

報 道 資 料

題 目 : 『 IMF 2 』 ()

主要內容

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Keynote Speeches

Kim Dae-jung

Two years after signing the international rescue package agreement with the IMF, I am deeply grateful and relieved to be able to say that the financial crisis is over. But we cannot rest in the sense of relief. We must think through and put into action the lessons we have learned from the causes of the crisis and the ensuing pain and hardship.

The fundamental cause of the crisis was that our banks and companies had been made weak and unsound by the absence of genuine democracy. The failure to firmly establish market rules was another reason. Thus, the Government of the People declared the parallel development of democracy and market economy as its guiding philosophy.

As a result of successful reform in four major areas, namely, the financial, corporate, labor and public sectors, the Korean economy has recovered to the pre-crisis level in only one and a half years just as I promised at my inauguration.

<Accomplishments of the Past Two Years>

At then time when the crisis struck in late 1997, the foreign currency reserve was down to around \$3.9 billion. Now, at over \$69 billion, it is at a record high for the economy.

Early this year, international credit rating agencies elevated Korea's sovereign rating to investment grade, and are recently taking steps to further upgrade the rating. The debt-to-equity ratio of large business conglomerates is being reduced, to a target of under 200 percent by the end of this year, and business swaps in seven industrial sectors, when excessive and duplicate investments have led to eroding competitiveness, will be completed within this year. I have learned an important lesson from the economic crisis. When a determined and hardworking people join forces with a responsible government, there is nothing we cannot accomplish. Thus, Korea could overcome the

foreign currency crisis. But my people and I are not satisfied with or boastful of the results so far. If we become complacent, the crisis may return, and we will not be able to meet the tough challenges awaiting us in the new millennium.

In the policy orientation for the next three years, the first task is to further strengthen democracy. Korea must become a mature democracy on equal standing with the advanced countries of the world a genuine democracy that nurtures economic and social development.

Second, the reforms in the four key areas of the economy will be brought to their full and early completion. The banking sector must be consolidated with greater professionalism and financial soundness so as to fuel the smooth growth of the real sector. Included on the agenda for corporate reform is that the chaebol shed their fleet-style management style and concentrate their resources on core competitive areas of business. In the labor sector, we will nurture more productive labor-management relations, while public sector restructuring will continue for greater transparency and efficiency.

Third, in the age of the knowledge-based economy, every citizen must become a new intellectual, making the most of their minds to create new value for society and generate greater income for themselves. Toward that end, the government has enacted a law on life-long education to go into effect early next year, and will expand the vocational and job training system. Achieving a networked economy is among our priorities as well, with the construction of Korea's super information highway to be completed by 2002.

Fourth, a system of productive welfare will be put into place. For sustained economic prosperity, the living standards of the working classes must be enhanced and the middle class must be strengthened. The government has worked out a comprehensive package of measures to this end, including institutional guarantees for a basic standard of living, the boosting of the four major social insurance systems, and tax reform for fairer distribution of income.

If the Korean economy grows at an average rate of 6 percent in the next few years, last years per capita GDP of US\$ 6,800 will double to US\$ 13,000 in the year 2003. In the next four years, 2 million jobs will be newly created, cutting employment down to under 4 percent. As the Republics export competitiveness and surpluses in the international balance of payments increase, Korea will be able to maintain its envied position as one of the few net creditor countries of the world. The Korean governments deficit will gradually be reduced with the goal of balancing it before 2004.

As Korea strives to become a first-class society, it is also preparing to play a role in reducing the economic and social gap between nations and in promoting peace and well being for all humanity.

As a responsible member of the international community, Korea will be an unsparing and ready partner in sharing its experience of development and know-how with the other developing countries.

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In my remarks I would like to take a slightly different angle and focus on the role of education and knowledge. I am convinced that education and knowledge are very significant variables in the process of a nation's economic growth and development. In the case of Korea, education, widely provided, has weighed heavily in the development equation of the past 50 years.

35 Years of Strong Growth in the Economy and in Education

Korea's accession as the 29th Member of the OECD represented the culmination of 35 years of extraordinary economic and social development. Over this period, education was a high priority in Korea. The Education Law of 1949 introduced free compulsory education for primary school students, and the heavy investment in education by the public authorities led to a remarkable increase in the number of students. Today, Korean participation rates in secondary and tertiary education are among the highest in the OECD. The education system has fostered a population with the capabilities needed to build the industrial exporting economy that Korea has become.

