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THE FIRST YEAR OF THE YOON ADMINISTRATION AND ITS IMPLICATIONS

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PREFACE

May 10, 2023 marks the first anniversary of the Yoon Suk Yeol administration.

The Yoon administration came into office in the midst of heightened global uncertainties such as the war in Ukraine, global supply chain restructuring, growing protectionist trade policies driven by the US-China tensions, and global interest rate hikes. Over the past year, the Yoon administration has forged ahead by implementing a range of policies – both foreign and domestic – to prevent economic recession and foster the growth of the core national strategic industries. With respect to foreign policies, the Yoon administration has (i) rebuilt the Korea-US alliance, (ii) resumed the Korea-Japan “shuttle diplomacy,” and (iii) strengthened the Korea-US-Japan trilateral diplomatic ties. On the domestic front, the Yoon administration’s policies are aligned with its three key reform agendas: (i) labor and employment; (ii) pension; and (iii) education.

In the face of the pending 22nd general elections on April 10, 2024, the Yoon administration’s policies and reform agendas are expected to face considerable hurdles in navigating the looming challenges of the current political climate. In particular, as it relates to government policies subject to legislation amidst the tug-of-war between the ruling and opposition parties, many of the proposed legislative agendas may continue to be stalled.

Against this backdrop, we have prepared this report providing our analysis and outlook on the key policies and reform agendas of the Yoon Suk Yeol administration during his inaugural year. This report covers key sectors, including the following: Economy, Finance, Real Estate, Industry-Specific Developments, Environment & Energy, Labor, Pension, Education, and Criminal Justice.

I. ECONOMY

ISSUE	DESCRIPTION
MACROECONOMIC STABILIZATION	<ul style="list-style-type: none"> ▪ Global inflation and supply chain disruptions have aggravated Korea's trade deficit. ▪ The government's focus has been placed on economic risk management, internal and external, in order to make a timely response to the destabilized global economy.
CURBING INFLATION	<ul style="list-style-type: none"> ▪ Measures were taken to stabilize supply chain of raw materials in order to minimize the impact on the national economy. <p><i>The government plans to provide additional tax & financial incentives to stabilize the prices of daily necessities and essential services that have a direct impact on the lives of ordinary consumers.</i></p>
STRENGTHENING SUPPLY CHAINS	<ul style="list-style-type: none"> ▪ COVID-19 and the wars around the world have accelerated deglobalization and the growing trend of economic nationalism. ▪ The US-China tension for global hegemony has limited foreign direct investment into and trade with China. ▪ The Inflation Reduction Act (IRA) was launched in the US, imposing, among others, geographical restrictions for the tax credits on EV battery components and the critical minerals used in such components. ▪ The EU has also proposed the draft Critical Raw Materials Act (CRMA) with the aim of strengthening the supply chain network within the EU territory. ▪ In response, the Yoon administration has: (i) enacted the Framework Act on the Supply Chain Management, Special Act on Resource Security, and the Act on Special Measures for Strengthening the Competitiveness of Materials, Components, and Equipment Industries; (ii) signed the memoranda of understanding (MOUs) and created a supply chain network with strategic partner countries supplying critical minerals; and (iii) revised the existing policy to facilitate the reshoring of Korean semiconductor manufacturers with the aim of stabilizing the domestic supply chain of semiconductors. <p><i>Following the US Treasury Department's guidance on the IRA, Korea will need to diversify its supply chain of certain critical minerals and lower its dependence on China.</i></p>

ISSUE	DESCRIPTION
REINFORCING TECHNOLOGY PROTECTION	<ul style="list-style-type: none"> ▪ As Korea’s exports to China are in a downturn due in part to China’s growing sophistication in industrial structure, the government has put more focus on research and development to further widen the technological gap between the two countries. ▪ The US has designated the semiconductor industry as one of its core industrial sectors to check and balance the rise of China, imposing export control and technology protection measures against China. ▪ The Korean government has overhauled the existing policy on the protection of core industrial technologies to enhance its responsiveness to the ever-changing technology security landscape. <p><i>It is imperative for the Yoon administration to stay vigilant with increasing vulnerabilities in potential cross-border technology leakage in order to protect the country’s core industrial technologies.</i></p>
LEADING A NEW GLOBAL TRADE ORDER	<ul style="list-style-type: none"> ▪ The government has unveiled its vision for Korea’s role as a global pivotal state (GPS) in terms of innovation and trade by means of digital and green trade policies. <p><i>It is essential for the Yoon administration to diversify its supply chains and maintain a technological gap between Korea and China, considering the country’s growing reliance on Chinese imports following a global trend of green economy and digital transformation.</i></p>
BILATERAL AND MULTILATERAL TRADE PARTNERSHIPS	<ul style="list-style-type: none"> ▪ With its decision to join the Indo-Pacific Economic Framework (IPEF) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Korea has been expanding its trade partnerships with the US and other countries in the Pacific region. ▪ With the aim of diversifying its export destinations and lowering its reliance on China, Korea has been pursuing a trade and investment promotion framework (TIPF) agreement with emerging economies. <p><i>While IPEF excludes China from joining its trade framework, it is still critical for Korea to maintain the trade channels into China given Korea’s reliance on Chinese imports for certain strategic industries remains significant.</i></p>

