SOE Reform and Privatization of Korea

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Contents

Introduction to SOEs and QGOs in Korea

1. Basic features of SOEs and QGOS

1) Relationship between the government, SOEs, and QGOs

- State-owned enterprises and quasi-governmental organizations (SOEs and QGOs) are institutions that are established and operated by the government
  - to provide public goods or services through the public ownership system
  - to carry out tasks entrusted or funded by the government to perform noncommercial public services

- In a capitalist state, the government can intervene in production through establishing SOEs, QGOs (public nonprofit organizations), or quasi-corporate units within the government organization to conduct business activities (UN, 2008: 79)
  - SOEs and QGOs exist as systematic alternatives for providing public services or carrying out the business and commercial activities of the government
  - According to the neutrality theorem, private organizations regulated by the government can also accomplish the same goals

1. Basic features of SOEs and QGOS

1) Relationship between the government, SOEs, and QGOs

- SOEs and QGOs have been used as tools and a means for the government to resolve social problems and intervene in the market
  - SOEs have been used as industrial policy instruments to provide policy finance for the development of the national economy by relieving market failures
  - QGOs are used to enforce government policies and social regulations to mitigate government failures and have created government funds to provide social insurance (national pension, health insurance, etc.) and policy finance services.

1. Basic features of SOEs and QGOS
2) Structure of the public sector in Korea

- According to the classification system for economic agents in the UN's System of National Accounts (SNA), the public sector is divided into the general government sector and public corporation sector (nonfinancial and financial corporations)
    - Quasi-governmental organizations are organizations that have the characteristics of the institutional unit of nonprofit institutions but belong to the general government
    - Based on the institutional unit of quasi-corporations, SOEs carry out the economic activities of both the nonfinancial corporation and financial corporation sectors within the national economy and are owned and controlled by the government

1. Basic features of SOEs and QGOS

2) Structure of the public sector in Korea

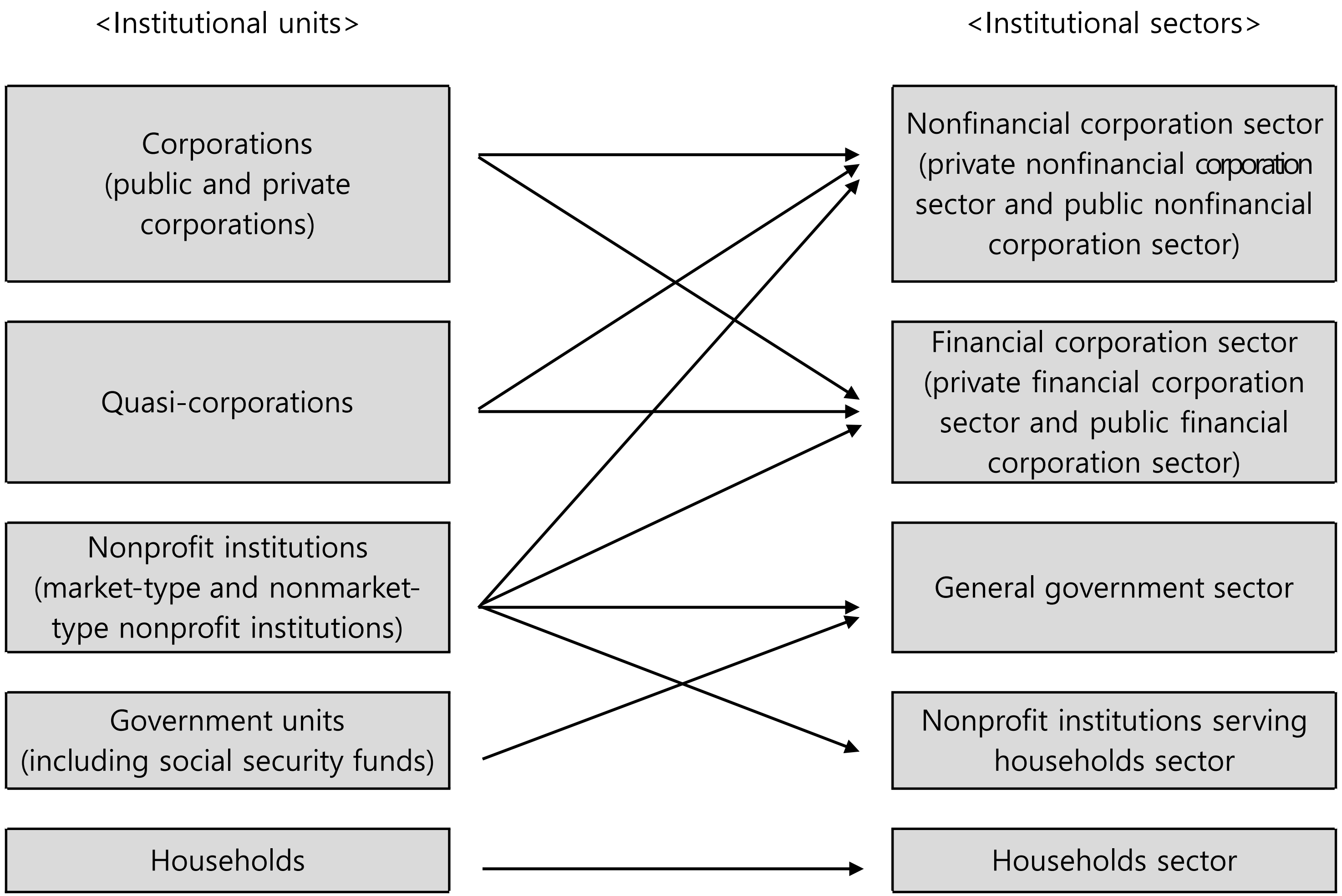


Figure 1. Classification system for economic agents according to the System of National Accounts 2008: relationship between institutional units and institutional sectors
(source: see UN et al, 2009: 61-85)

