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“Korea-EU Financial Cooperation & Supervision Policy Direction”

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Members of the EUCCK, and
Ladies and Gentlemen,

This year marks the 50th anniversary of the Treaty of Rome that created the European Economic Community, and today the European Union stands strong as the foundation of Europe’s economic prosperity. The EUCCK has played an important role in promoting investment and trade between the EU and Korea. So I thank EUCCK for its valuable contributions, and its support and campaign for the Korea-EU FTA.

Let me also take a moment to thank Mr. Hans-Bernhard Merforth, Vice-President of EUCCK, for giving me an opportunity to speak to you today.

The fourth round of negotiations is currently under way, and I understand that tariff concessions are proving to be an issue of some contention for both sides. At any rate, I very much look forward to continued support from EUCCK in resolving these and other outstanding issues and in quickly concluding the FTA talks.

Korean Economy and Financial Services Industry

The Korean economy forged ahead on a solid growth track under the Participatory Government with a particular focus on innovation and liberalization.

The government pushed for steady and sustainable economic growth with the goal of improving Korea’s long-term growth potential.

The real GDP growth was somewhat sluggish at 3.1% in 2003 under pressure from mounting household debt. But it rebounded in 2004 and averaged about 4.6% since then, a level close to the potential growth rate. Private consumption dampened in 2003 and 2004 under household debt burden but has picked up and averaged about 4% since 2005.



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Likewise, facility investment fell sharply in 2003 but has risen to average about 6.5% since 2004. Construction investment reached 7.9% in 2003, slowed sharply between 2004 and 2006, but rebounded to 3.5% during the first half of this year on favorable public sector demand. Exports, the key growth engine for the past five year or so, have grown at a robust pace of 15.1% a year since 2003 on the back of strong global demand and the surging Chinese economy.

As one of the most dynamic economies in Asia, Korea has consistently proven to be a marketplace with abundant business opportunities for foreign companies. And it continues to offer many attractive investment opportunities to foreign investors today.

Following the 1997 financial crisis, Korea liberalized its financial markets and lifted capital controls and restrictions on foreign investment. As a result, Korea is now one of the most open, free markets in Asia. This will remain unchanged, and Korea's market liberalization policies will continue without retreat.

The challenge is globalization.

In the decade since the financial crisis, the primary focus for the economy has been strengthening the fundamentals. Now, it's time to expand to overseas marketplaces.

Korean companies were said to hold approximately 115 trillion won in cash and cash-equivalent liquid assets as of March this year. This is obviously due to the strong balance sheet positions of domestic companies.

But it also reflects reluctance to take risk and make bold investment decisions. So, it seems what is needed is more forward-looking risk taking and investment for Korea's long-term growth potential.

Given the large pool of capital available, I believe domestic companies should more actively explore acquiring new technologies and expanding into new overseas markets. Reinforcing the existing businesses and diversifying into new businesses through mergers and acquisitions should also be a viable option. And I would like to encourage you to build new partnerships with Korean companies in taking advantage of business opportunities in overseas markets.

Korea's financial service sector has been growing at a steady pace and accounted for 7.5% of GDP in 2006, compared with 6.9% in 2000.

The financial services industry has been growing at a robust pace for the past ten years or so. We see a similarly healthy growth of the financial market as well.



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Assets of domestic banks, securities companies, and insurance companies each more than tripled. In the capital markets, Korea's stock market now ranks 5th and the bond market 3rd in Asia. The KOSPI, the benchmark stock index, surged from 700 at the beginning of the Participatory Government to more than 2,000 now. So, without a doubt, Korea's financial services industry and the financial markets as a whole have made significant strides in recent years.

Let me now make a few observations about investment and trade between the EU and Korea.

Korea's trade with EU member countries totaled 78.6 billion dollars last year, making EU Korea's second largest trading partner. With 40.5 billion dollars in investment on a cumulative basis, EU was also the largest foreign investor group in Korea last year.

Korea's investment in the EU countries has been steadily rising as well. And of the 207 overseas branch operations of domestic financial institutions, 29 are carrying on business in the EU markets.

As Korea's financial services industry and financial markets continue to grow, EU investment in the financial service sector has increased rapidly. Of the foreign financial companies active in Korea, 40.7% come from EU member countries, making them a significant investor group. Over the past seven years, the number of foreign financial companies increased 68.8%, but the figure for EU financial companies was 175%.

Because foreign investors are now key stakeholders in Korea's financial services industry, they will certainly share the fruit of the success of Korea's financial services industry.