II. FINANCE

ISSUE	DESCRIPTION
FINANCIAL REGULATORY REFORMS	<ul style="list-style-type: none"> Regulatory reforms in financial sectors remain imperative, such as expanding discretionary investment business and easing the current separation of industrial and financial capital, in order to diversify income sources for commercial banks now relying heavily on interest margins. <p><i>Protecting financial consumers, resolving conflicting interests within financial sectors, and earning consumer trust after the private equity investment fiascos in 2020 will be the prerequisites for pursuing the financial regulatory reforms.</i></p>
COMPETITIVENESS IN DIGITAL FINANCE	<ul style="list-style-type: none"> Financial regulators in Korea have reviewed the possibility of amending the Electronic Financial Transactions Act and announced the plan to revisit regulations on cloud computing and network separation. <p><i>In response to such market-friendly action by the financial authority, financial institutions will be expected to take measures to further enhance research and development efforts to effectively deal with increasing cyber security threats.</i></p>
TRANSPARENCY IN VIRTUAL CURRENCY MARKET	<ul style="list-style-type: none"> The government has recently proposed a bill titled Digital Asset Basic Act which provides for a clear definition of “digital assets” and establishes an investor protection scheme for the digital assets. Financial regulators in Korea have published a guideline for security token offering (STO), bringing digital assets into the scope of Korea’s existing capital markets regime and allowing digital asset transactions thereunder. The Legislation Review Subcommittee of the Korean National Assembly has passed a bill titled Digital Asset Consumer Protection Act, which intends to apply the Financial Investment Services and Capital Markets Act on digital assets and impose not only damages but also penalty charges against unfair digital asset transactions. <p><i>It is expected that the Digital Asset Consumer Protection Act will be the very first comprehensive legislation in Korea to institutionalize digital assets, reinvigorating the digital asset market and reinforcing digital asset investor protection.</i></p>

ISSUE	DESCRIPTION
CAPITAL MARKETS	<ul style="list-style-type: none"> ▪ The Foreign Exchange Act has been amended to relax excessive regulatory framework and enhance market efficiency on foreign exchange transactions. ▪ The government has been putting its efforts to improve the existing oligopoly in the Korean financial markets and encourage the leading financial institutions to serve a more active role as a responsible financial players. <p><i>As evidenced by the Silicon Valley Bank (SVB) debacle, risk management is essential in the banking business globally. In this regard, relaxing the current licensing regulations to allow a new bank in Korea may have an adverse effect on the Korean economy.</i></p>

III. REAL ESTATE

ISSUE	DESCRIPTION
HOUSING SUPPLY	<ul style="list-style-type: none"> ▪ The government has eased the safety requirements for housing reconstruction and designated new zones for redevelopment, while pursuing an amendment to the Restitution of Excess Rebuilding Gains Act. ▪ The government has also been pushing for the third-generation new towns to break ground this year while closely coordinating with the National Assembly to introduce a bill to support the first-generation new towns. <p><i>Despite the Yoon administration’s strong drive to promote housing reconstruction and redevelopment, its impact has been limited as the administration’s attempt to amend the Restitution of Excess Rebuilding Gains Act has been stalled. However, it is likely that a new bill on the first-generation new towns will pass the legislative hurdle before the general elections in 2024.</i></p>
TAX EXEMPTIONS AND LENDING REGULATIONS	<ul style="list-style-type: none"> ▪ The government has relieved property tax burdens of multi-home owners by extending the grace period for imposing a heavy capital gains tax against multi-home owners and adjusting the declared value of real estate. ▪ The government has also been pursuing legislation for reforming the comprehensive real estate tax (i.e., abolishing the heavy tax rate and lowering the maximum tax rate applicable to multi-home owners), while relaxing the loan-to-value (LTV) regulations at the same time. <p><i>In the face of strong opposition from the opposition party, it is uncertain whether the comprehensive real estate tax reform bill will pass in the near future. While the Yoon administration intends to continue easing the LTV regulations, it is expected that the debt-service-ratio (DSR) regulations will remain intact for the time being.</i></p>
PUBLIC RENTAL HOUSING	<ul style="list-style-type: none"> ▪ The government has introduced the Real Estate Investment Trusts (REITs) to encourage private rental businesses to take part in the government’s policy and increase the supply of rental houses. ▪ The government has also reintroduced the long-term rental apartment registration system, provided tax exemptions for rental businesses, and relaxed the LTV regulations. <p><i>The Yoon administration’s tax exemptions and lending incentives may vitalize rental housing businesses in the greater Seoul metropolitan area. However, the tightened regulations on those rental housing businesses to prevent lump-sum housing lease scams will put an additional burden on the government’s policy drive.</i></p>

