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Korea's Regulatory Reform for Financial Hub
Speech Before Asia Society

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Thank you, President Desai, for the warm welcome.

Good morning, Ladies and Gentlemen,

I am pleased and honored to speak before you this morning. I would like to thank President Desai of Asia Society and President Brilliant of U.S.-Korea Business Council for inviting me and hosting today's event. It's wonderful to be here. This is certainly a special occasion for me, and I thank everyone for coming

This morning, I would like to share with you some of the recent changes taking place in Korea's financial market and Korea's regulatory reform.

The Asian economy proved resilient even in the face of a devastating financial crisis in late 1990s and has since made a strong comeback. A new word like "Chindia" is now quickly becoming a part of our daily lexicon. And few would doubt the ascendancy of Asia's economic clout or its contribution to the global economy these days. The fact that seven of the ten countries with the largest foreign exchange reserves are in Asia also speaks volumes about the crucial role Asia plays in global capital allocation.

To be sure, the size of the Asian economy as a whole–particularly the financial sector–is still disproportionately small. Many Asian economies also still lag behind the world's best in terms of product quality and value-added services. It is true that what we commonly refer to as "Asian value" is usually associated with highly rigid, even authoritarian, Confucian tradition. However, what is often overlooked is the emphasis on people–their talent, sense of duty, and aspirations–that Asia's Confucius tradition espouses. Since it is ultimately the pool of talent–the human capital–that fuels innovation and growth, I believe that the "people-first" Confucian ideal will eventually prevail and pay dividends for Asian economies.

Another point I would like to stress is close regional and international cooperation. Many Asian economies felt the effect of the financial crisis that began in 1997. One of the key lessons from the crisis was the need for close economic cooperation and coordination among nations in order to preempt global financial instability. Given the financial globalization that links and binds us all together, it is unrealistic to expect individual countries to deal with financial stability solely on its own. What is needed is a collective and coordinated approach. So, in addition to the existing international institutions, I believe we must also work to expand and diversify cooperative mechanisms and institutions at the regional level.

In Asia, the ASEAN+3 nations have achieved a degree of success with bilateral currency swap agreements and other cross-border cooperative arrangements to ensure financial stability in the region. But in areas such as sharing our knowledge, institutional experiences, and talent that can truly benefit countries in the region in terms of developing a safe and sound financial system and promoting economic growth, we still have much work to do.

In working together to prevent a financial crisis, I believe that we must focus on reinforcing financial supervision and addressing market infrastructure and other key “structural” challenges. Throughout the post-crisis years, Korea forcefully pushed for wide-ranging structural reform. As a result, we have restored the safety and soundness of our financial system. And we are now building on our success to create a truly dynamic market.

For the remainder of my time, I would like to speak about the efforts we are undertaking to improve Korea’s financial system and regulatory climate for investors.

Korea’s growth in recent years has been led by semiconductors, automobiles, steel, and other key strategic industries. As a result of the success of these industries worldwide, Korea’s global competitiveness has risen sharply. And as the economy makes the transition to the next level, the government sees the financial services industry as the future engine of growth and set its sight on transforming Korea into Northeast Asia’s financial hub.

There is no question that Korea’s financial services industry has made significant strides since the financial crisis in late 1990s in terms of size and market infrastructure. And going forward, our expectation is that Korea’s financial service sector, backed by a strong “real” economy, will continue to improve and grow. I believe that Korea’s abundant, highly educated workforce and world-class information network infrastructure, among others, will provide a sound foundation for continued growth of Korea’s financial service sector.

As Northeast Asia's financial hub, Korea will offer global investors all the financial products and services now only found in places like London and New York. In other words, the financial hub is a marketplace where businesses and investors will want to invest in. It will be a marketplace backed by dynamic and solid real economy. It is an ambitious goal and will require a great deal of hard work on our part as well as participation from global companies and investors.

Ladies and Gentlemen, the government fully shares the view that financial de-regulation must form a key part of the drive to move our economy to the next level. To this end, the government began a comprehensive review of the existing regulations with a "clean slate." In this endeavor, the emphasis is on the perspectives of the market participants, simple and straightforward compliance, and building a market-friendly regulatory climate. It is not a one-time event, but a serious, sustained endeavor.

