

CURRENT CHALLENGES AND FUTURE POLICY DIRECTION

The following are remarks made by Deputy Prime Minister/Minister of Finance and Economy Han Seung-soo at a press conference for foreign journalists at the Seoul Foreign Correspondents Club on September 19, 1996.

A month and a half have passed since I have been appointed as Deputy Prime Minister and Minister of Finance and Economy. During that time, I have met and discussed with many businessmen, economists, civilians, and political leaders. I also visited various markets and industrial sites so that I could have a feel for the current economy.

I concluded that it will be rather difficult to attain the economic performance that we had initially forecasted earlier this year. Our economic growth rate this year is now expected to be around 7%. Meanwhile, the consumer price index had increased to 4.4% by August, close to 4.5% of the annual target. Further, this year's current account balance is predicted to surpass 15 billion dollars, compared to the earlier forecast of 11-12 billion, and is not likely to improve significantly in the immediate future.

The difficulties we now face are the result of a combination of factors. First, our economy has been entering a cyclical downturn since last fall. The slowdown of our economy and the strain on corporate profitability have been accelerated by the sharp drop in the prices of major export products, such as the four megabyte memory chip. This deterioration of terms of trade is the largest since the first and second energy crises.

However, I believe that a more fundamental cause of the recent slowdown lies in the structural problem in the competitiveness of our economy.

Our wages have been increasing at a faster rate than the competing countries and the corporate financial burden grows larger as high interest rates continue. Logistical costs and land prices are considerably higher

than those of most other countries. Furthermore, there remain government regulations that constrain corporate activity.

These structural problems have been manifest for many years now, but the recent depreciation of the yen and the drop in major export prices have made them more conspicuous as major obstacles to our economy's progress.

Giving Highest Priority To Stabilizing The Economy

Based on this understanding, our policies will give highest priority to stabilizing the economy by curbing inflation, recovering corporate vitality, and establishing a firm foundation for a free and open economy.

Above all, stability in price as well as in employment is the key to securing the steady improvement of the general welfare of the Korean people. Recovering corporate vitality together with price stability will lay the foundation for improving the current account deficit.

Given this, the Korean government must take the lead in promoting savings and boosting productivity.

As such, next year's budget increase will be fixed at a lower rate than this year's. General administrative expenditure will also be fixed at less than 5%, while the salary increase for senior government officials will be put on freeze.

In addition, excluding school teachers and the police, the Korean government will maintain a freeze

on the hiring of public servants. We also plan to transfer the reins of certain government activities, such as hospital management and maritime activities, to the private sector.

With regard to monetary policy, we are planning to maintain a conservative stance, but want to be flexible enough so as not to further decelerate the economy.

Another step toward price stability will be through microeconomic measures, such as easing the rigidity of and promoting competitiveness in the market.

The government will also secure a stable supply of farm products, promote competition in the private services market, suppress rising public utility rates, and facilitate innovation in the distribution system.

I believe that establishing a free market environment is essential to boosting corporate activity and bolstering confidence. This, in turn, will bring about a balance in the external account in the long run. I believe that the establishment of a free market economy is also essential to the preparation for the era of a unified Korea and will pave the way toward joining the ranks of advanced countries in the 21st century.

To this end, Korea will make every effort to further reduce the existing regulations that are costly to corporate activities. I, personally, will continue to monitor whether the deregulations are fully implemented on the real market level.

In line with these efforts to promote corporate activities, we will stabilize wages, and interest rates, reduce logistical costs and the cost of leasing factory sites.

Finally, to maintain a dynamic economy in a rapidly changing domestic and international environment, some actions should be taken to encourage businessmen to take investment risks. We are currently seeking measures to promote the establishment of new enterprises by revising the rules regarding venture capital markets. In this way, we hope to reinvigorate corporate vitality.

Accelerating Economic Opening

Korea is a country that has benefited greatly from free trade during the post WWII era. As a result of this experience, Korea is becoming increasingly aware of the need for economic cooperation and freer trading within the global community.

In the era of economic globalization, the effort to protect the domestic market is not only unacceptable in terms of the international norm, but would also have an adverse impact on boosting the competitiveness of domestic enterprises.

Among other things, in a rapidly changing and integrating global economic environment, competitiveness depends on how an economic system and government policy can ensure freer mobility of production inputs in and out of the country.

Providing a Favorable Foreign Investment Environment

With regard to reforms in foreign investment policies, a revised Foreign Capital Inducement Law will be presented to the National Assembly this fall. By aligning our foreign investment system with international standards, we will provide an environment that is favorable to foreign investments.

The reform measures include allowing friendly M&A by foreigners. Here, the term 'friendly' signifies gaining the approval from the target firm's board of directors. However, companies with total assets of over 2 trillion won will be subject to the approval of the Ministry of Finance and Economy.

The government plans to allow foreign loans with a maturity of over 5 years for foreign invested firms subject to certain ceilings by 1999. These firms will be able to receive loans from the parent or affiliated companies within the scope of the approved foreign investment

amount.

Moreover, some major complaints by foreign investors will be addressed. Specifically, there will be an increase in the leasing of factory sites to the foreign invested firms, an extension of the tax deduction period, and a shortening of the required waiting period for automatic approval.

Increased Role In The Global Community

The Korean government is looking forward to both actively participating in the existing international organizations to which it belongs and in the discussion of establishing new international rules and regimes.

To realize these goals, Korea will faithfully fulfill its UR agreement and actively participate in WTO discussions, thereby contributing to the shaping of the multilateral trade rule. These efforts are already manifest in Korea's active participation in various international organizations, such as the APEC. In addition, Korea will do its part to expand the free trade environment and share any resulting benefits with the international community.

In an effort to become an active member of the world economy, Korea is seeking to become the second Asian nation to be a member of the OECD following Japan's membership 32 years ago. Korea's pursuit of becoming a member of the OECD has been motivated in response to the changing standards of the international economic community and its need to accelerate domestic reforms. There have been many difficulties in the membership deliberation process, but after being reviewed by the relevant committees, Korea now awaits a formal invitation from the OECD Council.

There are many who have voiced the concern that Korea's membership into the OECD is premature at this juncture. However, I believe that by taking this opportunity to join the OECD, we can accelerate economic deregulation and advance our domestic eco-

nomics system in ways that will significantly improve the structural problems of our economy.

During the OECD membership review process, significant issues were raised concerning the liberalizing of capital movement and foreign investment.

In response, we are proposing a liberalization plan that incorporates all of our various reform efforts and caters to the specific conditions of the Korean economy.

Now, Korea awaits the final decision by the OECD Council. Even with a favorable decision, however, the government has many obstacles to overcome, most importantly, ratification by the Korean National Assembly.

Currently, the opposition party is adamantly voicing disapproval of Korea's entry into the OECD, saying that it will only add to the difficulties faced by our economy. The voices of dissent in the financial world cannot be ignored either. But we stand firm in our pursuit of accession to the OECD.

Concluding Remarks

You will remember that, just 40 years ago, Korea was in the midst of poverty and destruction from the ravages of war. However, we have achieved a political democracy and remarkable economic development within a short span of time. And now, as an industrial nation with a democratic government, we are taking a step towards shouldering greater responsibility and playing an important role in the shaping of the world economic order.

As we undergo yet another difficult transition, we will make every effort to overcome this period successfully as we have done in previous occasions and will prepare for the years ahead. **VIP**