online markets by taking into account the nature of e-commerce trade, in which traded goods are small in volume and high in diversity.</li> <li>• <b>The government will help businesses improve compatibility with the international internet environment</b> and provide consulting services for SMEs to assist their adoption of substitutable technology in 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>Progress will be measured by the change in the volume of exports through e-commerce.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy commitments launched in 2014.</p>

<b>4. Boost Imports in E-Commerce</b>	<ul style="list-style-type: none"> <li>• <b>Open Gateway to Parallel Imports</b></li> <li>• <b>Improve Convenience of Overseas Direct Online Shopping</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>The Korean government will allow customs clearance certification for a greater diversity of trade in order to enable parallel imports, with around 200 businesses expected to be eligible for such certification by 2015.</b></li> <li>• The government will <b>increase the number of items for streamlined import declaration</b> from 6 to all consumer goods (with a few exceptions, including medicines) in 2014 to improve the convenience of overseas direct online shopping. The government will also <b>simplify the customs refund system</b> when returning imported goods in 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>Progress can be measured by the change in the volume of imports through e-commerce.</p>
<b>Explanation of additionality</b>	<p>These are new policy commitments launched in 2014.</p>

<b>5. Establish Widespread “Smart” Customs Clearance System</b>	<ul style="list-style-type: none"> <li>• <b>Reduce Transaction Costs in Trade by Establishing a Smart System for Customs Clearance</b></li> <li>• <b>Contribute to Enhancing Global Trade Transactions by Sharing Know-how on Electronic Customs Clearance Systems with Developing Economies</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>The Korean government will establish a mobile customs clearance system</b> in 2014 and <b>link that system with the National Comprehensive Customs Information Network</b> by 2015.</li> <li>• The government will pursue <b>regulatory streamlining efforts</b> related to customs clearance in 2014.</li> <li>• The government will assist <b>modernization efforts on customs administration in developing economies</b>, while providing customs officials with training sessions annually.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>Progress will be measured by the finalization of the mobile customs clearance system, the number of economies supported in modernizing customs administration via UNI-PASS(currently 8 countries worth US\$114.8mn) and the number of participants in global training programs.</p>
<b>Explanation of additionality</b>	<p>These are new policy commitments launched in 2014.</p>

<b>6. Foster Logistics Services</b>	<ul style="list-style-type: none"> <li>• <b>Establish Foundation for Advanced Logistics Services</b></li> <li>• <b>Reinforce Infrastructure and Expand Promotion of Compound Transportation</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• The Korean government will expand <b>outsourced(3rd party) logistics</b> by <b>fostering logistics-intensive industry, providing SMEs with consulting services</b> on the utilization of outsourced(3rd party) logistics and <b>shared logistics services in 2014</b>.</li> <li>• The government will finalize the establishment of four logistics complexes by 2015 and facilitate compound transportation through infrastructure reinforcement from 2014. Furthermore, the government will <b>expand the international compound transport system</b>(Korea-China compound freight transport zone) and <b>increase the number of eligible ports</b> in 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>Progress will be measured by the volume of outsourced(3rd party) logistics and the scope of the expansion of logistics complexes and the Korea-China compound freight transport zone.</p>
<b>Explanation of additionality</b>	<p>These are new policy commitments launched in 2014.</p>

<b>7. Facilitate access to overseas markets</b>	<ul style="list-style-type: none"> <li>• Carry out the “Eurasia Initiative”</li> <li>• Help Domestic Corporations Enter Into Promising Emerging Markets</li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• The Korean government will build stronger economic cooperation with major economies in Central Asia.</li> <li>d. It will prepare the “Eurasia Initiative” that includes key projects for promising sectors such as transportation, logistics, energy, and IT.</li> <li>• It will also help domestic corporations enter into promising emerging markets with a package of policy consulting and financing.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public
<b>Explanation of additionality</b>	These are new policy commitments launched in 2014.

<b>8. Facilitate Participation in GVCs through Promoted Innovation in Manufacturing</b>	<ul style="list-style-type: none"> <li>• Create a New Manufacturing Industry and New Added Value through Convergence with IT/SW</li> <li>• Strengthen the Foundation for Innovation in Manufacturing by Boosting Soft Power</li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• The Korean government announced its “Strategy for Manufacturing Industry Innovation 3.0” in June 2014 and is formulating action plans through nationwide collaboration with the private sector that will help small and medium-sized enterprises efficiently participate in the global value chains.</li> <li>- Along these lines, the Korean government will seek to improve systems &amp; infrastructure and develop programs to create environment that facilitates the followings: <ul style="list-style-type: none"> <li>a. Promoting convergence between the manufacturing industry and IT/SW to spur innovation in IT/SW-based processes including smart factories and create a new convergence industry.</li> <li>b. Developing key materials and parts for major manufacturing industry and fostering engineering, design and S/W related to manufacturing industry.</li> <li>c. Training professional manpower needed for major manufacturing industry and turning old industrial complexes into places for manufacturing innovation.</li> </ul> </li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	Specific action plans will be established for the Strategy for Manufacturing Industry Innovation 3.0 by the end of 2014.
<b>Explanation of additionality</b>	These are new policy commitments launched in 2014.