Structural Weaknesses — In the Economy and in Education

While the economic crisis and its aftermath represent a very painful episode, Korea has turned this into an opportunity to begin to implement fundamental reforms touching nearly every aspect of the economy. The 1990s will also be remembered as the period when Korea began a comprehensive critical assessment of its system of education. Policy makers began to feel a more general concern with the quality and structure of the education and knowledge system had not kept pace with Korea's rapid economic and social transformation.

In 1994 the government established a President's Commission on Educational Reform to make proposals for comprehensive changes. It also asked the OECD to conduct a review of its education policy as well as the

proposals that would come from the Commission.

The OECD evaluation and recommendations formulated in 1996, focused on four major themes:

- Life-long learning
- Quality of learning at all levels
- Research and development
- A more decentralized system that could provide diversity of choice, increased competition and a greater role for parents and local communities in decision-making.

Since 1996, Korea has made rapid progress on almost all the OECD recommendations despite the financial crisis. Just two weeks ago, OECD's Education Committee looked again with Korea at its education system and applauded the efforts and results that have been achieved.

Economy and Education of the Future: Becoming a Creator of the New Economies

Under the leadership of President Kim Dae-Jung the vision of educational reform has expanded. The new government has made the New Education State one of its first priorities. Reform is no longer directed just at correcting shortcomings, but at the much larger objective of a rapid transition for Korea to a knowledge based economy.

The ambitious goal of the new government is to transform an education system that was geared toward training workers for mass production and labor intensive industries into one that nurtures integrity and creativity in professional manpower that can meet the challenges of the knowledge based society. The transformation will reach all levels of the education system.

The Korean Ministry of Finance and other Ministries have asked the OECD and the World Bank, working with Korean officials, and the private sector, to produce a report on Korea's Transition to the Knowledge Economy

that will complement the work Korea has already done. The OECD/World Bank report, due in June, will set a framework to review the issues and set priorities. It will investigate systemic issues related to human resources, information infrastructure, the innovation system and promotion of knowledge-based industries as well as broader questions such as economic incentives and institutions. It is intended to help Korea answer questions such as:

- How to obtain better results from its sizable investments in education and innovation.
- How to build institutions and rules of the games and reduce reliance on command policies and top down structures in both the public and private sectors.
- How to get Korea plugged into international innovation systems and reduce its insularity.

The OECD and World Bank will provide a synthesis of how other countries have dealt with problems similar to those Korea faces. The work will be oriented towards genuine implementation in Korea through broad participation of all social elements interested in education and the knowledge system.

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The crisis was a combination of a banking crisis and a balance of payments crisis, against the background of the end of an investment boom and bankruptcies of several major *chaebols*.

A number of structural weaknesses had built up in pre-crisis times. The financial sector suffered from inadequate supervision and prudential regulation while the corporate sector was characterized by excessive leverage, over-investment, and poor governance practices. Moreover, there was a lack of transparency in financial information; over-reliance on debt financing by corporations in lieu of a well-developed capital market; and insufficient commercial orientation of bank lending.

The strategy to deal with the crisis was worked out with the IMF, World Bank, and ADB and was implemented in two phases: First, the stabilization of the financial markets, and second, the initiation of a recovery in the real economy.

There has been some criticism of the high interest rate policy and the approach of immediately implementing structural reforms. With respect to the high interest rates, in such an emergency situation, there was no painless way of restoring confidence and stability in the exchange market. Stabilization was achieved by mid-1998, and recovery started early -- in the second half of 1998, and has turned out stronger than everybody had expected. As for tackling structural issues immediately, this was the right approach because structural weaknesses were at the heart of the crisis.

To correct the structural weaknesses, the government implemented a wide-ranging economic restructuring agenda. In the financial sector, initial measures for stemming runs on banks and the outflow of foreign exchange were followed up with a systematic restructuring program that has already gone far toward restoring a sound and resilient financial system. Steps taken

include the establishment of the Financial Supervisory Commission to guide the restructuring process and the reconstitution of KAMCO as an asset management unit. Non-viable institutions were identified and closed, while viable banks were recapitalized on the condition that banks provide recovery plans and shareholder capital is written down. Measures were also taken to initiate corporate restructuring and strengthen bank supervision.

In the corporate sector, major steps have been taken to improve corporate governance, promote financial transparency, strengthen the institutional and legal setting to facilitate corporate restructuring, and improve accounting standards. Of particular importance are the strengthened corporate governance practices, the improvement in bankruptcy procedures, stricter disclosure requirements, and the unwinding of cross guarantees.

