2007 PECC Conference
6:30 p.m., Monday, October 15, 2007
Westin Chosun, Seoul, Korea

KOREA'S FINANCIAL GLOBALIZATION AND CHALLENGES AHEAD

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I. Greetings

Distinguished guests, and
Ladies and gentlemen,

I am pleased to join you this evening for the 2007 PECC International Conference, a unique occasion to discuss the drive for financial centers in the Asia-Pacific region and explore opportunities as well as challenges we all face.

Developing a financial center is a goal shared by Korea and others in the region.

And it is certainly a topic that comes up increasingly frequently as Asian economies continue to expand at a robust pace.

Just last month, the Economist ran a special report on the prospect for Asia's financial centers and some of the key issues Asian markets and policymakers will need to grapple with to realize their goals.

The drive for financial center is more or less fueled by the recognition that financial markets nowadays are indispensable to wealth creation and economic growth.

With China and India vying for an ever-large share of global output and creating new competitive dynamics in Asia, developing a financial center is viewed by many in Korea as both urgent and crucial if the economy is to move to the next level.

As you all know, Korea achieved enormous economic success from the ruins of a war more than a half century ago.

A significant part of Korea's real economy is now driven by top-notch, globally recognized high-tech manufacturing companies, and there is now a clear recognition that the real economy must be paired with an equally sophisticated, world-class financial center.

II. Financial Globalization

Financial globalization began to take shape in the 1980s. In the U.S., the second oil shock in late 1970s unleashed immense inflationary pressures on the economy, and as interest-rate-sensitive bank depositors shifted their savings elsewhere, bank disintermediation accelerated.

This phenomenon coincided with significant banking deregulation and advances in information technology that further magnified the wave of liberalization sweeping across the financial sector.

Financial liberalization heralded a new era of competition, which drove financial institutions across borders to new markets in search of ever-higher return on capital and fueled financial globalization. For financial institutions, this meant mergers and acquisitions with each other as well as an incessant drive for innovation to gain an upper hand in the global competition.

For the late comers to the global competition, the reality now is that there are formidable challenges to overcome in leveling the competitive field.

III. Korea's Financial Globalization

For Korea's financial globalization, the crisis in late 1997 proved a pivotal turning point. Market liberalization and overseas expansion, though limited in scale and gradual in pace, have been going on for some time.

Following favorable current account balances in the late 1980s and membership in OECD in 1996, Korea began to take a more aggressive stance on financial market liberalization.

By this time, domestic banks had also established fairly active overseas banking operations, numbering at one point about 200 worldwide, though many were scaled back following the 1997 financial crisis.

The financial crisis was a watershed event that ushered in a new era of fast-paced market liberalization and financial globalization, including lifting of capital controls and restrictions on market activities that were previously closed to foreign investors, such as investment cap on listed companies at home.

Now, after a decade since the crisis, Korea stands out as one of the most open, globalized economies in the Asia-Pacific region.

Just to cite a few examples, foreign equity ownership in Korea’s seven commercial banks is about 64%, and more than 50% in at least 20 insurance companies. A total of 19 securities companies are wholly owned by foreign investors.

In the stock market, the share of foreign equity stands at about a third of the total market capitalization, the ninth highest from the world's top 33 stock markets.

With the Korea-U.S. FTA and the government's commitment to the financial hub initiative, Korea's financial globalization is set to continue even more vigorously going forward.
To be sure, there are challenges ahead.

One is the relatively small presence of domestic financial institutions in overseas markets, which generated about 3% of total revenue last year, well below 71% for UBS, 48% for HSBC, and 33% for Citibank.

There are other shortcomings as well in terms of financing, business management, and localization in overseas markets. Excessive competition in a limited number of markets is another concern.

It is true that domestic financial institutions sharply scaled back their overseas operations in the wake of the financial crisis as the focus shifted to restructuring and business turnaround at home.

But as domestic financial institutions continue to generate record earnings, and growth momentum at home slows, a consensus is emerging that the time may have come for more aggressive business expansion in overseas markets.

Indeed, we see domestic banks stepping up their business in China, Vietnam, and other emerging markets in Asia and seeking out takeover and joint investment opportunities.

The same is true for securities companies, which have been most aggressive in overseas expansion since 2005 and are diversifying their business into East Asia, Australia, and South America, albeit at a small scale.

We also see insurance companies taking an active interest in China, a market with huge potentials, and mutual savings banks seeking project financing opportunities in East Asia.

IV. Challenges for Korea's Financial Globalization

Looking ahead, I see several tasks that regulators and the financial services industry must work on in order to move Korea's financial market development to the next level.

First, I would stress that Korea's market liberalization is very much on track and will continue.

Insofar as foreign capital is concerned, our stance remains the same: we stand for a level playing field for all, equal treatment for all, and fair and consistent enforcement for all.

We also recognize that financial supervision and regulation must be responsive to the market and encourage a positive and effective regulatory environment for investors.

In tandem with changes expected from the Capital Market Consolidation Act, we will continue to improve our regulatory framework comparable to that of developed markets. Deregulation, coupled with transparent and consistent financial supervision, will also continue so as to facilitate market liquidity and raise market efficiency.

V. Closing Remark

China’s CCTV recently ran a documentary that looked at the rise and fall of great powers.

There are several common attributes the documentary finds in great powers—openness, willingness to embrace ideas from outside, an ability to seize opportunities, and a drive for more and better.

So it may be said that these are the very attributes that propelled Korea’s real economy to what it is today.

The challenge now is to move to the next level with a world-class financial center.

And with a bold vision for the future, I believe Korea can achieve one of Asia’s most dynamic financial centers and contribute toward a regional financial community that all of us would like to see.

It is an important debate, and I thank all of you for taking part in the conference and sharing your ideas.

Thank you.