1. Basic features of SOEs and QGOS

2) Structure of the public sector in Korea

Agent of ownership and control: government — **private**

Public nature — Corporate nature | Public nature — Corporate nature

<table>
<tr><th colspan="8">Public sector</th><th colspan="3">Private sector</th></tr>
<tr><td colspan="3">Government sector</td><td colspan="5">SOEs and QGOs</td><td colspan="2">Nonprofit sector</td><td>Profit sector</td></tr>
<tr><td>Government ministries</td><td colspan="2">Responsible administrative Agencies</td><td rowspan="2">Government-Funded Research institutes</td><td colspan="2">Quasi-governmental institutions</td><td colspan="2">Public corporations</td><td rowspan="2">Nongovernmental organizations (NGO)</td><td rowspan="2">Nonprofit organizations (NPO)</td><td rowspan="2">Private corporations</td></tr>
<tr><td>(government enterprises)</td><td>Administrative organizations</td><td>Corporate-Type institutions (government enterprises)</td><td>Commissioned-service-type institutions</td><td>Fund-management-type Institutions</td><td>Quasi-market-type public corporations</td><td>Market-type Public corporations</td></tr>
<tr><td>Ministry of Strategy and Finance</td><td rowspan="2">National Museum of Modern and Contemporary Art</td><td rowspan="2">National Police Hospital</td><td rowspan="2">KDI</td><td rowspan="2">KOTRA</td><td rowspan="2">National Pension Service</td><td rowspan="2">Korea Minting and Security Printing Corporation (KOMSCO)</td><td rowspan="2">Korea Gas Corporation (KOGAS)</td><td rowspan="2">People's Solidarity for Participatory Democracy</td><td rowspan="2">Korea Chamber of Commerce and Industry</td><td rowspan="2"></td></tr>
<tr><td>Korea Postal Service</td></tr>
</table>

Source: edited and compiled in reference to Kwak Chae-gi, (2009: 60)

2. Classification of SOEs and QGOS

1) Theoretical classification

- The types of institutions in the Korean central government's public sector are 1) government sector institutions (government organization, responsible administrative agencies, etc.), 2) general government institutions (government sector and quasi-governmental organizations), 3) SOEs and QGOs (quasi-governmental organizations, corporate-type responsible administrative agencies, government enterprises, and state-owned enterprises)
  - The scope and type of SOEs and QGOs, under the AMPI, can be divided into quasi-governmental organizations (commission-type and fund-management-type QGOs), corporate-type responsible administrative agencies (special accounts organizations of responsible administrative agencies), government enterprises, and market-type and quasi-market-type public corporation
  - The scope of national public corporations include corporate-type responsible administrative agencies (special accounts organizations of responsible administrative agencies), government enterprises, and market-type and quasi-market-type public corporations

2. Classification of SOEs and QGOS

1) Theoretical classification

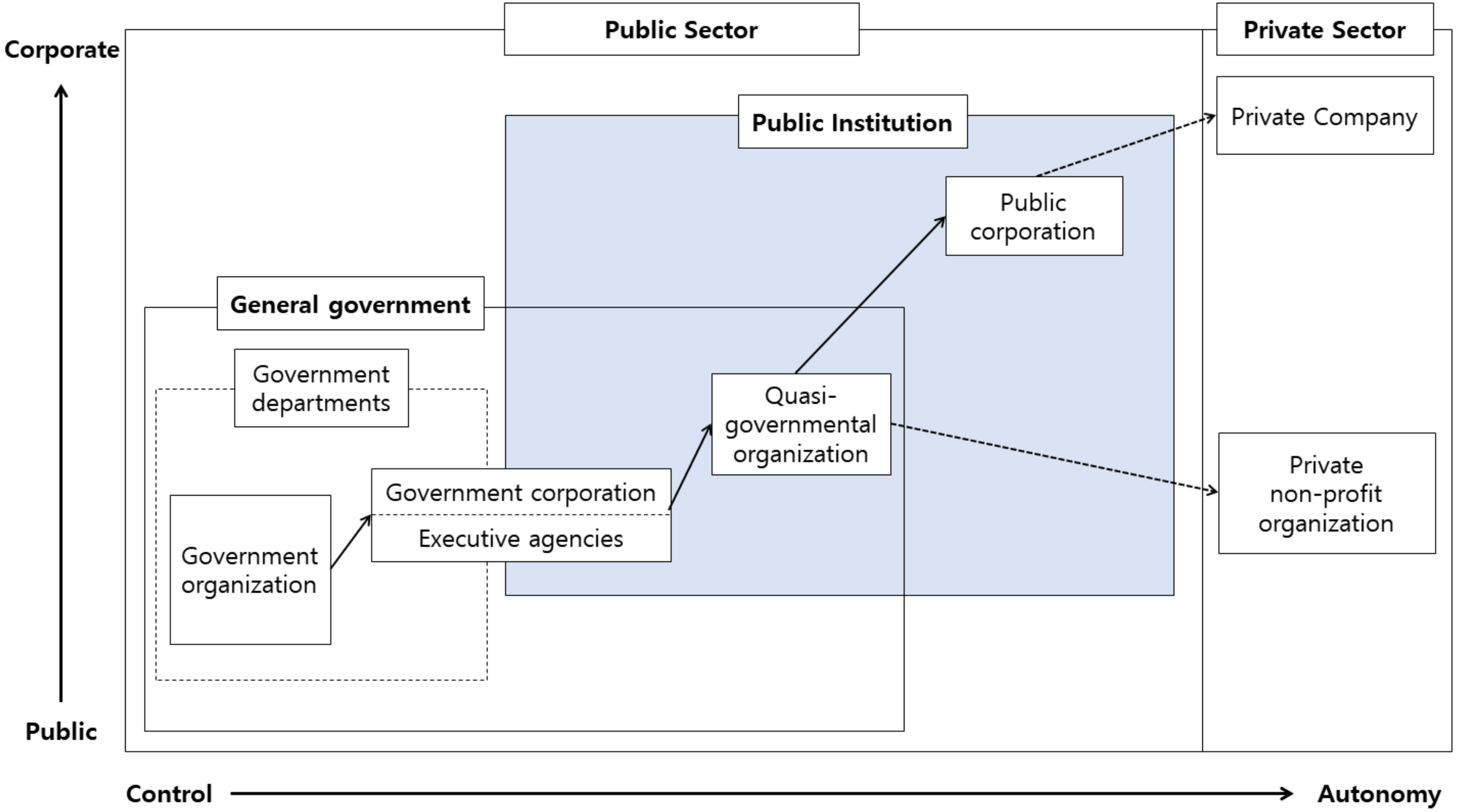


Figure 2. Relationship between the government sector, the general government, and SOEs and QGOs in the public sector

