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Korea–FSB Financial Reform Conference

Dinner Keynote Speech

**Envisioning a New Financial System
: An Emerging Market Perspective**

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Grand Intercontinental Hotel

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Financial Services Commission

The speech transcript below is provided for the convenience of the press. Please bear in mind that there may be slight discrepancies with the actual contents

I . Welcome & Introductory Remarks

Good evening, ladies and gentlemen!

I would first like to welcome distinguished participants and guests who made long journeys to be here today.

I also extend special thanks to

Nout Wellink, Chairman of the BCBS;

Gordon Bajnai, former Prime Minister of Hungary, and

Dionisio Borda, the Treasury Minister of Paraguay;

Heng Swee Keat, Managing Director for the Monetary Authority of Singapore;

Njuguna Ndung'u, Governor of the Central Bank of Kenya.

Martin Wolf, Chief Economics Commentator for the Financial Times;

Many have called the latest global financial crisis the worst since the Great Depression.

And, yet, the term “Depression” hardly came up in our public discourse.

Some may attribute this to our collective taboo or some technical necessity.

But many would agree that the worst-case-scenario like a depression did not materialize this time.

In no small measure, the absence of depression is due to the growing role that emerging markets in Asia and elsewhere now play in driving global growth.

In fact, many experts contend that Asia will be the engine of global economic growth for the foreseeable future.

In light of this, it's essential that the voice of emerging markets be heard at the G20 Initiative, which will shape the global financial system for decades.

A realigned global economic order without the participation or support of the emerging countries would be a half-success at best.

And this is of course a main goal for us in hosting this conference.

It is my hope that this conference helps those in advanced economies to better understand emerging markets' perspectives.

Let me now say a few words about what lessons Asia should draw from the two crises in the past decade or so.

I will then offer my thoughts on the global financial crisis and regulatory reform from the perspectives of emerging countries.

II. Two Crises & Korea's Experience

Looking Back at the 1997 Asian Financial Crisis

The financial crisis dealt a heavy blow to the major economies of the world.

A decade earlier, the same pain was felt throughout Asia.

Some in Korea even went so far as to claim the financial crisis of 1997 the worst calamity in Korea's 5,000-year history.

Koreans of course came together to recover from it, willingly giving up their gold in a nationwide campaign so that it could be traded for much-needed hard currencies.

On the bright side, the 1997 crisis set in motion a wave of reform to address long-neglected structural problems hidden behind Asia's rapid growth.

In short, it was also a time of economic revitalization and renewal.

The reform drive affected just about all segments of the Korean society, triggering broad-based political and socioeconomic transformations.

Restructuring in the corporate and financial sectors has been especially strong and successful.

All in all, we certainly had our share of failures, but we learned some valuable lessons in the process as well.

And I believe our post-1997 crisis achievements speak for themselves.

2008 Global Financial Crisis & Asia's Fast Recovery

To some extent, this explains the relatively quick recovery of Korea and other Asian economies from the latest financial crisis.

As a result of a relentless, decade-long restructuring, Korea is now home to world-class manufacturing industries that drive a vibrant real economy.

Our post-1997 crisis reform in the financial sector put the utmost emphasis on prudence and soundness.

So it should come as no surprise that no large-scale risky leverage or asset deterioration occurred in Korea.

Lessons & Implications from the Two Crisis

Now, there are some important differences between the 1997 crisis and the latest crisis in terms of underlying causes, impact, and economies involved.

From Asia's perspective, this was a crisis that did not originate from within, but from outside.

And its impact was largely limited to distress in the foreign exchange sector.

However, fundamentally, the two crises do not differ greatly in the fact that they both arose from systemic risk due to excessive leverage.

And the lesson from both is that it's essential to keep an appropriate balance between the real and financial sectors.

The second lesson is that emerging economies remain vulnerable to external shocks and that no single country can cope with them alone on its own.

What the crisis made clear once again is the need for a global financial safety net to ease the vulnerability of emerging markets to external shocks.

III. The Future of Financial Regulation & Emerging Markets' Perspective

Ladies and gentlemen!

The lessons Asia learned from the two crises must be taken seriously as we reform the global financial system.

Financial Reform: Assessment & Future Directions

Korea agrees with the general direction that the G20 financial reform is headed.

But there is a concern that the reform agenda so far has not adequately taken into account issues of emerging economies.

And if we fail to accommodate the needs of emerging markets and non-G20 countries, we may well end up with less-than-widely accepted regulatory reform.

A case in point may be the issue of emerging markets' financial sector capacity building.

Although emerging markets do aspire to international standards, many are impeded by poor or inadequate financial infrastructure.

So, capacity building for these markets must pick up in parallel with global reform efforts.

On issues such as systemically important financial institutions and cross-border resolution, there is also a sense of the major countries framing the debate.

For emerging economies with still-developing financial markets, it will be a major challenge to embrace and implement the proposals now on the table.

Finally, I also see a need to expand the participation of emerging market regulators in supervisory college for cross-border financial firms.

We know that emerging economies' market share tends to be rather low.

But if a financial company is systemically important to a country's financial markets, then we believe it should be allowed to take part in surveillance.

FSB Outreach & the Way Forward for the FSB

For these and other reasons, we have high hopes for the “FSB Outreach” that the G20 agreed to at the Toronto Summit.

You may say that the FSB has been playing the role of a base camp for regulatory reform.

In carrying out its G20 mandate, it has also become one of key pillars of the international financial system.

And as the FSB broadens its role, I hope to see continued efforts to fulfill its mission as a truly multilateral institution, not one led by a select few.

The FSB outreach is very much a step forward in this direction.

And I hope it paves the way for more balanced participation of emerging countries in the global discussions.

Korea's Role as an Honest Broker

Ladies and gentlemen!

In the 1950s, Korea was one of the world's poorest countries, in complete ruins after a devastating war.

And, yet, in just 60 years, it has transformed itself as one of the world's most successful and largest economies.

I believe that our unique experience enables us to serve as an honest broker that can bridge the gap between the emerging and the advanced economies.

Since joining the FSB, we have stressed our experience with past crises and brought the perspectives of emerging economies into the global reform process.

I would point to the inclusion of global financial safety net in the G20 agenda as one of the early successes of Korea's leadership for emerging countries.

Let me also note that Korea will continue to promote capacity building of emerging markets by sharing our experiences and know-how, in particular on financial sector reform.

I have no doubt that this will contribute to emerging countries' effort to modernize their financial systems and prevent future crisis.

IV. Concluding Remarks

I have spoken about the lessons Asia has learned from two crises and our approach to global regulatory reform.

Financial crises appeared many times in the 20th century and reforms followed each one.

But I do believe that this time is really different.

It's not so much that the nature of the crisis has changed.

But it's that there is enormous global policy coordination and commitment to deal with it.

So I believe that, this time, we are truly ready to produce genuine global financial reform.

This conference is an important step in facilitating G20 reform agenda and ensuring the most successful financial reform effort in history.

With that, I again thank all of you for taking time from your busy schedules to join us here in Seoul.

Thank you.