IV. INDUSTRY-SPECIFIC DEVELOPMENTS

ISSUE	DESCRIPTION
PROMOTION OF GROWTH-ORIENTED AND STRATEGIC INDUSTRIES	<ul style="list-style-type: none"> ▪ Service Industry: The Framework Act on the Development of the Service Industry is currently pending enactment. It remains to be seen whether medical and public services will be included in the scope of this newly envisioned Act. ▪ Online Platform Industry: While the government espouses a self-regulatory scheme with respect to online platform regulations, a plethora of bills on online platform regulation have been enacted in response to public pressure. ▪ Semiconductor Industry: The government is introducing its strategic initiatives for the country’s semiconductor industry through deregulation, incentives for investment, technology protection, and supply chain protection. ▪ Bio-health Industry: The government has declared the bio-health industry as the county’s next-generation engine for economic development that will succeed the semiconductor industry, and expressed its intention to provide full support in order to help the industry gain a competitive advantage in the global market. ▪ Artificial Intelligence (AI): The government has issued a press release on its plan to develop policy frameworks to support the core infrastructure of the AI industry. <p><i>While the Online Platform Fairness Act (purporting to regulate online platform operators) will be enacted eventually to regulate platform businesses to a certain degree, it will take time for this Act to take root in practice.</i></p> <p><i>Global regulatory variables and risk factors, such as the US CHIPS Act, EU Chips Act, and the ongoing US-China semiconductor dispute, will affect the domestic semiconductor industry.</i></p>
REGULATORY REFORMS	<ul style="list-style-type: none"> ▪ The government has established a Regulatory Innovation Promotion Group to develop agendas on regulatory reforms and propose measures to address the four core governmental agendas: (i) promotion of investment/employment; (ii) development of new industries, (iii) development of local provinces; and (iv) carbon neutrality. The private sector, however, has yet to witness noteworthy changes in this regard. <p><i>The Yoon administration is expected to actively develop and pursue regulatory reform agendas to revitalize the economy via private-public partnerships and improve the aggravated trade balance.</i></p>

V. ENVIRONMENT & ENERGY

ISSUE	DESCRIPTION
<p>ENERGY MIX AND CARBON NEUTRALITY POLICIES</p>	<ul style="list-style-type: none"> ▪ The government is expected to implement its energy policies departing from the previous administration’s nuclear phase-out, as it aims to revive and expand the nuclear power industry and diversify Korea’s energy mix centered on nuclear power. ▪ In executing its carbon neutrality policies, the government has proposed a dual strategic initiative of implementing (i) short-term policies and (ii) fundamental reforms to improve the efficiency of Korea’s Emission Trading Scheme (ETS) (i.e., streamlining complex administrative procedures for calculating and trading carbon credits), alleviating the burden of carbon emission trading currently imposed on domestic companies. <p><i>Amendments to relevant laws and regulations (i.e., Energy Act or Framework Act on Carbon Neutrality and Green Growth) will be required to provide statutory grounds for the Yoon administration to implement its energy mix policies.</i></p> <p><i>Given the increasing demands of businesses calling for the exclusion of indirect emissions from the scope of the current ETS, the Yoon administration will consider issuing specific guidelines and/or amending relevant laws to that effect.</i></p>