2. Classification of SOEs and QGOS

1) Theoretical classification

Figure 3. Scope and structure of the central government's quasi-governmental organizations and state-owned enterprises

<table>
<tr><td rowspan="2">Quasi-governmental organizations</td><td colspan="2">Fund-management-type quasi-governmental organizations</td><td rowspan="2">Non-classified QGOs (de facto quasi-governmental organizations)</td><td rowspan="2">Undesignated quasi-governmental organizations (e.g., Financial Supervisory Service, etc.)</td></tr>
<tr><td colspan="2">Commissioned-service-type quasi-governmental organizations</td></tr>
<tr><td rowspan="2">State-owned enterprises</td><td rowspan="2">Government enterprises</td><td>Market-type public corporations</td><td rowspan="2">Non-classified QGOs (de facto public corporations)</td><td rowspan="2">Undesignated public corporations (e.g., KBS, EBS, Bank of Korea, etc.)</td></tr>
<tr><td>Quasi-market-type public corporations</td></tr>
</table>

SOEs and QGOs under the AMPI

Hidden SOEs and QGOs

Notes
1) Government enterprises: government organizations that are subject to the Government Enterprise Budget Act and Act on the Establishment and Operation of Responsible Administrative Agencies.
2) SOEs and QGOs: organizations that are subject to the AMPI, Act on the Establishment, Operation, and Fostering of Government-Funded Research Institutes, etc.
3) Hidden SOEs and QGOs: organizations that are subject to individual laws that provide the basis for their establishment.

2. Classification of SOEs and QGOS
1) Theoretical classification

Table 1. Legal basis for the classification and definition of SOEs and QGOs prior to the enactment of the AMPI

Types of institutions	Legal basis	Definition
Government-invested institutions	Article 2 of the FAMGII	Corporations for which the government has funded 50 percent of the paid-in capital and are subject to this law
Government-funded institutions	Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises	No explicit legal definition
Government-affiliated institutions	Article 2 of the FAMGAI	Institutions and groups that receive investments or subsidies from the government and institutions or groups that are directly commissioned by the government under the law or are given exclusive license by the government and are subject to this law
Government-funded research institutes	Article 2 of the Act on the Establishment, Operation, and Fostering of Government-Funded Research Institutes	Institutions invested in by the government whose primary purpose is research and study

Note: the Act on the Establishment, Operation, and Fostering of Government-Funded Science and Technology Research Institutes also defines "government-funded science and technology research institutes" the same as "government-funded research institutes"

2. Classification of SOEs and QGOS

1) Theoretical classification

Table 2. Government-invested and government-contributed institutions prior to the enactment of the AMPI

Types of institutions	Detailed Criteria for the Classification of Institutions	Institutions
Government-invested institutions	Institutions subject to the framework act	Korea Minting and Security Printing Corporation, Korea Electric Power Corporation, Korea Coal Corporation, Korea Mining Promotion Corporation, Korea National Oil Corporation, Korea Trade-Investment Promotion Agency, Korea Expressway Corporation, Korea National Housing Corporation, Korea Water Resources Corporation, Korea Land Corporation, Korea Agricultural and Rural Infrastructure Corporation, Korea Agro-Fisheries Trade Corporation, Korea Tourism Organization
	Institutions not subject to the framework act	Korean Broadcasting System, Educational Broadcasting System, Korea Development Bank, Industrial Bank of Korea, Export–Import Bank of Korea
Government-funded institutions	Institutions subject to the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises	Korea Gas Corporation, Incheon International Airport Corporation, Korea Airports Corporation
	Institutions for which the government owns less than 50 percent of total shares	KB Kookmin Bank, Standard Chartered Korea, Daehan Investment Trust, Korea Investment Trust, Daehan Maeil Sinbo

2. Classification of SOEs and QGOS

1) Theoretical classification

Table 3. Designated SOEs and QGOs as of 2018

Type of institution		Number of designated institutions
SOEs		35
	▪ Market-type	15
	▪ Quasi-market-type	20
QGOs		93
	▪ Fund-management-type	16
	▪ Commissioned-service-type	77
Non-classified QGOs		210
Total		338

Source: press release of the Ministry of Economy and Finance (31 January 2018)

3. The role of SOEs and QGOS

1) In theory

- The essential role that SOEs and QGOs play in the national economy or public sector of any country is to provide public services to the private sector
  - SOEs and QGOs serve to overcome the operational limitations of existing government organizations
  - SOEs and QGOs carry out executive tasks for which the government is responsible
- In the 20th century, however, the establishment and intervention of SOEs and QGOs increased significantly which is closely related to financial crises (i.e. postwar restoration)
- From the previous studies, the roles of SOEs and QGOs can be summarized as a means of supplementing insufficient private capital and contributing to the achievement of national goals
- In OECD(2015), the roles of SOEs and QGOs can be summarized as
  - For policy response necessary for certain industries in the process of operating the national economy
  - For economic development, particularly in states that wish to transform their aging economies in a short span of time
  - For utilization in relation to general fiscal policy, in particular, when in expanding national fiscal income is emphasized
- Recent trend requires more active variety, for instance, ISO 26000, emphasizes the social responsibility of SOEs and QGOs as practical supporters of local communities

