

Interview with Korea Economic Daily

Given by Kenneth Kang, Resident Representative in Korea

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1. *The IMF foresaw lately Korea's growth to be 5.5% this year. But they say there is considerable possibility of the US government's increasing interest rates as early as coming August. Can Korea soar up so much high even if US increase interest rates?*

The Korean recovery can still be sustained even if interest rates in the U.S. were to rise moderately this year. Given the different fundamentals in the two economies, interest rates in Korea do not necessarily have to follow interest rates in the U.S. For example, compared to the U.S., Korea's economic recovery is still in the early stages. With domestic demand weak and core inflation this year projected to be around 3 percent, the Bank of Korea still has room to maintain its current stance on monetary policy for some time.

With these policies, we expect the Korean economy to grow by 5½ percent this year, driven initially by rapid growth in exports.

2. *After the 4.15 elections, they are debating on which part we should put priority between sustaining growth and distribution of wealth. What's your opinion?*

Our view is that Korea should aim for well-balanced growth over the medium-term. Economic history, particularly for East Asia, has shown us that broad-based growth has helped to reduce poverty rates and improve income distributions globally. In order to sustain rapid growth, Korea will need to continue to make progress in its structural reforms.

3. *What should be Korea's priorities for structural reform?*

In our most recent staff report on Korea, the IMF highlighted three important areas for structural reform. They include: strengthening the financial sector, improving corporate governance, and modernizing the labor market.

Korea will need both sound financial institutions and sound markets to invest efficiently its large domestic savings. Here, the priority should be to restore quickly health to the credit card and investment trust sectors and to enhance the role of market discipline in the corporate bond market. Second, improving corporate governance will help companies to access cheaper financing and boost domestic investment. Research has also shown that countries with sound corporate governance are less vulnerable to financial crisis. Finally, Korea needs a more flexible labor market to remain competitive in an increasingly globalized world.

4. Early this year you've told that Korea now has to try to strengthen the constitutions to get long-term foreign direct investment rather than short-term hedge funds. What do you think are the measures?

Here, I would point to labor market reform as crucial for improving the environment for all investment, both domestic and foreign. In order to attract stable long-term investment, Korea needs a well-functioning flexible labor market so that companies can quickly adjust their production as demand and technology changes. A flexible labor market will also allow help expand employment and allow workers to search more freely for the right jobs.

To improve the overall flexibility of the labor market, Korea will need to reduce some of the protection given to regular workers and at the same time strengthen its social safety net for the most vulnerable. Easing employment protection will not only help companies to be competitive, but also encourage firms to hire more regular workers and to invest more in Korea. In addition, the social safety net needs to be strengthened. Currently, only about one-fifth of the unemployed receive unemployment benefits. Therefore, expanding the coverage of the social safety net, especially the employment insurance system, will help protect the most vulnerable workers and promote a more mobile labor market where workers can move quickly to new growth industries.

5. Korea for the first time will send an Executive Director to the IMF Executive Board this November. What kind of person do you think should be sent. Do you have anything to request the Korean ED to be?

Korea for the first time will send an Executive Director to the IMF Executive Board this year, representing not only Korea but also the views of the 13 other countries in its constituency, including Australia, New Zealand, and the Philippines.

This is a remarkable achievement as Korea will be able to sit at the same table as other countries, such as the United States and Japan, to voice its own views—and those of its Asia-Pacific members—on issues related to the global economy. One of the main work of the IMF is “surveillance” which involves closely monitoring economic and financial developments and providing policy advice to our 184 member countries, especially aimed at crisis prevention.

As a representative of the Asia-Pacific region, the Korean Executive Director would be expected to play an important role in discussing such policy advice for member countries and guiding the IMF to fulfill its mandate.

6. You've been in Korea for 7 months or so. How's your feeling of living in Korea? Any difficulties? Now can you speak Korean fluently? Tell me about your family and your hobby. [Please delete “Did you ever try bomb-cocktail?”]

First of all, it is a real blessing for me to work in Korea. As a Korean-American, I have many family and friends here. As a graduate student, I studied and developed a deep interest in Korea's history and development. More recently, as a member of the IMF team during the financial crisis, I saw firsthand the difficulties that Korea endured and its remarkable economic recovery. I feel very fortunate for the opportunity to return to Korea and serve in some meaningful way.

My experience so far in Korea has been very positive. As the IMF's representative, I've had many opportunities to lecture at universities, participate in conferences, and meet a wide range of people. Through these experiences, I have learned a great deal about Korea. On a personal note, my wife, who is also Korean, and I are very happy to be here. We have a 11-month old baby boy and are eager to introduce him to Korean culture, language, and society. We spend our free time as most Korean families do, meeting family and friends and visiting the local parks and mountains.