

ESTABLISHING A WELL-FUNCTIONING MARKET THROUGH STRUCTURAL REFORMS

The following is an excerpt from a speech made by Jin Nyum, Minister of Finance and Economy, at the EUCCK Luncheon Meeting on September 5, 2000.

Key Economic Issues and Policy Priorities

As you may know, recent indicators suggest that the Korean economy continues its robust performance. While achieving an economic growth rate of 11.1 percent and a trade surplus of US\$4.4 billion in the first half of this year, the rate of inflation has been kept under control, with the consumer price index rising 1.8 percent for the January-August period. We expect to see a growth rate moderating at 6 percent for the second half of the year, attributable to the easing technological rebound effects. The unemployment rate is also at its lowest since December 1997 : 3.6 percent as of July, and foreign exchange reserves have climbed to more than US\$90 billion.

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If we could stop here, I probably would not have a job today. In reality, these indicators are only a reminder of the work we will have to do to make sure Korea stays on this growth path.

In particular, we are battling the problem of unbalanced growth between regions, industries and social strata. The level of prosperity has not been equally distributed among various groups, for example those involved in industries other than semiconductors, computers and automobiles. We are also working against external factors such as high oil prices and the devaluation of Southeast Asian currencies.

Unless Korea recognizes the urgency of these problems and remedies the weaknesses in the economic structure, it may slip into another economic downfall instead of fulfilling its many economic potentials.

The next 6 months to one year will be crucial in deciding if Korea is able to realize a highly competitive economy and an attractive FDI destination for years to come. For this purpose, the new economic team will be guided by two major objectives : reform completion and a new take-off. We will not settle with the achievements of the first half of this government. Rather, we will strive to maintain and build on their accomplishments by strengthening economic fundamentals and market mechanisms.

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In this regard, we have formulated step-by-step development strategies of “concentration and selection”, as well as set firm goals that will give our efforts credibility and motivation. By next February, our objective is to complete our restructuring agenda through legal reform and removal of the inefficient, unproductive and insolvent elements within the corporate and financial sectors.

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By the end of next year, we will put in place the necessary software and institutions for a well functioning market economy while exploring new growth sources and social insurance mechanisms for public welfare enhancement. Ultimately, we will pursue the advancement of Korea’s economic structure with long-term plans that will facilitate the market system in maintaining sustainable growth based on social stability.

In order to reach our goals, there are four main tasks to consider. First, establishing a basic framework for a market economy will require completion of financial, corporate, labor and public sector reform. A market system based on free competition must drive efficient allocation of resources. Here, I must welcome active participation of the EU enterprises in our reform drive by way of direct investment or strategic alliances in banking, industrial development, SOC projects, and privatization of SOEs.

Second, new growth sources necessary for meeting the needs of the 21st century can be translated into the development of new industries, particularly within the area of information technology. For this purpose, the new economic team must ensure sufficient investment in R&D and the nurturing of creative human resources.

Third, balanced development among social strata and regions, as I already mentioned, is a major challenge facing Korea. Job creation and social development must serve as the bases for productive welfare that will ensure more equitable growth among the various groups.

Last but not least, with the recent events that took place on the Korean Peninsula, another door of opportunity was opened for us. The historic Summit and the reunion between families in North and South Korea marked an important beginning for inter-Korean relations, which we will advance in the form of economic cooperation and propel Korea to becoming the Northeast Asian hub of the 21st century.

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In carrying out these four objectives, we will maximize the sustainability and impact of the reforms by firmly installing an effective system and regulations. This will earn the trust of all of you in Korean policy through the eventual realization of

an open government and responsible administration.

Reform Tasks in Four Economic Sectors

The biggest task is perhaps the establishment of a well-functioning market system through completion of the structural reforms, which is crucial for sustained foreign investment flows and their productive uses. As such, our reform task deserves further elaboration. This is not in the sense of creating new reforms, rather, substantiating the restructuring agenda through timely implementation.

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In our effort to improve the financial system, it is important that we deal effectively with the problems of insolvent financial institutions, inefficient uses of public funds and the lack of proper financial supervision. By addressing these concerns, we will also enhance the competitiveness of the financial sector.

These basic same goals will apply also to our efforts to reform the corporate sector. In particular, improvements in corporate governance and encouraging mergers and acquisitions will constitute important prerequisites for more transparent and accountable management practices.

It has become painfully evident in the past couple of months that another challenge Korea faces is to reform public and labor sectors. I am, of course, referring to the ongoing discontent among medical service providers and various labor disputes. Reform is never easy, yet improving the landscape for public welfare is not only a priority for economic development, but also an inherent duty of the government to its people.

Although cooperation with North Korea has always been on this country's agenda since the tragic division more than 50 years ago, recent developments have allowed us to go one step further in actually identifying specific tasks. Economic cooperation between the two Koreas should be initiated by the private sector with full support of the government in the form of appropriate institution building. In addition, we stand ready to support the North through infrastructure projects and assistance in the global arena for North Korea's induction into the international community such as the World Bank, IMF or ADB.

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The improved economic cooperation with the North presents an important turning point for greater stability and prosperity on the Korean Peninsula. As such, I hope that EU enterprises will actively join force in taking advantage of increasing investment opportunities offered by this new business frontier. **VIP**