3. The role of SOEs and QGOS
2) In practice

- According to MOEF (2011), SOEs and QGOs in Korean central government are responsible for
  - promoting economic development by supplementing private capital and advancing into areas difficult for private corporations due to their lack of experience and the high risk involved
  - carrying out monopolistic business with a strong public nature and high necessity as forms of universal service to the public and be active in basic industries
  - forming social overhead capital (SOC)
  - effectively and promptly meeting the various demands of the public
  - meeting the demand for national finance
- In Yun (2012), SOEs mainly play a role in developing infrastructural industries, while QGOs play a role in directly supporting people's daily lives. They are responsible for
  - the establishment and operation of the basis for SOC formation
  - promoting and creating public services
  - conducting public inspections and verifications
  - promoting the benefits of culture and a happy and healthy life
  - the strategic promotion of specific sectors and industries
  - promote the stability of projects and businesses by utilizing fund secured in advance

Performance management system of public agencies: its evolution and current situation

1. The aim of performance management system

- The aim
    - To Ensure public accountability of public agencies while maintaining management autonomy
        - Covering public agencies including public corporations and quasi-governmental agencies
        - Reducing unnecessary interference by ensuring accountability and responsibility of public agencies
- Public corporations and quasi-governmental agencies are evaluated annually on their performance.
    - Based on the Law of Management of Public Agencies
    - Evaluated according to performance criteria
    - Incentives and penalties given public corporations and quasi-governmental agencies are evaluated annually on their performance

1. The aim of performance management system

- 1. To establish a clear relation between government and public agencies
- 2. To encourage creativity and entrepreneurship of public agencies
- 3. To provide motivation to chief executives and members of public agencies to achieve targets
- 4. To prevent moral hazards due to principal-agent problems
- 5. To bring about competition to otherwise monopolistic public sectors.
- 6. To have feedback and to encourage improvements in management
- 7. To enhance transparency of public agencies by reporting it to the National Assembly and public at large

2. Institutionalization of performance management system
1) Summary of institutionalization

- Introduction of Performance Management System in 1984 for public agencies funded by the government
    - Covering public agencies including public corporations and quasi-governmental agencies
- Basic Law on the Management of Public Agencies introduced in 2003
    - Introduction of a new evaluation commission
- In 2007, two different systems for the performance evaluation of public agencies were integrated based on the Law of the Management of Public Agencies.
- In 2013, public agencies previously not included to be evaluationed by the Commission for the Management of Public Agencies decided
    - Malcom Baldridge Model used until 2010
    - Chief executives were separately evaluated from 2009 to 2011.

2. Institutionalization of performance management system
2) Performance management system at present

- The Moon Government reorganized the Performance Management System in 2017
  - 1. to emphasize social value in management of public agencies
  - 2. to reintegrate the evaluation of chief executive into overall performance management system
  - 3. to divide the Evaluation Commission of Public Enterprises and Quasi-Governmental agencies into two separate evaluation commissions: the Evaluation Commission of Public Enterprises and the Evaluation Commission of Quasi-Governmental Agencies.
- Over the past 30 years the performance management system evolved to meet the challenges to improve public agencies.

2. Institutionalization of performance management system

3) Historic evolution of performance management system

- Regulation System according to the Government Investment Regulation in 1973
- In 1983, the Basic Law on the Management of Government-Invested Enterprises was enacted
  - to give management autonomy to the management of public agencies
  - To respond quickly and relevantly to changing world
  - Revision on the governance of public corporations in 1999. New rule for appointing chief executives through an appointment committee for autonomy

2. Institutionalization of performance management system

4) New basic law on the government-invested public corporation

- In 1983, the Basic Law of Government-Invested Public Corporations was introduced
  - Principle of management
  - Performance management and performance report
  - Evaluation Committee
- the characteristics of new basic law on the Management of Public Enterprises and Quasi-Governmental Agencies in 2007
  - steering committee for the management of quasi-governmental agencies should be instituted under the Ministry of Planning and Budget
  - to set management targets and operation plans each year and submit them to the responsible ministries.
  - self-evaluation report together with an annual financial report by March each year
  - to be audited by external auditor

2. Institutionalization of performance management system
5) Law on management of public corporation

- Overall performance evaluation system for state-owned enterprises and quasi-governmental agencies
  - A Steering Committee under the Ministry of Strategy and Finance
  - Basic Framework of Management Contract
  - Five year mid-term plan prepared in each year
  - Self-evaluation report in March each year
  - Performance Evaluation of public enterprises and quasi-governmental organizations based on the report on the implementation

2. Institutionalization of performance management system

5) Law on management of public corporation

- Performance evaluation criteria revised as of 2016
  - Rationality and achievement of management goals
  - Public interest and efficiency of main business
  - Appropriateness of organization and manpower management, such as employee employment status
  - Prudent budget for financial operations, including the implementation of a mid- and long-term financial management plan pursuant to Article 39-2
  - Customer satisfaction survey results pursuant to Article 13 (2)
  - Reasonable incentive payment system operation
  - Other matters related to the management of public and semi-governmental organizations

4. Current system for evaluating management of SOEs and QGOs

1) Significance of the operating system for the management evaluation system and evaluation procedure

