

Appendix

I. KOREA'S FINANCIAL GLOBALIZATION AND CHALLENGES AHEAD*

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

Developing a financial centre 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 centres and some of the key issues Asian markets and policymakers will need to grapple with to realize their goals.

The drive for financial centres is more or less fuelled 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 centre is viewed by many in Korea as both urgent and crucial if the economy is to move to the next level.

* This is the text of the dinner speech delivered by Vice-Chairman Yun at the conference.

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 centre.

FINANCIAL GLOBALIZATION

Financial globalization began to take shape in the 1980s. In the United States, 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 fuelled 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 latecomers to the global competition, the reality now is that there are formidable challenges to overcome in levelling the competitive field.

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 favourable 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 per cent, and more than 50 per cent in at least twenty insurance companies. A total of nineteen 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 thirty-three stock markets. With the Korea-U.S. Free Trade Agreement (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 per cent of total revenue last year, well below 71 per cent for UBS, 48 per cent for HSBC, and 33 per cent 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 scaled back their overseas operations sharply 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.

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.

CLOSING REMARKS

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 centre. And with a bold vision for the future, I believe Korea can achieve one of Asia's most dynamic financial centres 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.

PECC INTERNATIONAL CONFERENCE

Competition among Financial Centres in the Asia-Pacific: Prospects, Benefits, and Costs — Stumbling Blocks or Building Blocks towards a Regional Financial Community?

Organized by the
Korea National Committee for Pacific Economic Cooperation (KOPEC)
in collaboration with the Korea Securities Research Institute (KSRI)

With the support of *The Financial Times* as Media Partner

Westin Chosun Hotel, Seoul, Korea
15–16 October 2007

PROGRAMME

Synopsis of the Theme

The conference will bring together distinguished experts on the subject and many leading finance professionals and businessmen from around the Asia-Pacific region, up to 150 in number, to share their views and insights on the following and related issues:

Many cities in the Asia-Pacific region each have claimed their intention to become an international financial centre. The national and metropolitan authorities for those cities have launched ambitious programmes to develop or enhance their respective financial centres as international financial centres (IFCs). What will those ambitions and programmes in the end add up to? Which ones among them are likely to be the winners? Would the competition among these financial centres facilitate the emergence of a regional financial community by helping financial institutions to become more competitive and financial markets more integrated? Or would it thwart financial integration, regional or global, due to cross-purpose competition? Would it result in excessive competitive deregulation and thus undermine the financial stability in the region? What are the policy implications for regional governments and financial institutions? How can we all win?

PROGRAMME

SUNDAY, 14 OCTOBER

- 17:00 Participants arrive and register.
- 18:30 **Welcoming reception and dinner** hosted by Dr Soogil Young, Chair, Korea National Committee for Pacific Economic Cooperation (KOPEC)

MONDAY, 15 OCTOBER

- 08:30–09:00 Registration
- 09:00–10:20 Opening Session**
- 09:00–09:15 Opening Remarks
- Dr Soogil Young, Chair, KOPEC
 - Dr Dosoung Choi, President, Korea Securities Research Institute (KSRI)
- 09:15–09:55 Keynote Address by Mr Dominic Barton, Chairman, Asia, McKinsey & Company, on “International Financial Centres — the Terms of Competition and Prospects for the Asia-Pacific Region”
- 09:55–10:20 Q&A
- 10:20–10:40 Coffee Break**

Case Study Reports: Vision, Strategies, Roadmaps, and Progress

Why do the cities want to become IFCs? What are the visions, strategies, and the roadmaps that individual cities have set out to pursue? What has been the progress thus far in the respective cities? What are the difficulties and prospects? What would be the benefits and costs of the competition to those cities?