The governments structural agenda has also included liberalization of capital flows, which help foreign participation in the corporate restructuring process, and further liberalization of the trade regime. Legislation has also been passed for greater labor market liberalization and a stronger social safety net.

Unfinished agenda in the financial sector includes the restructuring of investment trust companies; the privatization of government equity shares in commercial banks; rehabilitation of the insurance sector; and continued improvements in supervision and prudential regulations.

In the corporate sector, tasks not yet completed include the speedy and transparent implementation of the restructuring plans for Daewoo, the enforcement of the capital structure improvement plans for the other top five *chaebols*; strengthening the workout process for the 6-64 *chaebols*, and the establishment of guidelines for treatment of restructured debt to improve incentives of financial institutions, and the tightening of regulations on connected lending and limits on large exposure.

A great deal has been accomplished in a short period of time in stabilizing the Korean economy and putting it on a path of recovery. Structural reforms

have played a key role in this effort. The challenge in the period ahead is to build upon what has been achieved and maintain the momentum of reforms in the corporate and financial sectors so that Korea can take its due place among the group of industrialized countries.

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Although the economic crisis in Korea has affected almost all sectors of the economy and every socioeconomic and demographic group, the impact has been highly uneven. Some people have suffered more than others. Macroeconomic policies alone are not sufficient to reduce the suffering of those who have been severely affected. Using studies such as this one that provide detailed profiles of people who need to be helped, the government agencies can formulate a social safety net that will directly help those in greatest need. Since government resources are limited, an efficient targeting policy is absolutely essential.

Study results show that both male and female workers were adversely affected. The unemployment rate for males surged to 7.6% in 1998 from 2.9% in 1997, whereas that for females increased from 2.4% in 1997 to 5.6% in 1998. As a consequence of the crisis, there was a significant drop in the labor force participation rate, particularly among females. If the labor force participation rate had not declined, the unemployment rate would have been worse.

Of the 1.46 million unemployed in 1998, 3.74 million were short-term unemployed and only 0.15 million were long-term unemployed. The remaining 0.12 million unemployed were the new entrants to the labor market. This shows that the unemployment problem in Korea is of a short-term nature.

The impact of the economic crisis has been much more severe on the long-term unemployed. These people obviously suffer from a greater degree of hardship. It is important that the government policies give priority to eliminating the sufferings of these people. Fortunately, the number of long-term unemployed is much smaller compared to the total number of unemployed and, therefore, not many resources will be required to provide them employment.

The economic crisis has led to a significant reduction in unemployment among the new entrants. It seems that under the pretext of the crisis, many firms are replacing the inefficiently employed labor with the new entrants to the labor market. This is a common phenomenon in the developed industrialized countries during recessionary periods.

Economic crises generally contribute to job insecurity which may result in a greater incidence of sickness. This has not been the case in Korea, although it should be noted that absenteeism due to illness has been growing significantly at an annual rate of 3.8% between 1990 and 1997. This has serious implications for the workers wellbeing and needs to be explored further.

The economic crisis has contributed to a significant increase in workers absenteeism due to labor disputes. This outcome is expected when enterprises are attempting to reduce their workforce.

Prior to the crisis, Korea's rapid economic growth was accompanied by a significant declining trend in working hours, as the benefits of high economic growth were flowing to workers in terms of greater leisure. The economic crisis has led to a significant reduction in working hours also. However, this reduction is involuntary, resulting in lower earnings. The magnitude of reduction is more for males than for females.

During the pre-crisis period, the total employment in Korea was growing at an annual rate of 2.14%. The growth was due to the increase in urban employment. Urban employment has been growing at an annual rate of 3.49%, a pace which outweighs the annual decline in employment in rural areas by 2.02%. Thus, the share of rural employment has been declining rapidly. This has serious implications for the crowding of urban centers.

Korea is a highly educated society. Two-thirds of the employed workforce have a high school or university education. The number of employed having less than a primary education has been declining at an annual rate of 3.7%, while the number of people employed with a university education has been

increasing significantly at an annual rate of 7.87%. The economic crisis did not significantly reduce the employment among the university-educated labor force.

The rate of youth unemployment has become quite serious. As a consequence of the crisis, the unemployment rate for the age group 15-19 years soared to 20.7% in 1998 from 10.8% in 1997. The high unemployment rate among the youth should be given more careful attention from the government.

The largest group of employed people are the regular employees. For instance, in 1997, 7.1 million people were employed as regular employees. This number was substantially reduced in 1998 to 6.44 million, an 18.21% drop, due to the crisis. The impact of the crisis was even greater on the employers. This group saw a 19.55% cut in employment as a result of the crisis.