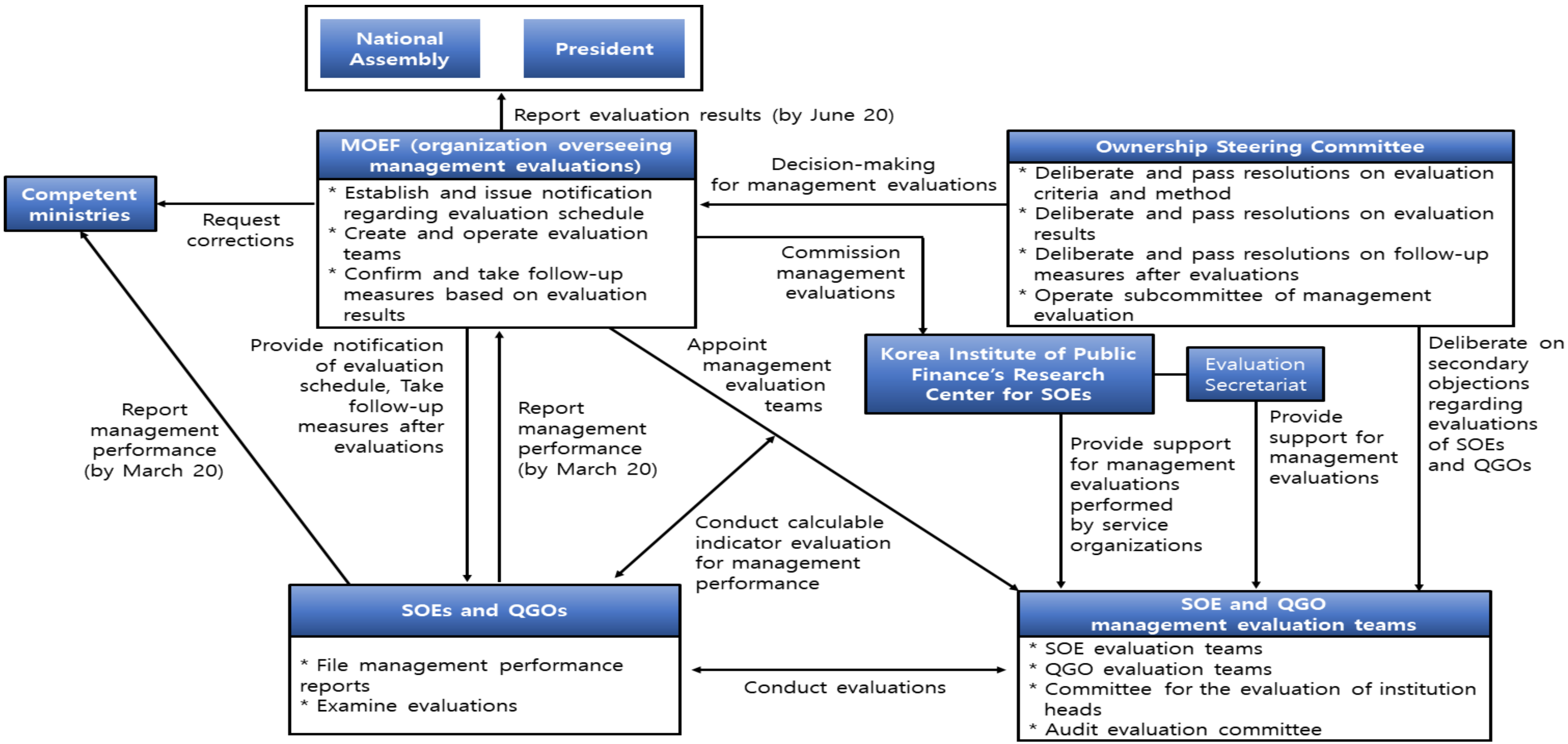
Table 4. Types of SOE and QGO management evaluations.

Category	Legal basis	Evaluating organization	Evaluation frequency	Note
Institution evaluation	Act on the Mana gement of Public Institutions (AMPI), Article 48	MOEF	Once a year	
Evaluation of institutio n head	AMPI, Article 31	MOEF	Once during the term (2014–2017)	Incorporated into the institution eva luation starting in 2018
Audit evaluation	AMPI, Article 36	MOEF	Once during the term (2014–2017) Once a year since 2018	
Evaluation of nonclassif ied public institution	MOEF guidelines	Competent agency	Once a year	

4. Current system for evaluating management of SOEs and QGOs

2) Operating system and organizations in charge of management performance evaluations

(1) Operating system of SOE and QGO management performance evaluation



SOE privatization in Korea

1. Introduction

- The core of the management problem of SOEs is the difficulty of how effectively the inducement mechanism is to be established under the state-owner system.
  - Minimizing political involvement, clarifying corporate goals and performance indicators, strengthening autonomy and responsibility, measuring performance, and linking compensation were emphasized.
  - Attempts at privatization have been ongoing since the late 1980s through economic liberalization and relaxing emphasis on public interest, but full-fledged privatization was actively developed in 1997 during the economic crisis because of concerns about chaebol-centric economic concentration and bureaucratic inertia.
- Privatization was implemented for the purpose of overcoming the loss of competitiveness and inefficiency of the SOE sector, and a full-scale debate began in 1998.
  - Even in the 1980s, efforts to privatize were continued, including selling some shares of Korea Electric Power (KEPCO) and Pohang Steel Corporation (POSCO).
  - However, it can be said that the privatization of large-scale public enterprises was planned seriously after the currency crisis.

1. Introduction

- Compared to the general private sector, there is bias of talent wanting to go to the SOE sector.
- In response to this, efforts are regularly made to enforce innovation seamlessly, such as redefining the functions of public enterprises, rebuilding personnel, redesigning organizations, implementing management contract arrangements, and strengthening performance management.
- Privatization should also be considered as the development of the private economy in addition to a way of reforming the public sector.

Privatization stages and considerations

<table>
<tr><th colspan="2">1. Restructuring prior to privatization</th></tr>
<tr><td>Enterprise level</td><td>Industry level</td></tr>
<tr><td>Separation of regulatory and corporate functions
Incorporation or capital structure change
Reorganization of management
Business strategy adjustment</td><td>Establish independent regulatory organization
Eliminate entry barriers
Anti-competition regulation
Review of past industrial policies</td></tr>
<tr><th colspan="2">2. Process of privatization</th></tr>
<tr><td colspan="2">Sales method: direct sale or public offering
Sales price: fixed price or competitive bidding, general/large and domestic/overseas differential price
Timing and stage of sale: consider the size of the sale and the ability to absorb the stock market</td></tr>
<tr><th colspan="2">3. Management control after privatization</th></tr>
<tr><td colspan="2">Limitations on individual shareholders and foreign investors
Issue of golden shares
Block voting rights</td></tr>
<tr><th colspan="2">4. Other considerations</th></tr>
<tr><td colspan="2">Labor rebellion
Usage of sales income</td></tr>
</table>