### 3.1.4. Competition

The poor regulatory environment in some product markets, in particular, service industry, undermines innovation and competition. (As OECD indicated, service sector productivity is just around half of manufacturing.) Furthermore, some markets have been dominated by large firms, creating undesirable anti-competition environment and unfair business practices between large firms and SMEs. Barriers to foreign investment hinder competition as well.

The Korean government is to promote innovation and competition by focusing on four areas: first, easing product market regulation and eliminating strict entry barriers; second, strengthening monitoring measures to root out unfair business practices between large firms and SMEs; third, improving regulations for foreign educational institutions; lastly, liberalizing legal and accounting consultancy market gradually in accordance with FTA.

These policy measures will allow the added value of service sector to increase from 58% of GDP in 2013 to 60% of GDP in 2017. Foreign investment is also expected to increase from USD 14.5 billion in 2013 to USD 25 billion in 2017. In addition, through comprehensive reform efforts 500,000 jobs will be created for the young people and 1.5 million new jobs for women by 2017.

1.Ease Entry Barriers and Business Regulation in Service Sector	Deregulation and eliminating entry barriers in seven services industries with high growth potential : health care, education, tourism, finance, software, content and logistics industries
Implementation path and expected date of implementation	<ul style="list-style-type: none"> <li>• <b>(Healthcare)</b> The Korean government will allow establishment of affiliates of medical corporations and expansion of related businesses of medical corporations by 2014. Also pharmacy corporations will be allowed by 2014.</li> <li>• <b>(Educational service)</b> The Korean government is seeking to expand autonomy of international educational institutions. For-profit international schools will be allowed to pay dividends out of accounting surplus from 2014 and run language camps during vacation seasons from summer 2014.</li> <li>• <b>(Tourism)</b> The Korean government will ease regulations on resort complex and hotels by 2014.</li> <li>• <b>(Finance)</b> The Korean government will ease regulation on private equity fund by 2014. With these regulatory reforms, various investment asset classes will be allowed in a single fund. Entry barriers will be eased for investment firms and credit finance corporations by 2014. Furthermore, evaluation criteria for Initial Public Offering (IPO) will be simplified by 2014, alleviating burden on businesses.</li> <li>• <b>(Software)</b> The Korean government will streamline the system so that the current cumbersome certificate verifications will no longer be necessary in e-commerce by 2014.</li> <li>• It will take bolder measures to foster the service industry by setting up a Task Force of concerned ministries in August 2014.</li> </ul>
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

<b>2. Put an end to Unfair practices between large firms and SMEs</b>	<ul style="list-style-type: none"> <li>• <b>Revise related laws to reward whistle-blowing</b></li> <li>• <b>Overhaul unfair business practices in distribution industry</b></li> <li>• <b>Overhaul unfair practices in franchise business</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>The competition authority will enhance reward system for whistle-blowing on unfair business conducts against sub-contractors</b> including unfair discounts, usurping technology and unfair cancellation of purchase. Standard contract form between large firms and SMEs will be also revised by 2014.</li> <li>• The competition authority makes an overhaul on unfair business practices in distribution industry. The Government will conduct written investigation on business practices every year and announce results to the public. Further, standard lease contract form between distributor and tenant will be revised in 2014.</li> <li>• The authority will overhaul unfair practices in franchise businesses by conducting on-site investigations and publicizing the results in 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in April 2014.</p>

<b>3. Ease regulations for Foreign Educational Institutions</b>	<ul style="list-style-type: none"> <li>• <b>Ease regulations for foreign educational institutions</b></li> <li>• <b>Simplify document requirements for establishing additional school departments</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• Currently, only incorporated foreign educational foundations are allowed to establish international schools but <b>the Government will allow joint ventures of foreign educational institutions and incorporated Korean schools for establishing international schools in eight FEZs (Free Economic Zones) from 2014.</b></li> <li>• For existing international schools, the government will simplify document requirements for establishing additional school departments from 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in April 2014.</p>

<b>4. Liberalize Legal and Accounting Consultancy Market Gradually</b>	<ul style="list-style-type: none"> <li>• Open legal consultancy market in accordance with FTA</li> <li>• Open accounting consultancy market in accordance with FTA</li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• In accordance with Free Trade Agreements (FTAs), both legal and accounting consultancy market will be opened by phase by phase to relevant parties of the FTAs.</li> <li>• Legal consultancy market will be opened by three phases. In phase one, foreign law firms will be allowed to set up office in Korea and foreign legal consultant can provide legal advice on foreign laws. In phase two, Korean government will allow partial partnership and profit sharing between Korean law firms and foreign law firms. In phase three, foreign law firms can hire Korean lawyers and handle all kinds of legal services.</li> <li>• Accounting consultancy market will be opened by two phases. In phase one, foreign accounting firms can be set up and qualified foreign CPAs can provide service on foreign accounting standards. In phase two, foreign accounting firms are allowed to acquire shares of Korean accounting firms.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>The implementation of these policies can be assessed by amendment of Foreign Legal Consultant Act and Certified Public Accountant Act.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These measures have implemented by phases in accordance with FTA agreement.</p>