VI. LABOR REFORMS

ISSUE	DESCRIPTION
RULE OF LAW GOVERNING LABOR RELATIONS	<ul style="list-style-type: none"> ▪ In response to the proposed Yellow Envelope Act (marking a shift from the current labor policy placing an emphasis on rules of law in labor relations),¹ the government is contemplating its countermeasures, i.e., exercising a presidential veto and/or filling a petition to the Constitutional Court of Korea to deter the opposition party’s unilateral attempt to pass this bill. ▪ The government also plans to (i) enhance transparency in the accounting practices of labor unions and (ii) introduce a labor director (employee representation) system in public institutions. ▪ The government is implementing reforms targeted at the shipbuilding industry by encouraging: (i) conclusion of MOUs for mutual cooperation between shipbuilding contractors and subcontractors; (ii) operation of joint labor-management councils; and (iv) mandatory disclosure of subcontracting payment terms. <p><i>The Yoon administration’s option to veto the proposed Yellow Envelope Act and seek judgment from the Constitutional Court of Korea will determine the future of this bill. Meanwhile, it is expected that the Yoon administration will expand its scrutiny over those industries, other than the shipbuilding industry, also facing a contractor-subcontractor divide.</i></p>
WORKING HOURS/WAGE SYSTEM	<ul style="list-style-type: none"> ▪ The government has decided to further supplement its efforts in amending the Labor Standards Act, which would affect the working hours of employees in Korea. ▪ With respect to revamping employee representation, the government has introduced the concept of “partial workers,” referring to those in specific industries and/or special occasions requiring flexible working hours. ▪ Pursuant to the government’s attempt to reform working hours, the Ministry of Labor and Employment has ramped up its efforts to prevent the misuse and abuse of the current comprehensive wage system. The government, however, has rather taken a conservative approach when it comes to abolishing the system completely. ▪ The government continues to prefer differentiating minimum wages for different industries/sectors. <p><i>In the midst of backlash from labor unions, the Yoon administration’s attempt to introduce a new flexible work system may be stalled until a new amendment to the Labor Standards Act is prepared. Meanwhile, it is unlikely that the Yoon administration would consider abolishing the existing comprehensive wage system in the near future.</i></p>

¹ The “Yellow Envelope Act” (amendment to the Trade Union and Labor Relations Adjustment Act) is a legislation initiated amidst multiple labor disputes. The Act aims to limit employers’ damages claims against strikers, among others.

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Labor Reforms
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ISSUE	DESCRIPTION
ADDRESSING LABOR SHORTAGE	<ul style="list-style-type: none"> ▪ The following reforms to the foreign worker employment permit system are pending: (i) granting a special exemption for long-term foreign workers; (ii) allowing for a temporary increase in the number of permitted foreign workers; and (iii) imposing heightened scrutiny over the employers of foreign workers. ▪ Likewise, the following structural changes to the shipbuilding industry have been proposed: (i) granting a special exemption for extended working hours; (ii) introducing a streamlined visa processing system; (iii) securing quotas for foreign workers in the shipbuilding industry; and (iv) improving the existing practices in terms of employing foreign workers in the private sector. <p><i>It is expected that the Yoon administration will place a special emphasis on addressing labor shortage issues through expansive reforms. The Yoon administration's proposed labor reforms with respect to the foreign worker employment permit system do not address the issue of the existing restrictions on change of workplaces against foreign workers, and devising an alternative for this matter will remain a challenge given the continuing tension between labor and management.</i></p>
INDUSTRIAL ACCIDENTS	<ul style="list-style-type: none"> ▪ The government has proposed the following measures to reduce the number of serious industrial accidents: (i) mandating risk assessments; (ii) supporting self-regulatory prevention mechanisms; (iii) imposing substantial punishments and liabilities for causing serious industrial accidents; (iv) prescribing workers' roles and responsibilities; and (iv) restructuring the existing industrial safety governance. ▪ Enactments of the legislation aiming to expand the coverage of industrial accident compensation insurance benefits for those contract workers not protected by the Labor Standards Act and platform workers are pending (i.e., amendments to subordinate regulations under the Industrial Accident Compensation Insurance Act and the Employment Insurance Act). <p><i>It is expected that the critical factors in determining what constitutes a serious industrial accident would be: (i) risk assessment; (ii) establishment and implementation of a safety and health management system; and (iii) workers' duty of care.</i></p>

VII. PENSION REFORMS

ISSUE	DESCRIPTION
PUBLIC PENSION FUND AND FISCAL DEFICIT	<ul style="list-style-type: none"> ▪ It is expected that all of the four major public pensions (i.e., national, government employees, military personnel, and private school teachers' pensions) will continue to face a fiscal deficit. ▪ Currently, the opposition party holds a supermajority in the National Assembly, making it difficult for the Yoon administration to push hard for legislative reforms, and thus the Yoon administration has been trying to reform the public pension fund by working with not only the National Assembly but also the Ministry of Health and Welfare. <p><i>It is expected that the pension reform will be actively discussed during the term of the Yoon administration as it is both the country's focus agenda and one of the three major reforms agenda declared by the government. Considering the upcoming general elections to be held next year, however, it is unlikely that the government will push for immediate reform.</i></p>
STRENGTHENING RETIREMENT INCOME SECURITY	<ul style="list-style-type: none"> ▪ The government plans to increase the monthly maximum basic pension payment amount from KRW 323,000 to KRW 400,000 to strengthen retirement income security. ▪ Additionally, to promote the active management of retirement pensions, the government plans to (i) gradually mandate the establishment of retirement pensions and (ii) minimize early withdrawals. <p><i>The success of the policies above will be determined based on the ongoing discussions at the National Assembly's Special Committee on Pension Reform. It is expected that strengthening basic pensions and revitalizing private pensions will proceed smoothly as the National Assembly is in concert with the Yoon administration's plans in this matter.</i></p>