2. Overview of SOE privatization in Korea

1) Before the Kim Dae-Jung administration

- From the latter half of the 1960s to the beginning of 1973, Korea conducted privatization to sell 11 companies to the private sector, e.g., Korea Transportation, Korea Shipping, Korea Shipbuilding, Incheon Heavy Industries, Korean Air, and Incheon Steel Corporation. The privatization method, which was in line with organizing defective companies and nurturing private companies, was the sale of shares and investment in-kind. Since the privatization policy, most institutions, except three companies, were converted into surpluses, and privatization policy has been evaluated as having a positive influence on the improvement of management outcomes.
- At the time of the Kim Young-Sam administration, under the premise of completely selling the shares of the government investment institutions and formulating a large-scale privatization plan for SOEs, the government promoted the sale of the shares of 58 companies and the consolidation and elimination of 10 companies. The direction of the plan was designed mainly by the Finance and Economy Research Institute and the SOE Privatization Committee of public corporations. Promotion performance was managed, and the competitive bidding and equity distribution method was applied by targeting 23 government investment institutions and two government-sponsored institutions (KOGAS and KT&G); the fully privatized organizations are the national banks only, excluding KDB. Three national policy institutions, including banks and mortgage companies, were all included. Thirty-one companies, including Korea Heavy Industries, that were SOE subsidiaries were planned to be fully privatized, but this was only partially completed.

2. Overview of SOE privatization in Korea
1) Before the Kim Dae-Jung administration

- In general, the promotion of government privatization was weak during the Park Jung-Hee, Cheon Doo-Hwan, and Kim Young-Sam administrations because of the limited domestic stock market, the concentration of economic power in *chaebol*, and the stance among stakeholders and their public enterprises.
- At that time, there were the problems with promoting the privatization of public enterprises and not having a concrete, detailed strategy for the privatization policy.
- Mainly, the outcome was sluggish compared to the privatization plan because of the lack of government will and preparation; i.e., the leaders lacked an understanding of privatization and its necessity, and their motivation to implement it was inadequate.
- In addition, the main ministries and agencies whose interests were directly connected to privatization were justified in maintaining SOEs, and specific detailed strategies for executing plans were not appropriately formulated.

2. Overview of SOE privatization in Korea

2) During the Kim Dae-Jung administration

- The partial and intermittent privatization policy that lasted until the 1980s began to be promoted seriously after the 1997 currency crisis. The privatization of major public enterprises such as KT&G, POSCO, Korea Communications, and Korea Heavy Industries was achieved accordingly. In particular, the Kim Dae-Jung government aggressively promoted the structural adjustment and privatization of the public sector in order to reduce rapidly increasing foreign bonds and overcome the loss of competitiveness and inefficiency that had been spreading throughout the public sector.

- The three basic principles of promoting the privatization of SOEs are as follows. In consideration of the characteristics of each institution's environment and the market condition, SOEs that can be privatized at an early stage should be privatized first, and other SOEs that are difficult to privatize early should promote structural adjustment first and privatize step by step. Second, by diversifying selling methods including overseas sales, sales value can be maximized by adjusting the timing according to changes in economic conditions. Third, in order to expand the participation of citizens and SOEs engaged in business, the government offer public and employee stock ownership because SOEs are fundamentally assets of the citizens.

2. Overview of SOE privatization in Korea

2) During the Kim Dae-Jung administration

- The privatization of additional SOEs and the management reform plan were announced in August 1998 to complement the first plan. In order to create new value for public enterprises, the second plan called for reestablishing functions and roles so that SOEs could be reborn as institutions to serve citizens; thus, Korea established and concentrated on business and core operations. Moreover, an autonomous responsible management system of SOEs and a reformed operations system were presented. The second plan included structural adjustment and privatization targeting 55 subsidiaries of 19 SOEs including KT. Subsidiaries that did not conform and subsidiaries with insufficient management status were sold or abolished, and the subsidiaries' functions were consolidated in the parent company accordingly.

2. Overview of SOE privatization in Korea

2) During the Kim Dae-Jung administration

- Three energy SOEs, KEPCO, KOGAS, and the Regional Heating Corporation, were partly privatized but remain market-type SOEs today. Among the 77 subsidiaries that planned to privatize based on the public institution subsidiary arrangement plan (2001.3), as of November 2002, 66 companies were almost completely reorganized and reported that 86% of the planned progress had been achieved. There were 32 companies privatized with the parent company, 18 companies privatized independently, and 16 companies that were liquidated or absorbed by the parent company.

- In order for SOEs to become privatized and ultimately enjoy benefits from consumers, it is necessary not only to transfer ownership to the private sector, but also to create competitive conditions and rationally reform the fee structure. It is necessary to increase the efficiency of public services to ensure that those services remain available even after privatization. By introducing a shared-use system of the equipment in the network industry, such as electricity, gas, and communication, the supply value chain could create competitive conditions in order to use and provide services jointly between businesses.

2. Overview of SOE privatization in Korea

2) During the Kim Dae-Jung administration

- The Kim Dae-Jung government saw remarkable differences in terms of the privatization of SOEs promoted by the government and national economic outcomes. More than anything, the privatization of SOEs during this period secured foreign currency income and fiscal income and made a big contribution to overcoming the economic crisis of the time. Through overseas sales, Korea successfully attracted foreign capital and improved its external reliability. The concern about national competitiveness weakening in conjunction with overseas sales could also be overcome through premium addition to the domestic stock price and issuing overseas DRs to prevent selling low.

2. Overview of SOE privatization in Korea

2) During the Kim Dae-Jung administration

- By successfully completing the privatization of large-scale SOEs such as POSCO, KT, and Korea Heavy Industries, which the government delayed promoting in the past, the Kim Dae-Jung government achieved positive results in privatization. Not only did Korea gain the opportunity to inquire about government intentions to reform internally and externally, but the success was also the result of privatization work being done systematically through the establishment and revision of related laws, the activities of the SOE Privatization Promotion Committee, and the ongoing inspection of promotion performance. As a result of such efforts, Moody's, Pitch, and S&P upgraded South Korea's national credit rating to “A” in 2002, and the Swiss International Business School ranked the administrative efficiency of the Korean government as 25th, which was 17 places higher than the 1998 ranking.

