Enhancing Capacity of Industrial Restructuring in the Process of Globalization: S. Korean Case Lessons and Challenges

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I. Introduction

Korean Government efforts toward restructuring were concentrated in the corporate, the finance, the labor, and the public sectors.

Government-initiated efforts were targeted at reforming Korea's long lasting high-cost-low-efficient economic system. In theory, reform policy as such face stake- holders' militant resistance. Korean case, however, had to meet one more challenge. Asian economic crisis began in end 1997 and became overriding issues in Korea which faced massive unemployment in 1998. Thus Korea had to proceed with economic system reform under the economic and finance crisis.

On the other hand, DJ Government emphasized value of 'Democracy, Market Economy, and Productive Welfare' as governing philosophy from its inception, and therefore, market principle as well as democratic way of decision making was recognized as governing principle on which undertaking of the industrial restructuring is based.

I will briefly elaborate on Korean government's restructuring efforts in the four areas. I'll compare the two different first half and second half DJ's government policy. And then, I'll suggest policy directions for the future and touch upon lessons and challenges to wrap up my presentation today.

II. Korean Government's Restructuring Efforts in Four Areas

1) Overall observations

Until the economic crisis, Korea had enjoyed 35 years of high growth that had transformed it from one of the poorest nations in the world to the 11th largest economy. Out of those 35 years, the 15 years in particular prior to the economic financial crisis in end 1997 were years of unprecedented growth for Korea. Per capita GDP grew at 7.5% per annum, life expectancy rose by 20%, and enrollment close to 100%. Beginning in November 1997, Korea underwent a devastating economic crisis. Socio economic symptom of high-cost-low-efficiency was erupted under the crisis phase, which was evidenced by such phenomena as increased job insecurity, rising poverty, and deepened inequality.

Such socio economic symptoms were mainly due to a number of flaws and their weaknesses in its economy. As recognized even by the Korean Government in 1999, these were summarized as follows:

Development of a market economy was seriously hindered, as the government became increasingly bloated and unresponsive to demands for reform. The economy was hampered by collusive ties between government and businesses, arbitrary regulations and corruption…Over the past thirty years of accelerated economic growth, former governments were deficient in developing the rules and principles of a market economy, failing to implement structural reform policies consistent with the changes in the international environment.[1]

The failure to develop the institutions of a market economy was reflected in the close links between government and business, which created a web of implicit guarantees. The "too big to fail" mentality represented a severe moral hazard that resulted in excessive risk-taking, over-investment and insufficient attention to credit and exchange rate risks. These weaknesses made Korean vulnerable to contagion when the 1997 crisis spread through Asia.[2]

Korea's response to the crisis included a wide range of structural reforms to establish a more market-oriented economy. The determination of the Kim Dae-Junggovernment in implement these reforms helped Korea to regain international confidence, laying the groundwork for an early and strong recovery from the crisis. However, establishing the institutions and principles of a market economy is a long-term project that goes far beyond changing laws and regulations.[3]

2) Reforms in the corporate sector

The corporate sector was at the heart of the 1997 crisis. The chaebol-based model of wide diversification into capital-intensive industries through debt-financed investment, which had produced rapid growth in the 1970s and 1980s proved to be ill-suited for a more integrated global market in the 1990s. By the end of 1997, a surge in investment to boost capacity had raised the debt to equity ratio for the thirty largest chaebol to 519 percent, imposing onerous debt service costs on corporate cash-flow. These costs accounted for 17 percent of total business costs. By mid-1997, rising financial costs exceeded operating profits, which were subdued by slower growth and the decline in terms of trade. This contributed to a 50 percent jump in the number of bankruptcies in 1997, including

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[1] DJnomics: A new foundation for the Korean economy, Ministry of Finance and Economy (1999)

[2] For more details on the origin of the crisis, see Chapter I of the 1999 OECD Economic Survey of Korea.

[3] Randall S Jones, Economic Restructuring and Institutional Changes in Korea in the Wake of the 1997 Crisis, International Symposium Economic Reform and Future Agenda: Four Years after Korea's Economic Crisis, February 21, 2002, Korea Development Institute, Seoul, Korea.

seven of the thirty largest chaebol. Factors such an inadequate corporate governance framework a lack of transparency, weak competition in product markets, moral hazard problems and a financial sector that failed to exert sufficient discipline over firms, contributed to problems in the corporate sector.

