
The Investment and Financial Services Association (IFSA)
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**KOREA'S FINANCIAL SERVICES INDUSTRY:
THE PRESENT AND THE FUTURE**

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Good morning, Ladies and Gentlemen,

It's great to be with you this morning. I thank you for joining us. I would also like to thank IFSA Chairman David Deverall and CEO Richard Gilbert for their warm welcome and graciously organizing this meeting.

The hotel I am staying at is not far from the Opera House and the Harbor Bridge. I got a beautiful view of Sydney from my room last night, and I was struck by the panorama and a sense of Australia's vitality and vibrancy in the air.

Many Koreans who visit the Harbor say that it reminds them of Korea's Han River. They say the blue water of the harbor so close to the heart of the city reminds them of Han River that runs across Seoul.

Many scholars often describe Korea's rapid economic growth in the 1970s and 1980s as a "Miracle of Han River." But the miracle and the underlying success factors—commonly referred to as "Asian values"—have also been blamed, ironically, as one of the key reasons that ultimately led to the 1997 financial crisis.

Korea's Confucian tradition, which put a premium on the ideal of collective, shared prosperity, helped to bring out strong motivation from a broad swath of the society for economic development. But critics charge that, along the way, the very same tradition fed crony capitalism, which provided the backdrop for the crisis.

This morning, I would like to share with you my thoughts on the Korean economy and the financial services industry as we strive to move to the next level, a second miracle, if you will.

The financial crisis of 1997 inflicted enormous pain on the Korean economy. But it also ushered in a new era of change. First, there emerged a consensus that Korea's manufacturing-led growth model must be complemented by a vibrant financial sector. The importance of market mechanism and market discipline also became clear.

The government recognized this and set policy directions that sharply curtailed market intervention and revitalized market functions. So the government took aggressive steps to improve corporate transparency with effective accounting and disclosure regimes. The government also introduced class-action suit to encourage management accountability.

We also adopted sweeping market opening measures and pushed for bold reform and restructuring in the corporate sector. New measures designed to advance the capital market and instill a new risk management culture were also implemented. The financial services industry certainly did its part by embracing the needed changes, cleaning up their balance sheets, and breaking away from the “business-as-usual” mentality of the past.

The public-private reform efforts paid off, and the economy has since remained on a steady growth track. The real GDP growth rate averaged about 4.6% a year, close to the economy’s potential growth, during 2004 and the first half of 2007. For the 3rd quarter of 2007, the real GDP increased by 5.2%. And facility investment at about 6.5% during the same period look healthy.

We see other signs of strength in our economy. Exports are showing a double-digit growth, and we are likely to see current account surplus for the tenth consecutive year this year. Along with a revitalizing economy, Korea’s global competitive standing is sharply rising. As of the end of 2006, Korea’s GDP ranked 13th in the world. Korea’s shipbuilders and producers of semiconductors and LCDs routinely occupy the world’s top spots in terms of production and quality. Its auto and steel productions rank 5th and 8th, respectively, in the world.

In terms of information technology, Korea has one of the world’s highest broad-band Internet penetrations and consistently takes top spots in wide-ranging IT surveys. And Korea’s foreign currency reserve, more than US\$250 billion, is the 5th largest in the world.

More than anything, the Korean economy is now transforming itself from an input-driven economy backed by labor and capital to an innovation-driven economy backed by R&D and human capital.

It is because of this transformation that Korea remains the most dynamic economy in Asia and holds great promises for businesses and investors worldwide.

I may note that John Walker, the head of Macquarie's Korean operations, said in a recent interview that Korea has a real prospect of becoming one of the world's top three economies.

Along with the economy, the financial services sector has shown a robust growth. The industry's assets more than tripled in size. And in the capital markets, the stock and bond markets rank 5th and 3rd, respectively, in Asia. Likewise, the profitability and soundness of financial firms have sharply improved. And distressed assets are under 2% of the industry's total.

With financial policies firmly guided by liberalization and competition, Korea's financial market is now one of the most open, free markets in Asia. Since 2000, the number of foreign financial firms doing business in Korea rose nearly 70% from 32 to 54. As a result, their market share in Korea has sharply increased in recent years.

In terms of financial market infrastructure in such areas as corporate accounting, disclosure, and governance standards, Korea is among Asia's best. In particular, from our real-time online corporate disclosure system known as DART to the planned adoption of International Disclosure Standards, we are taking active steps to provide a disclosure regime second to none. Indeed, it was said that Warren Buffett, the well-known U.S. investor, praised DART as one of the world's best. And in October, DART received quality certification from International Organization for Standardization.

We also expect to raise our accounting transparency to the highest global standards with the adoption of a rigorous corporate accounting compliance regime and full implementation of International Financial Reporting Standards in 2009.

What we would like to do is to emulate our industrial development success in the financial services sector and push it to the next level. One major step we took in support of this goal is the Capital Market Consolidation Act. What we expect to see is a “big bang” in Korea’s financial services industry that significantly deregulates the industry from business entry to product development and promotes competition.

In tandem with this, we intend to take aggressive steps to improve Korea’s financial supervision fully in line with the highest global standards and practices. We also remain fully committed to continually improving the quality of life for foreign residents who live and work in Korea.

Let me also add that we will continue to work closely with foreign supervisors to create an effective, global regulatory environment in Korea. With the expected conclusion of free trade agreements with the U.S. and the EU, foreign investors will find Korea a truly investor-friendly marketplace as well. This will in turn help us build a more global, more advanced financial market for all.

In short, I firmly believe that Korea’s continued economic growth and financial market advancement will give foreign businesses and financial firms more business and investment opportunities than ever before.

Australia managed a successful financial sector reform with the Financial Services Reform Act of 2001, particularly in respect of its asset management service industry. Australia is also widely seen as having made meaningful progress with its drive to turn Sydney into a major financial center for the Asia-Pacific region. So I believe Australia has set many important benchmarks for Korea.

And it is my hope that the two countries will work to expand economic and business ties with each other and strengthen bilateral cooperation in wide-ranging areas. I would say that this is particularly true for the financial services businesses between the two countries.

And I believe there is much room for growth in cross-border financial services investment. Since the signing of the Agreement on the Development of Trade and Economic Relations between Australia and Korea in 1975, bilateral trade and investment has been growing steadily. Now, Korea is Australia's 4th largest trading partner and Australia Korea's 8th largest.

And we do see close cooperation growing in new areas as well as demonstrated by the Letter of Intent that the Government of Western Australia recently signed with the Provincial Government of Gyeongsang Buk-Do of Korea on promoting trade and investment.

But when it comes to bilateral financial services businesses, there are a total of ten Australian financial firms doing business in Korea and only one Korean financial firm active in Australia. Korea's financial firms are now aggressively looking to expand overseas, and foreign investors in Korea's financial services industry are now as a group a major stakeholder in Korea. So it is my hope that more Australian financial firms will look to Korea for new opportunities and growth.

I understand that the Australian coat of arms, its official symbol, displays the kangaroo and emu, which only move forward, not backward. I think this in many ways embodies the very character of Australians to move forward to the future.

It is great to be with you this morning, and I hope that our meeting today represents yet another step we are taking together for a more upbeat, forward-looking partnership between the two countries.

I again thank you for joining us this morning and hope that our meeting today will renew and further stimulate your interest in Korea.

Thank you.