2. Overview of SOE privatization in Korea

2) During the Kim Dae-Jung administration

- Considering the government's five-year unilateral terms of office, it was a problem to execute a large-scale privatization plan all at once in a short time. While executing all the plans for the five-year period, the rest of the execution beyond the possibility of market acceptance was delayed in the process of large-scale public corporate divestiture in the first two years. Government-led privatization promotion that did not undergo sufficient discussion with stakeholders triggered social conflict among the stakeholders with criticism regarding non-sympathetic execution, which led to delay.

2. Overview of SOE privatization in Korea

3) After the Kim Dae-Jung administration

- The Roh Moo-Hyun government entered, and privatization was interrupted as the new government pursued the reform of the public sector through management efficiency, not the method of selling SOEs. In the case of energy SOEs, a competitive environment was not in place. It was thought that through privatization, a public monopoly was merely a change to a "private monopoly" in which fees increase, the quality of service drops, and people do not support initiatives. However, through the Act on the Management of Public Institutions in 2007, Korea strengthened the monitoring of the management activities of the public sector and demanded ongoing technological innovation.

- Unlike the policy trend of the government in 2008, the Lee Myung-Bak government aggressively began to reconsider the privatization of the public sector. By preparing and promoting the Evolution Advancement Plan a total of six times by March 2009, the Korean government decided to promote the sale of some shares through the execution plan; 12 were sold among the 38 planned. The sale of shares related to Agricultural Land Improvement (2008), Ansan City Development (2009), Korean Asset Trust (2010), and IPO was completed in three companies: Grand Leisure Korea, Korea Electric Power Technology, and Korean District Heating.

3. Selection of public enterprises for privatization

1) Privatization models

- When the government uses SOEs, it compares the government-controlled transaction cost of market regulation when choosing privatization and implements reasonable privatization measures. If transaction costs are ignored, the privatization of all SOEs would be possible. And if a preliminary decision for SOE privatization is made, market regulation restructuring should be followed according to the type of industry and SOE. In the end, it is necessary to promote regulatory policy and industrial policy in close cooperation with privatization policy.
- First, SOEs for commercial purposes that secure 100% of the production cost in sales revenue are the most easily privatized type (type 1). The second type (type 2) also secures 100% of the production cost in sales revenue; however, if public policy purposes rather than profit incentive have been emphasized, it should be converted to the structure of a commercial companies first. The third type (type 3) cannot hold 100% of the production cost in their sales revenue, and the government allows a switch to type 2 through the contract conversion of financial support to SOEs if necessary. Except for type 1, it requires a step-by-step approach, and it needs gradual efforts to mitigate the conditions of a nonmarket system. Therefore, success in full privatization would depend upon whether the performance contract nature of the market transaction costs increases or decreases in the specific SOE.

3. Selection of public enterprises for privatization

1) Privatization models

- The factors that influence the transaction costs include (i) whether there is a private competitive market, (ii) choice of the appropriate size, (iii) distribution of customers of the business, (iv) the necessity for confidentiality, (v) the control capacity, (vi) the possibility of disruption of processing, (vii) the level of trust from the providers' customers, (viii) the possibility of exclusive business, (ix) the possibility of a future change in business, and (x) the possibility of efficiency improvement due to change in the organization system.

- As a standard for keeping an SOE as it is and judging it as a potential target for privatization, we must first consider the necessity of the SOE's mission and main business in relation to the current economic environment. It is important to determine whether the SOE has customer demand. When establishing SOEs, it is necessary to consider potential and current competitors as well as the costs and impacts of not doing business. Second, it is desirable to share the roles of the execution of specific functions and the production and supply of goods and services in terms of the appropriateness of role sharing between the public sector and the private sector.

3. Selection of public enterprises for privatization

1) Privatization models

- The business purpose of an SOE should be established; i.e., does it have a public nature, does establishing the SOE match public interest, does it meet a welfare or government policy goal, and is the SOE a private enterprise or voluntary organization? Whether or not it is guaranteed to be an SOE, whether the objective involves business-related goods and service providers in the private market, and whether or not a competitive regime has been formed should also be considered.

3. Selection of public enterprises for privatization

2) Strategies for privatization

- Most important in the process of privatization is thorough consideration and thorough preparation. It is necessary to create a competitive environment that considers the market structure of the industries to which the targeted SOE belongs and the ease of entry. It is necessary to prevent the harmful effects of artificial division, ensure the independence of the regulatory bodies, and to establish an appropriate regulatory environment. It is important to calibrate the market environment distorted by government interventions and to maintain the momentum of change to be privatized in stages, even if the stages are short in duration. Therefore, preparation is also necessary for a sufficient period, but it should be emphasized that the process of executing a plan while observing changes in the market also requires a sufficient time period.

3. Selection of public enterprises for privatization

2) Strategies for privatization

- The consistent leadership of the highest rulers and clarification of priorities are important. Securing execution power, sharing consistent leadership and vision, and a strategy to overcome resistance from various stakeholders effectively are major success factors. A desirable privatization promotion system requires the organization of units and the participation of external experts and advisory bodies, and the stakeholders must maintain a level of practical support. It is crucial to ensure independence from the competent ministries and agencies in the establishment and operation of privatization promotion through centralized enforcement.

4. Characteristics of Korean SOE privatization

- Korea operates public institutions based on the Act on the Management of Public Institutions enacted in 2007, which contains eight listed public corporations, but the categorization of commercial SOE type, governance, and management strategy is different from other quasi-nongovernmental institutions.

- Therefore, in order to improve the efficiency of listed SOEs, governance and management should be operated discriminately so as to be compatible with listed private corporations. It is necessary to present the pursuit of listed SOEs clearly. The autonomy of listed companies and the independence of operations must be improved, and the market must be formed sufficiently so that publicly listed companies can improve their efficiency through market competition.

- The fact that the rights of minority shareholders in the operation of listed public enterprises should be adequately protected is also frequently referred to in the OECD's recent version of the guidelines of corporate governance for SOEs (2015).