The government also recognizes that deregulation form a key part of the financial hub initiative. Much progress has in fact been made in recent years. One major deregulatory measure we are taking is a shift in our regulatory framework from the current positive-list system to a negative-list system. That is, we are changing our regulatory framework that says "this is what you may do" to a new framework that says "this is what you may not do." This is but one of many deregulatory actions we are taking.

But we continue to hear that many foreign investors still consider regulatory cost in Korea high. We would like to change this. So, in addition to reducing the number of regulations, we are paying more attention to improving the "quality" of regulations so as to effectively reduce the regulatory cost foreign investors feel in Korea.

One key qualitative change we are making is more transparent and predictable rules and regulations. We hear from investors that Korea's regulators have too much leeway in interpreting and enforcing rules and regulations. We also hear that unexpected regulatory changes inflate the cost of doing business in Korea, making investors passive and reluctant to invest.

For these and other reasons, making our rules and regulations more transparent and predictable is a priority for us. I can assure you we are well aware of such concerns, and we are taking steps to address them.

As we move ahead with regulatory reform, there are some simple principles that will guide us when setting new market rules and regulations. They must be (1) reliable, (2) up to the global standards, (3) rational, (4) cost-effective, and (5) responsive to the market. More than anything else, our supervisory policy must be reliable. We must also ensure that our rules and regulations are not driven by short-term objectives that change from time to time. Rather, they should consistently point to the long-term policy objectives.

The second principle is global standards. We will strive to keep our rules and regulations consistent and in harmony with the best global practices and standards. Every now and then, we hear of foreign investors facing discrimination in Korea. Let me assure you that we completely reject anti-foreign bias in Korea. It has never been–and will never be–our policy to favor one group of investors over another. Let me just add that I hope foreign investors will hold a balanced perspective on Korea's regulatory climate and try to understand the unique constraints and circumstances we face at home. I say this because not all markets are the same.

Rational regulations and policies are another principle. Only when the rules are rational will they stand the test of time and not interfere with the market.

We must also ensure that our rules and regulations are cost-effective. It is difficult to justify rules and regulations that impose higher cost on the market than the intended benefits. Instead, what we will strive to achieve are balanced, cost-effective rules and regulations.

Lastly, I would stress that regulators must be responsive to the market. Regulatory actions are not taken in vacuum but are guided by market circumstances. So it makes sense for the regulators to remain alert and responsive to what the market needs in order to function efficiently and effectively.

In short, I would sum up what we hope to accomplish with our regulatory reform as transparent and predictable rules and regulations that promote market competition, efficiency, and discipline.

Ladies and Gentlemen,
I will briefly bring up the "Capital Market Consolidation Act" the government is currently working on just to give you an idea of the kinds of changes and commitments we are making.

The government recently proposed a new legislation that will consolidate several capital market-related laws in order to give fresh impetus to the capital market. This is a major legislation–a rare watershed event, you might say–that will bring, when enacted, many significant changes to Korea's financial services industry.

The Capital Market Consolidation Act will encourage tighter market integration, greater competition and more efficient supervisory oversight. Both asset management services and investment banking–two key ingredients for the financial hub initiative–will also benefit from the proposed legislation.

One overriding objective of the new legislation is to set the basic directions for deregulation in the financial services industry. For the individual financial service providers, it will mean an opportunity to innovate, compete, and provide quality products and services.

We also expect many structural changes in the financial services industry from the new legislation. One reason for this is that the focus of the supervisory oversight will change from the type of institutions to the type of financial products and services. In short, we expect the Capital Market Consolidation Act to lay the groundwork for a stable, sustained growth of the banking sector, convergence of securities business toward investment banking, and more active asset management services for insurance companies.

In closing, I would like to stress that prudential regulation and supervision will remain a priority for us as we move ahead with our regulatory reform. We understand that the goal to transform Korea into a financial center is an ambitious one. But we firmly believe that Korea is up to the challenge.

We are reducing regulatory cost, providing a level playing field for all investors, and creating a market-friendly regulatory climate for all. Let us assure you that Korea is an open, dynamic economy and will continue to support free trade and foreign investment. We welcome you, and we invite you to Korea.

I thank Asia Society and the U.S.-Korea Business Council for arranging this morning's gathering. This is an important dialogue for us, and I hope I shed some new light on what some of the key goals we are trying to achieve.

Thank you.