VIII. EDUCATION REFORMS

ISSUE	DESCRIPTION
FOSTERING DIGITAL TALENTS	<ul style="list-style-type: none"> ▪ The government has expanded the capacity for master’s and doctoral programs in high-tech fields, and mandated elementary, middle, and high schools to include software and AI in their curricula. ▪ Furthermore, the government plans to create a digital-oriented learning environment by introducing digital textbooks and enhancing the digital competence of teachers. <p><i>It is expected that the Yoon administration will ramp up its efforts to foster digital talents.</i></p>
RESTRUCTURING EDUCATION SYSTEM	<ul style="list-style-type: none"> ▪ The government has announced its plans to reform the college admission system and high school curriculum. ▪ The discussion of introducing professional graduate schools for education was postponed. <p><i>The roles and responsibilities allocated to the National Education Commission and the Ministry of Education are ambiguous and this has been an issue for the Yoon administration to tackle.</i></p>
REDUCING EDUCATIONAL DISPARITIES	<ul style="list-style-type: none"> ▪ For non-discriminatory educational services for all children, the government has commenced a pilot operation for merging preschools (kindergartens and daycare centers) and running full-day elementary schools. ▪ The government plans to support individuals with educational disabilities and establish a lifelong learning system based on AI. <p><i>It is expected that there will be difficulties in implementing the policies above due to the opposition from teachers as they have not been invited for comments when formulating such policies.</i></p>
REFORMING LOCAL UNIVERSITIES	<ul style="list-style-type: none"> ▪ The government has delegated its authority to local governments to exercise administrative and financial support for universities. ▪ Legislative reforms for the restructuring of financially-vulnerable local universities are also taking place. <p><i>It is expected that the Yoon administration’s efforts to enact laws on the restructuring of private universities will accelerate.</i></p>

IX. CRIMINAL JUSTICE

ISSUE	DESCRIPTION
REFORMING PROSECUTION'S INVESTIGATIVE AUTHORITY	<ul style="list-style-type: none"> ▪ In response to the opposition party's attempt to deprive prosecutors of the right to direct investigation, the Ministry of Justice has amended relevant presidential enforcement decrees and substantially restored prosecutorial investigative authority. ▪ The government has established specialized investigation units within the Prosecutor's Office to focus on corruption, economic crimes, and narcotics. ▪ The National Assembly is currently discussing amendments in connection with the Minister of Justice's authority to command investigations over the Prosecutor General and separate allocation of the government budget for the prosecution. <p><i>It is expected that, following the establishment of specialized investigation units, the Prosecutor's Office will have more investigative powers to investigate narcotics, fair trade, election fraud, and economic crimes.</i></p>
ROLE & RESPONSIBILITY OF PROSECUTION AND POLICE IN CRIMINAL INVESTIGATIONS	<ul style="list-style-type: none"> ▪ Taking into account the reduced scope of investigative authority for the Prosecutor's Office in 2020, the government is in the process of amending investigation regulations to restore prosecutors' investigative authority by expanding their power to conduct supplemental investigations after certain cases have been referred to the Prosecutor's Office by the Korean National Police Agency (KNPA), and the authority to request re-investigate certain cases where necessary. <p><i>There is a possibility of escalating conflicts between the Prosecutor's Office and KNPA, as well as opposition by the opposition party taking the majority seats in the National Assembly, with regard to the investigation regulations.</i></p>
INVESTIGATIVE AUTHORITY OF CIO	<ul style="list-style-type: none"> ▪ The Ministry of Justice is currently pursuing an amendment to abolish the priority authority of the Corruption Investigation Office of High-ranking Officials (CIO), which grants CIO primary jurisdiction over those investigations involving corruption of high-ranking government officials. Meanwhile, the Prosecutor's Office is attempting to weaken CIO's authority by expanding the Prosecutor's Office's direct investigations of corruption crimes.

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