So continued development and success of Korea's financial markets is a goal shared by domestic and foreign financial companies alike. And I very much hope that we will work together to build a lasting partnership.

The mutual benefit that domestic and foreign financial companies have shared is but one outcome of the government's resolute and consistent market liberalization policies. And there is no turning back on Korea's financial globalization.

Financial Hub Initiative and International Cooperation

As Korea aims to join the ranks of highly developed countries, the financial services industry holds enormous strategic value. As a way to strengthen the global competitiveness of Korea's financial services industry and promote the industry as



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the next growth engine, the government has been implementing a road map for the financial hub initiative.

More than anything else, creating a market environment friendly to foreign investors is the key success ingredient for the financial hub initiative. The seven priority tasks that the government announced in support of this endeavor are geared to this very goal.

One of the priority tasks is to improve the quality of life for foreign residents, and there are plans in the works for more and better international schools and other measures aimed at significantly improving the living standards for foreign investors in Korea.

We understand that, despite these efforts, foreign investors and other market participants see shortcomings in, for example, Korea's regulatory transparency and consistency. I can tell you that we are tackling such issues, and we will strive to transform Korea's financial services industry into a key growth-driving engine that takes Korea to a new era of 30,000 dollars per capital income in the near future.

In particular, I would stress that Korea's already substantial and advanced financial markets and financial services industry gives Korea strong comparative advantage over other cities and countries in building a financial hub.

The EU is home to many world-class financial service providers and companies. And I think it would be great to have their regional headquarters based here in Korea.

Korea's regulators are actively pushing for deregulation as well as simplified and streamlined regulatory procedures to attract foreign financial companies to Korea.

As part of this endeavor, we are looking into changing the reporting rules so that foreign banks seeking to establish an operation in Korea can just file a report without having to make inquiries to the regulators in advance. In addition, we plan to create specialist desk for each financial sector at the FSS to provide regulatory support for foreign financial service companies doing business in Korea.

I also believe there are many roles that foreign financial institutions and companies doing business in Korea can play. Where opportunities exist, I would encourage foreign financial companies to find local partners and explore new business tie-ups for, say, joint ventures overseas, entering new markets, M&A, and project financing.



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The U.K. began its “big bang” some 20 years ahead of Korea. And the EU has already adopted Basel II and is well on its way with risk-based supervision, making it an important benchmark for Korea.

So we intend to step up our supervisory cooperation with EU regulators, and I have no doubt doing so will help us build a more global regulatory environment here in Korea.

Supervision Policy Direction

Let me quickly turn to our supervision policy direction.

The passage of the Financial Investment Services and Capital Market Act will serve as an important catalyst in our plan to bring about significantly improved regulatory and business environment. We are currently working on a road map to achieve these goals.

We are also on track with our effort to make the transition to risk-based supervision. And as we encourage financial institutions to step up internal controls and improve compliance, we intend to shift more of our focus to managing systemic risks.

We will also do away with ineffective regulations in order to give financial service companies the room and flexibility they need to bring innovative products to the marketplace and compete more effectively.

I can also tell you that we are fully committed to transparent and predictable financial supervision. In particular, we plan to revamp our entry and exit regulations to make it easier for new entrants to get in and distressed ones to get out of a business area.

Along with our regulatory reform, we will continue to make an earnest effort to ensure fair and orderly conduct in the marketplace to protect consumers and raise investor confidence.

We support financial globalization and say that we will provide a level playing field for all, equal treatment for all, and fair and consistent enforcement for all.

In particular, we are looking into adopting securities registration filings used commonly by the EU and the U.S. and take other measures to improve Korea’s harmonization with global benchmarks.



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Closing Remarks

When the Korea-EU FTA is successfully concluded and takes effect, it will not only stimulate the Korean economy, but also link the E.U., the U.S., and Korea as free trade zones spanning three key markets of the world.

For the EU member countries, the FTA may mean Korea becoming the gate to Asia for its highly advanced service industries.

So, once again, I urge strong support and cooperation from the members of the EUCCK for the successful conclusion of the Korea-EU FTA.

Robert Root-Bernstein noted in his book “Sparks of Genius” that the innovator who leads the future is a “renaissance man” with a right combination of intuition and insight.

The renaissance man is one who possesses a creative mind and can carry out synthesized innovation.

I see the cultures and systems of EU, the home of renaissance, as important benchmarks in many of our endeavors, and we will certainly strive to build a truly dynamic market that propels Korea into one of the leading countries of the 21st century.

Thank you.