For improvement of the corporate governance framework and transparency, following measures have been taken:

- Improving transparency: international accounting standards were adopted in 1998 and the chaebol were required to prepare combined financial statements beginning in 1999.
- Shareholder rights: minimum share ownership requirements to exercise shareholder rights have been reduced, while the scope of decisions requiring shareholder approval has been expanded.
- Board of directors: the fiduciary duty of company directors (including de facto directors) was established and their liabilities for failing to fulfill that duty was increased.
- Outside directors: at least a quarter of corporate boards now consist of outside directors, who have important responsibilities, including membership on the audit and nomination committees.
- Holding companies: the creation of such companies was allowed and the conditions have been gradually eased.

Code of Best Practices was introduced in September 1999 to improve the corporate governance framework. The Korea Stock Exchange requires listed companies to disclose to what extent they meet these practices.

Additional, but the most important measure was the elimination of the Import Diversification Programme, which had restricted imports of certain items from Japan in an effort to reduce the bilateral trade deficit. 924 items were restricted. Due to the government's encouragement policy the government's encouragement policy, the stock of foreign direct investment in Korea doubled between 1997 and 1998 as annual inflows rose from less than $4 billion in 1996 to over $15 billion in both 1999 and 2000. Meanwhile, competition policy was further strengthened by the Korea Fair Trade Commission and thus statutory authority for 17 cartels was eliminated. Beginning in April 1998, one-half of the existing 11,125 regulations were eliminated over a one-year period.

3) Reforms introduced in the financial sector

A first step in the establishment of a market-oriented financial system was the closure of nonviable institutions. Since the crisis, the number of commercial banks has fallen from 26 to 15, while all but three of the thirty merchant banks have disappeared. Overall, the number of financial institutions fell by a quarter.

For a market-oriented financial system to be institutionalized, prudential standards should be upgraded. In this vein, the Financial Supervisory Commission was set up as an independent and unified body covering banking, insurance, non-banks and the capital market.

To address the problems of non-performing loans and the under-capitalization of financial institutions, prompt action was taken. As of December 2001, the government spent a total of 155 trillion, which amounts to 30 percent of GDP.

About half was used to rehabilitate the banking system, while the remainder was spent on investment trusts, merchant banks and insurance companies.

4) Reforms in the labor market and the social safety net

The degree of labor market flexibility has been a major concern in Korea. In OECD area, Korea was ranked the second strictest in terms of protection for regular workers. At the same time, the social safety net was quite limited. Unemployment insurance covered only firms with more than thirty employees, or about a third of all employees. Social welfare provided assistance to about 4 percent of the population.

In February 1998, the labor law was revised to allow firms to reduce employment for "urgent managerial reasons", including mergers and acquisitions. However, new conditions were imposed on companies wishing to resort to layoffs, including a requirement that they have sixty days of discussion with workers' representatives and notify the Minister of Labor in the case of large layoffs.[4]

There has been progress in improving the social safety net through expanding the Employment Insurance System. Coverage has been extended to about three-fourths of all employees, leaving only some part-time and daily workers, elderly employees and government workers outside the system. One thing in particular in Korea was that the government sharply increased vocational training and public works jobs in response to the sharp rise in unemployment in the wake of the crisis.

5) Reforms in the public sector

Public sector reform has focused on the restructuring of the government, the privatization of the state-owned employees and measures to make the budgetary process more transparent. Between the beginning of President Kim's term in February 1998 and January 2001, the number of civil servants at the central and local government level fell by 66,000 or 16 percent.[5]

Moreover, restructuring reduced the number of ministers from 23 to 19, while 219 offices disappeared. As outcome of the policy to increase the efficiency of the public sector, more than 10 percent of high-level government posts have been filled with specialists from the private sector. In addition, a performance-based wage system was introduced for civil servants. On the other hand, the government set up an "Anti-Corruption Committee" in January 2002 to eradicate corruption in the public sector.

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[4] The thresholds for reporting layoffs are:

More than ten regular workers in a firm with less than 100 employees.

More than 10 percent of regular workers in a firm with 100 to 999 employees.

More than 100 regular workers in a firm with more than 1000 workers.

[5] One factor was the reduction in the retirement age for teachers from 65 years to 62 years in 1999. These led to the retirement of 25,000 teachers that year.