4. Characteristics of Korean SOE privatization

- Depending on the choice of how to allocate the limited resources of the economy to the public and private sectors, the impact on the national economy is different. Privatization policy is based on a lack of competition, lack of profit motivation, and/or lack of responsibility awareness. The efficiency of the public sector falls below that of the private sector, and public corporations are bloated due to their public nature, eventually putting national finance and national competitiveness at risk. It starts as a burden on the national economy. In order to deal with the inefficiency of SOEs and public institutions, it is also possible to improve efficiency through structural adjustment by placing SOEs under government control. However, the effect is limited only in the absence of information asymmetry. Therefore, at the core of privatization is privatization as a global trend by changing the ownership and control structure of SOEs and exposing SOEs to severe competition; there are no exceptions.

4. Characteristics of Korean SOE privatization

- The main lesson to be learned from Korea's experience is that the governance of commercial SOEs needs to be based on strong profit incentives, independent of the policy functions of the line ministries and other government agencies (KDI, 2013). A considerable number of SOEs that are expected to be significantly affected by the Kim Dae-Jung government's privatization have already been fully privatized. It is known that the higher the profitability or the higher the loss and the higher the debt ratio, the more preferential the privatization progress

- Privatization of SOEs in which the industrial advantage is large or low-income families are the main consumers of the goods and services produced by the SOEs is determined to be delayed in priority.

4. Characteristics of Korean SOE privatization

- The choice of enforcement is important in judging these privatization policies. It is difficult to accept the collective claim while having the right to debate the principle of privatization and the implementation of privatization to achieve desirable results. Therefore, by gradually increasing efficiency through the application of the market principle comes the establishment of an independent regulatory body. As a result of the privatization policy and the economic situation of the country, the institutional conditions vary depending on the social atmosphere, among other factors. The conditions can be different based on how the policy enforcer manages the policy. In addition, privatization must take into consideration the characteristics of the competitive structure with the development stage of the industry, the characteristics of stakeholders, and transaction costs. The role and function of the public institution itself, namely the "universal provision of public services", should be taken into consideration, and the "evaluation of the quality (ability) of public services" must also be strengthened in the management evaluation system.

4. Characteristics of Korean SOE privatization

- The first step toward privatization should be to create a favorable environment that encourages competition. This can be done by undertaking regulatory reform and industrial policy reforms as well as removing obstacles in relation to private sector entry and exit. Privatization works best when it is implemented together with reforms designed to build an environment that encourages efficiency. The second step is to make the privatization process transparent. An important aspect of transparency is the valuation of an enterprise's net worth by independent and professional firms to set the minimum base price for privatization. Not only the valuation process, but also the whole process of privatization requires transparency.

4. Characteristics of Korean SOE privatization

- The interest in privatization should stem from its fundamental usefulness. Privatization improves the optimum allocation of public resources. It leads to improved operational efficiencies. It also serves as an important instrument to attract investment and promote innovation. However, realizing these benefits is not a simple task. Favorable effects can be attained only by properly implementing privatization. Many countries suffered from economic crisis after the privatization of key sectors. For instance, the sweeping economic reforms and subsequent privatization in Argentina in the early 1990s resulted in the discharge of more than 80% of the employees in some privatized sectors. On the other hand, countries that followed appropriate privatization procedures, such as China and Korea, saw increased productivity and efficiency. Consumer-oriented industries saw larger gains than strategic (heavily regulated) sectors.

4. Characteristics of Korean SOE privatization

- Finally, distinguishing the goods and services whose production and trade can be handled better by profit-seeking firms rather than the government should be emphasized, and it should be clear that privatization should take place as soon as possible. The government businesses or SOEs that produce commercial goods and services should be allowed to operate based on profit incentives as much as possible without the interference of government policy functions and without much consideration of the concentration of economic ownership. The successful experience of Korea, especially during the latter part of the 1990s and 2000s, in privatization is strong evidence to share with other countries.

Implications for public institution policy and management

1. Success factors of the Korean public institution policy and management system

- Public institutions in Korea have successfully played the role of policy implementer in the social and industrial infrastructure area within the national and economic development process.

- Their functions include
  - providing capital where the private sector cannot provide it sufficiently,
  - engaging in the quasi-market where private firms are reluctant to enter due to risk and uncertainty, and
  - facilitating strategic industries for economic development.

1. Success factors: Independent agency

- Since the enactment of the Framework Act on the Management of Government-Invested Institutions in 1983, jurisdiction for policies on and the management of public institutions has been endowed to an independent government unit that is not entangled with public institutions for political interests.

- The agency has played a key role in designing innovative public institution management systems, redefining the missions and functions of public institutions, and improving their effectiveness and efficiency.

1. Success factors: Benchmarking

- The government has made efforts to import advanced foreign systems of public institution management to improve the management efficiency and competency of public institutions.

- For example, the globally known public institution performance evaluation system in Korea was first adopted in 1968 as a result of a benchmark from the French system.

1. Success factors: Customer satisfaction

- The adoption of a customer survey on the service quality of public institutions, which facilitated an organizational culture that puts customer satisfaction forward under the Kim Dae-Jung administration.

- A public institution integrity survey was launched in 2002 and has improved the survey since its launch.

1. Success factors: Epistemic community

- Independent research institutions and think tanks have played an important role in improving the public institution management system.

- Including
  - the Korea Development Institute,
  - the Korea Institute of Public Finance’s Research center for SOEs, and
  - independent university professors and accountants.

1. Success factors: Balance and opportunity

- Public institution management system reform was carried out successfully in the absence of any serious political resistance, particularly due to the effort to strike a balance between autonomy and responsibility.

- The occasional economic crisis ironically created a "policy window" to reform the management system.

2. Learning points

- Reform should be done continuously.
- There should be an institutional balance between autonomy and responsibility.
- Citizen satisfaction should be put at the center of reforms.

3. Caveats

- One needs to take into account institutional affinity before benchmarking.
- One needs to take into account economic development status and social consensus on the role of government at the time.
- The privatization of SOEs was implemented gradually for the restructuring of SOE missions and statuses in accordance with the status of economic development.

Thank you