

S.Korea needs further reforms of small firms-IMF

An Interview

Given by Kenneth Kang, Resident Representative in Korea

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January 19, 2006

SEOUL, Jan 19 (Reuters) - South Korea needs to curb state protection for its smaller businesses and remove regulations on the financial and service sectors to boost competitiveness, an International Monetary Fund official said on Thursday.

South Korea provides extensive credit guarantees for small and medium-sized enterprises (SMEs), but the practice does little to bolster their competitiveness, the IMF's resident representative, Kenneth Kang, told a forum.

South Korea, whose economy is Asia's fourth largest, has been trying to develop its protected but weak service sector to create new sources of income, as it depends too heavily on exports for growth momentum.

"SME reforms are needed because this key sector continues to lag behind the rest of the economy," said Kang.

"Restructuring is being hindered by the extensive system of credit guarantees, which provide subsidised credit to certain firms, helping them to survive but making it harder for others to compete."

President Roh Moo-hyun also said in a televised speech to his country late on Wednesday that the government would widen access to some service business sectors, such as education and medical, so they can develop through global competition.

The service sector accounts for more than half of South Korea's gross domestic product and mostly consists of small firms that account for 85 percent of jobs in the country.

Kang also said development and deregulation of the financial sector would lead to a rise in productivity in the overall service sector and help the country achieve its ambition of becoming a regional financial hub.

Kang also suggested South Korea strengthen venture financing to help channel more risk capital to business start-ups and new technology firms.