The government has also made progress in privatizing state-owned employees. Of the 11 identified for sale to the private sector in the 1998 plan, seven have been sold. They were Pohang Steel and Iron Corp, Korea Heavy Industries and Construction Corporation, Korea General Chemical, Korea Technology and Banking, National Textbook Corporation, Korea Tobacco and Ginseng Corporation and Daehan Oil Pipeline Company.

Including the elimination of subsidiaries, the number of state-owned employees has been reduced from108 to around 70. This has transferred approximately 30,000 workers into the private sector, while efforts to raise efficiency have eliminated another 40,000 posts. In consequence, employment in state-owned employees has been reduced by a third from its 1998 level. And at the same time, the governance of the remaining state enterprises has been improved by increasing the autonomy of managers and strengthening the role of the board of directors.

III. Comparison of the First-half and the Second –half Policies

The Kim DJ Government's restructuring efforts are composed of two parts: one during February 1998 –August 2000 and the other during August 2000 – February 2003. Kim DJ five-year term was divided into two phases and reshuffling the cabinet on August 7, 2000 became the cutting point.

Let's compare the performance of the first-half and of the second-half economic policies. Comparison of the two phase economic performance requires background knowledge on the distinctiveness of economic policies emphasized by the different phases under the same DJ KIM administration.

The first phase economic policies: Tracing the fundamental cause of the crisis uprising in end 1997 to structural weakness and pervasive moral hazard problems in the Korean economy, the DJ KIM Government attempted every effort at overcoming the financial crisis, but at the same time in the context of policy emphasis of the four; how to foster market economy through restructuring, how to ensure transition toward a knowledge-based economy, how to reinforce the productive welfare system, and finally how to smooth economic cooperation between the South and the North Korea.

To be very in brief, fundamental structural problems, together with the Southeast Asian crisis, triggered the loss of investor confidence in the Korean economy, eventually leading to capital flight, depletion of foreign exchange reserves, and the sharp depreciation of the domestic currency against the U.S. dollar. Moral hazard problems were mainly due to lack of market discipline.

The irresponsible management of conglomerates laden with excessive debt caused a chain reaction of bankruptcies. Accordingly, the number of unemployed skyrocketed from 560 thousand in 1997 to 1.46 million in 1998. The living standards of middle- and low-income earners deteriorated, with per capita GNI plummeting by nearly half from US$10,307 in 1997 to US$6,742 in 1998.

Korea was forced to make an official request to the IMF for an emergency loan on November 21, 1997. The Government has had regular Economic Program Reviews with the IMF ever since, resulting in a reduction of its discretionary power range to autonomously manage the economy.

The first round of restructuring under the Kim DJ administration from 1998 to 1999 focused on laying the legal and regulatory foundation for reform processes.

Let us briefly touch upon major focuses in the financial, corporate, and labor and public sectors.

In the financial sector, injection of public funds and disposal of insolvent financial institutions were the major mechanism through which soundness of the sector was improved. A total of 472 non-viable financial institutions had been disposed of through M & A, asset purchase and liabilities assumptions, or liquidation as of June 2000.

By strengthening prudential regulation of financial institutions and the monitoring of credit systems, on the one hand, and by introducing various prompt corrective actions based on follow up of recommendations, requests, and order, the government sharpened the sector's competitive edge and helped prevent the financial insolvency of some institutions, on the other. Introduction of the international standard 'Forward Looking Criteria,' which is responsible for setting forth borrower's future redemption capabilities, has helped recognize potential future losses in the financial sector.

In the corporate sector, the corporate accounting system was upgraded to be in compliance with international accounting standards while combined financial statements were adopted. Transparency and accountability have been reinforced and thus, corporate governance was enhanced. All listed companies are now required to appoint outside directors and an External Auditor's Nomination Committee is required to be set up. By law, misbehavior by outside auditors and accountants are prosecuted.

By laws and regulations, the restructuring process for corporate closure was simplified. New laws were introduced to cover the abolition of mandatory tender-off system, the easing of restrictions on M & A by foreigners, and surtax exemptions for restructuring companies.

In effect, the financial structure of companies and their business performance were improved. The average debt-to-equity ration of the top four conglomerates fell to 173 percent at the end of 1999 from 352 percent a year earlier. Further, net income of listed manufactures increased to 10.7 trillion won in 1999 from a net loss of 12.3 trillion in 1998.

