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Statement by the Hon. **KYONG SHIK KANG**,
Governor of the Bank and the Fund for **KOREA**,
at the Joint Annual Discussion

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MINISTRY OF FINANCE AND ECONOMY
REPUBLIC OF KOREA

**The Honorable Kyong Shik Kang
Deputy Prime Minister and Minister of Finance and Economy
The Republic of Korea**

Mr. Chairman, Distinguished Delegates, Ladies and Gentlemen,

Every day, dramatic changes transform the world around us. These changes demand that we adapt and innovate to stay relevant in a rapidly changing environment.

As a major regional and global financial center, Hong Kong has been held up as an example of hybrid vigor, a successful combination of Eastern culture and Western thought. Much of Hong Kong's strength lies in its ability to make full use of these resources and reinvent itself to reflect the times.

Now once again a part of the People's Republic of China, I have no doubt Hong Kong's dynamism will continue to create new opportunities not only for China, but also for the rest of the world.

I. Role of IMF and WB in the new global economy

Hong Kong is in many ways one example of how rapid economic integration can benefit an economy. Many globalizing countries are now beginning to benefit from freer capital flows with the aid of advanced information technologies.

I'd like to take this opportunity to commend Managing Director Camdessus and President Wolfensohn for reforming the IMF and the World Bank to better address the new challenges that inevitably accompany globalization and market-opening.

Indeed, the recent foreign exchange crisis in Southeast Asia clearly demonstrated how indispensable the Bretton Woods institutions are to the world economy.

The IMF Quota Increase and the Quota distribution.

Mr. Chairman, it is clear we must enhance the capacity of the Bretton Woods institutions, particularly the IMF, to offer appropriate policy assistance packages while combating the tactical movements of international speculative forces. To this end, we need to consider efficient measures which can effectively increase the IMF capital base.

This added capacity would enable the IMF to more successfully manage global market mechanisms, promote economic fundamentals, and avoid unnecessary turbulence.

In this context, I welcome the recent consensus that was reached among member countries regarding the 11th Quota Increase Review. However, I believe the increase does not go far enough to correct quota positions vis-à-vis member countries' economic position in the world economy. The quota distribution continues to unnecessarily limit the level of contribution of some member countries in the IMF capital increase.

I believe additional corrective measures in the future, which bring quotas more in-line with the current global economic map, represent the most efficient and effective way to

expand the IMF's capital base.

Given the complementary nature of the Bank's relationship with the IMF, a commensurate capital share adjustment by the Bank would go far to enhance the effectiveness of the Bretton Woods institutions.

NAB should launch immediately

Mr. Chairman, I'd also like to stress the importance of the New Arrangements to Borrow, a facility which will significantly augment the IMF's ability to cope with international financial emergencies.

I urge the member countries of the NAB to make this facility operational as soon as possible.

Korea supports capital account jurisdiction expansion

Both economic theory and practical experience suggest that financial liberalization is essential for economic development. But our experience also teaches us that, in order to be successful, financial reforms must be implemented in an appropriate macroeconomic, financial, and institutional environment with proper timing and sequencing.

The IMF's record for guiding well-sequenced current account liberalization indicates it may also be the appropriate body to guide *orderly* capital account liberalization. Thus, I consider the initiative to expand the IMF's jurisdiction to the capital account well-justified. Of course, due respect should be given to the economic differences between member economies.

III. The Korean Economy

Mr. Chairman, balancing growth and stability has always been an elusive proposition. Although Korea's extraordinary growth story is well-known, recent cyclical and structural developments have caused some difficulties for the Korean economy.

As you know, a few large corporate insolvencies have aggravated Korea's current economic situation. The government's short-term response was decisive. While taking into account market principles, measures were implemented to improve risk management and the disposition of non-performing assets.

However, it is important to realize these insolvencies are symptomatic of the Korean economy's structural imbalances, inherited from periods of condensed growth, and demonstrate the urgent need for structural adjustment.

Accordingly, the Korean government is in the midst of structurally reforming Korea's financial system. These financial reform efforts include the expansion of business boundaries, interest rate liberalization, and support for venture capital financing.

A complete overhaul of Korea's central banking and financial supervisory systems is also in the making. We expect these reform efforts to dramatically alter the landscape of the Korean financial sector in the future.

I recognize many members of the international community may still have some concerns about the current health of the Korean economy.

In response, I'd like to point out Korea's economic fundamentals remain sound and current economic difficulties are manageable.

Korea has begun to recover from the bottom of this cyclical downturn and macroeconomic indicators are improving; we expect over six percent GDP growth and less than 4.5% inflation. More importantly, current account deficits are expected to substantially moderate from 5% last year to about 3% of GDP this year.

North Korean Accession to Bretton Woods

Mr. Chairman, I'd like to take this opportunity to address the issue of North Korea's accession to international financial institutions. North Korea's accession to the Bretton Woods institutions is a sensitive issue, especially given its policy of isolation and the political and economic questions involved.

However, North Korean accession would expedite its integration into the world economy and contribute significantly to the political and economic stability of East Asia.

The Korean government welcomes North Korea's future participation in these institutions and is ready to support and assist North Korea in the process of meeting the prerequisites of accession.

IV. Concluding Remarks

Mr. Chairman, increased capital and information flows promise vast opportunities for global prosperity while posing an equal number of challenges.

The IMF, the World Bank, and the international community must work together to take maximum advantage of these opportunities and effectively overcome the challenges.

I felt the rapid response of the Bretton Woods institutions and the international community to the turbulence in Southeast Asia was an excellent example of this collective commitment to multilateral and bilateral cooperation.

Indeed, Korea's active contribution to the IMF's package for Thailand is only one indication of our readiness to undertake the cooperative responsibilities that come with a larger economy.

In closing, I'd like to thank the Joint Secretariat for working so hard to make these meetings a success.

Thank You.