- 10:40–12:10 Session I: Hong Kong and Singapore**
Chair: Dr Kihwan Kim, Chairman, Seoul Financial Forum; International Advisor, Goldman Sachs Asia

- 10:40–11:20 Presentations
- Hong Kong: Prof Jesús Seade, Lingnan University, Hong Kong
 - Singapore: Prof Tan Khee Giap, Nanyang Technological University
- 11:20–11:40 Comments
- Prof Sang Kee Min, Seoul National University
 - Dr David Hong, President, Taiwan Institute for Economic Research
- 11:40–12:10 Discussion
- 12:10–14:00 Luncheon** hosted by Mr Andreas Neuber, Chairman and CEO, UBS Hana Asset Management
- Guest Speech by Mayor Se-hoon Oh, Seoul Metropolitan Government, on “Seoul Metropolitan Government’s Vision of Seoul”
- 14:00–15:30 Session II: Tokyo and Sydney**
Chair: Prof Tan Teck Meng, Singapore Management University
- 14:00–14:40 Presentations
- Tokyo: Prof Sayuri Shirai, Keio University
 - Sydney and Melbourne: Mr Nicholas Gruen, CEO, Lateral Economics
- 14:40–15:00 Comments
- Mr Simon Cooper, President and CEO, HSBC Korea
 - Prof Hugh Patrick, R.D. Calkins Professor of International Business Emeritus, and Director of the Centre on Japanese Economy and Business, Columbia University Graduate School of Business
- 15:00–15:30 Discussion
- 15:30–15:50 *Coffee Break***

- 15:50–17:50** **Session III: Shanghai, Wellington and Seoul**
Chair: Prof Yung-Chul Park, Seoul National University
- 15:50–16:50 Presentations
- Shanghai and Beijing: Dr Xu Mingqi, Professor and Deputy Director, Institute of World Economy, Shanghai Academy of Social Sciences
 - Wellington: Prof Roger Bowden, Victoria University of Wellington; Director, Kiwicap Research Ltd.
 - Seoul: Dr Hansoo Kim, Research Fellow, Korea Securities Research Institute
- 16:50–17:10 Comments
- Mr James Rooney, President and CEO, Market Force Company, Seoul
 - Dr Sang Yong Park, Professor of Finance, Yonsei University
- 17:20–17:40 Discussion
- 18:30–21:00** **Welcoming Dinner** hosted by Mr Chung Won Kang, President and CEO, Kookmin Bank
- Dinner speech by Mr Yong-Ro Yun, Vice-Chairman, Financial Supervisory Commission, Korea, on “Korea’s Financial Internationalization: Progress and Prospects”

TUESDAY, 16 OCTOBER

International Perspectives: Issues and Implications for the Asia-Pacific Region

What will be the impact on commercial banks, investment banks, securities companies, etc., in the region? What will be the role of global financial institutions in this competition? What are the stakes involved in the competition among the financial centres for the region as a whole and the global financial markets? Will this competition be conducive to the emergence of a regional financial community? Or will it create stumbling blocks in building such a

community? How serious is the risk of over-deregulation in the region as a result of the competition? Are there ways of harnessing this competition to better promote financial development and integration in the region?

09:00–10:20 Session IV: Financial Centre Competition among Asia-Pacific Cities — Benefits and Costs to the Region and Implications for Financial Development and Integration in the Region

Chair: Dr Masahiro Kawai, Dean, Asian Development Bank Institute (ADBI)

09:00–10:00 Presentations:

- Mr David Cowen, Senior Economist, Regional Office for Asia and the Pacific, IMF
- Dr Jong-Wha Lee, Head of Regional Economic Integration, ADB
- Mr Kyu Bang, Division Director, Macquarie Securities Korea

10:00–10:20 Discussion

10:20–10:40 *Coffee break*

10:40–12:00 Panel Discussion — Issues and Findings

Chair: Prof Hugh Patrick, R.D. Calkins Professor of International Business Emeritus, and Director of the Centre on Japanese Economy and Business, Columbia University Graduate School of Business

Comments by Session Chairs:

- Dr Kihwan Kim, Chair of Session I
- Prof Tan Teck Meng, Chair of Session II
- Prof Yung-Chul Park, Chair of Session III
- Dr Masahiro Kawai, Chair of Session IV
- Mr John Burton, Singapore Bureau Chief, *The Financial Times*

Discussion

12:00–12:30 Closing Session: Concluding Observations

Chair: Dr Soogil Young, Chair,
KOPEC and Project Coordinator

- Prof Hugh Patrick, Chair, Panel Discussion Session
- Prof Dosoung Choi, Lead Author of the Project Report
- Prof Sayuri Shirai, Co-author of the Project Report

12:40–14:00 Farewell Luncheon hosted by Dr Dosoung Choi,
President, Korea Securities Research Institute (KSRI)