In labor and public sector, Tripartite Committee among government, labor and management was set up as a dialogue and auditing body for a labor reform. Public sector reform tried to secure productivity and managerial efficiency through the privatization of state-owned enterprises, active pursuit of e-government, and the reduction of government entities.

The government has been moving forward structural reforms during the second phase which has focused on reviewing and correcting the behaviors and practices of economic agents in conformity with market principles to enhance transparency, efficiency and fairness in the economy.

Core Tasks in Progress during the Second-Half Phase

The second phase emphasized the following six policy priorities:

- Rearrangement of Financial Systems and Strengthening of its Competitiveness
- Completion of Corporate Restructuring
- Continuous Enforcement of Labor Reform
- Acceleration of Public Sector Reform
- Remedying Unfair Transactions
- Continuous Deregulation in the Public Sector

Rearrangement of financial systems has been continuously under way. If we take a few examples, it has focused on financial restructuring, reforming financial infrastructure, establishing holding companies in an attempt to enhance competitiveness of financial institutions, preventing credit crunches, and enacting laws to deter money laundering.

To accelerate financial restructuring, in line with individual reports on banks provided by a Management Evaluation Committee, independent financial restructuring programs by banks were established. Market infrastructures were improved by strengthening sanctions on disclosures of wrong and/or false information, and bond markets were energized.

To perform the task of corporate restructuring, the government accelerated disposals of troubled firms under work-out programs, court receivership and composition programs. Since June 1998, 83 firms were under workout programs. Out of them, as of August 2002, 47 firms graduated. 15 firms were either under court receivership or under liquidation. 21 firms are now under workout programs.

Business swaps among top five conglomerates were continuously encouraged. The workout systems were improved through the introduction of systems of pre-packaged bankruptcies and corporate restructuring vehicles to accelerate the exit of ailing companies from the market.

Labor reforms have been the hottest and toughest issue. Key issues surround the proposed introduction of a 40-hour workweek and a five-day work-week. The issue of compensation for reduced working hours and paid leave is still in a string of labor-management-government negotiations. Management agreed to grant 10 days of paid leave to workers after six consecutive months of employment, in exchange for the abolition of the ‘menstrual leave’ granted to female workers one day per month.

The shortened workweek was expected to begin July this year, starting with the public, financial and insurance sectors and large firms with 1,000 employees.

By January 2010, the system was expected to be in place in all sectors, including small firms with less than 10 employees. Labor and management have agreed upon the new system's introduction to temporarily raise the ceiling on overtime to 16 hours per week and pay workers a 25 percent premium rate for the extra four hours.

Labor and management, however, have yet to reach a compromise regarding paid leave. Labor has insisted that workers are entitled to financial compensation for work on holidays, while management wish to be exempt from this obligation. Recognizing the need to improve the quality of workers' lives, labor and management agreed in October 2001, to reduce the legal working hours to 40 from the current 44. Talks, however, have proceeded slowly as both sides held to their positions. Reduction of the number of national holidays, currently 52 per year is another issue under hot debate. The government, with help from public interest groups, try to introduce a five-day workweek this year. [6] According to the revised bills to be submitted to the National Assembly for approval Fall this year, the new workweek will be phased in at companies with 500 or more employees in July 2004 and smaller firms by July 2006. The bills would cut the legal workweek to 40 hours from the current 44 hours, and limit annual paid leave to 25 days. It would also stipulate that the base pay of workers not be reduced because of the fewer working hours.

Public-sector reform has focused on the restructuring of the government, the privatization of the state-owned employees and measures to make the budgetary process more transparent. The overall scheme for privatization was designed in 1998. Under the scheme, the first phase was focused on holding companies while the second phase was on their subsidiaries. Out of the 11 identified for sale to the private sector in the 1998 plan, Four companies remain from the 1998 privatization plan. Government-owned enterprises such as Korea telecom and Gas Corporation are under privatization or will be. E-government is being promoted as an essential new government paradigm. Double-entry bookkeeping accounting systems will be introduced to the government sector for promotion of transparency and efficiency of financial management.

For remedying of unfair transactions, unfair inside trading among conglomerate's affiliates was eradicated. By promptly remedying off-line business' practices hindering e-commerce, efforts to protect consumers are and will be strengthened.