<b>5. . Promote competition in the mobile communications market</b>	<ul style="list-style-type: none"> <li>• Attract new entrants into the market</li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• The Korean government will promote competition in the mobile communications market by simplifying the procedure for the business license so as to attract new entrants into the market in November 2014.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures that will be launched in Nov. in 2014.</p>

### 3.1.5 Others

The Korean government will reform public enterprise and promote “Creative Economy”.

<b>1. Reform SOEs:</b>	<ul style="list-style-type: none"> <li>• <b>Tightly control debt levels</b></li> <li>• <b>Disclose government-owned data</b></li> <li>• <b>Put an end to unfair transactions</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• The Korean government will <b>encourage 12 public enterprises with heavy debts to reduce the debts level</b> through public institution asset sales and restructuring of business. With this effort, the government will help reduce <b>the debt ratio of estimated 239% in 2013 to be down to 200% in 2017</b> out of a combined total debt of 41 public institutions. Korea will carry out an interim evaluation in the third quarter of 2014.</li> <li>• It will <b>make all public sector data</b>, excluding confidential data, accessible to the information system.</li> <li>• It will <b>investigate and crackdown on unfair transactions</b> such as abusing the authority of public institutions. The evaluation on these unfair transactions will be conducted all year long.</li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in April 2014.</p>

<b>2. Promote “Creative Economy”:</b>	<ul style="list-style-type: none"> <li>• <b>Build centres to support the creative economy and promote entrepreneurship</b></li> </ul>
<b>Implementation path and expected date of implementation</b>	<ul style="list-style-type: none"> <li>• <b>“Creative Economy”</b> is to create new added-value based on the convergence between industry and culture by combining science &amp; technology and ICT with existing industries while putting creativity as the core value of the economy.</li> <li>• Regulation reform and boosting ventures and start-ups efforts mentioned above will contribute to promoting “Creative Economy”. Additional measures to do so will be added as follow.             <ul style="list-style-type: none"> <li>- The Korean government will provide mentoring service, support for intellectual property (IP) rights and give loans for creative ideas to be linked to start-ups. To do this, it will open online <b>“Creative Economy Town”</b> for creative ideas in 2014.</li> <li>- <b>The Korean government will establish the center for the creative economy and innovation in 17 cities by 2015</b> to foster these centers as a driver for local economic innovation and start-ups. Through these centers we will encourage startups to grow to mid-sized enterprises and to global enterprises. Also, by converging traditional industries with science and ICT we will help develop agriculture, education, energy, and healthcare industries.</li> </ul> </li> </ul>
<b>What indicator(s) will be used to measure progress?</b>	<p>To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.</p>
<b>Explanation of additionality (where relevant)</b>	<p>These are new policy measures launched in April 2014.</p>

## ANNEX 1: St. Petersburg Fiscal Template — Update

### 1. Medium-term projections, and change since last submission *(required for all members)*:

	2012	Estimate	Projections*				
		2013	2014	2015	2016	2017	2018
Gross Debt	32.2	33.8	34.3	n/a	n/a	n/a	n/a
<i>ppt change</i>	-1.1	1.6	0.5	n/a	n/a	n/a	n/a
Deficit**	-1.3	-1.5	-1.8	n/a	n/a	n/a	n/a
<i>ppt change</i>	-0.3	-0.2	-0.2	n/a	n/a	n/a	n/a

\* Forecasts for the post-2014 period will be unveiled after a mid-term ('14~'18) fiscal plan is confirmed in October.

\*\* General government balance without social security funds

### 2. Economic Assumptions, and change since last submission *(required for all members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

	2012	Estimate	Projections*				
		2013	2014	2015	2016	2017	2018
Real GDP growth	3.0	3.9	n/a	n/a	n/a	n/a	n/a
<i>ppt change</i>	0.7	0.9	n/a	n/a	n/a	n/a	n/a
Nominal GDP growth	3.7	5.4	n/a	n/a	n/a	n/a	n/a
<i>ppt change</i>	0.3	1.7	n/a	n/a	n/a	n/a	n/a
ST interest rate	3.3	2.7	n/a	n/a	n/a	n/a	n/a
<i>ppt change</i>	-0.1	-0.6	n/a	n/a	n/a	n/a	n/a
LT interest rate	3.5	3.3	n/a	n/a	n/a	n/a	n/a
<i>ppt change</i>	-0.8	-0.2	n/a	n/a	n/a	n/a	n/a

\* Forecasts for the post-2013 period will be unveiled after a mid-term ('13~'17) fiscal plan.