Deregulation in the public sector was and will be under progress. 71 percent of all 11,125 public administration regulations have already been deregulated in 2000. As of 2002, the original plan was almost completed.

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[6] Korean government said on Sept 5, 2002 that starting in July 2003, public corporations, finance companies and other firms with 1,000 employees or more will be registered to operate on a five- day work week.

IV. Policy Directions for the Future

While Korea has made progress in industrial restructuring, it will take more time to transform the current economic structure into a well-functioning market economy. Effective implementation of this framework requires additional human capacity building and changes in the behavior of economic agents. Generally speaking, Korea has changed the hardware to some extent while Korea is now facing another tough task of changing the software.

1) The Corporate Sector

Issue is how to institutionalize a market economy in which pressures from shareholders and creditors against competition and the threat of bankruptcy discipline corporate behavior are coordinated within the framework and thus the need for government intervention is reduced. As noted, Korean government has played an active role in Korea's development. Under the KIM DJ administration who has prioritized the value of market economy and democracy, some markets had ceased to function effectively, thus creating a need for government intervention. In consequence, Korea has come up with the paradox of the government using interventionist policies at the same time that it has made efforts to create a market economy.[7]

The role of corporate governance needs to be strengthened. Randall S Jones (2002) suggests three points for Korea's future consideration. Firstly, Korea should enhance the role by institutional investors in corporate governance. Secondly, the structure of government's principal ownership of banks should be changed and to be privatized. Thirdly, the corporate governance framework needs to be changed to ensure that the possibilities for shareholders to gain compensation for misconduct by management are expanded.

2) The Financial Sector

Problems in the corporate sector are inextricably intertwined with those in the financial sector. Another words, the financial system cannot be put on a sound footing as long as the degree of credit risk and instability in the corporate sector remains high.

For future directions, we have two, but very important points. Firstly, financial institutions should further improve credit risk assessment and lending practices and take an aggressive stance on asset quality to promote the restructuring of the corporate sector. In response, "forward-looking criteria" system by Financial Supervisory Commission (FCC) is now under implementation, future repay capability assessment of which should help to expedite corporate restructuring in Korea. Secondly, the privatization of

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[7] One example was the across-the-board 200 percent debt to equity target imposed by the government. While reducing debt was clearly appropriate, the imposition by the government of a uniform target, regardless of the nature of the company, was hard to justify.

commercial banks should be a priority. As a result of capital injections since 1998, 62.5 percent of the banking sector's capital was in the hands of the government in June 2001. This has posed an obstacle to bank-led restructuring of the corporate sector. Take Hynix, an internationally well-known semi-conductor, for example. The top four creditor banks for Hynix are government-owned, which put the government in the centre of difficult restructuring case. In sum, the government has announced plans to launch sales of its bank stakes and complete the process over the next three to four years. Thus, privatization is essential to avoid delaying bank-led restructuring of the corporate sector.

3) Labor market and the social safety net

Several concerns are related to the labor market. Firstly, there has been rising trend of the proportion of non-regular workers. Under Korean definitions, regular workers are those who work more than one year at a firm and are paid standard wages, plus bonuses and overtime. On the other hand, non-regular workers are those who work for a determined length of time, such as temporary workers and daily workers. According to OECD statistics, 29.7 percent of the labor force was classified as regular workers in 2000. One implication of the rising trend of non-regular workers in Korea is the degree of the relationship of the trend to that of job precariousness. Considering that temporary workers can remain at the same firm on a semi-permanent basis, we can't prejudge the relationship as always negative until we have most up-dated empirical research.

Secondly, the rising trend of the proportion of non-regular workers has contributed to the increase in the monthly labor turnover rate from 4.5 percent in 1998 to 5.6 percent in 2000. High turnover rates possibly result in relatively short average tenure of workers, with negative implications for firm-based training. Thirdly, because of the nature of disqualification for the retirement allowance and lack of coverage by the Employment Insurance System, non-regular workers tend to be attractive to firms. This tendency is related to the issue of economic efficiency and equity in the labor market.

A second concern is the adequacy of the social safety net in Korea. The seven year-long inception of the Employment Insurance System in Korea and the increasing coverage, despite the fact of positive aspects as such, raise the question of adequacy. Two things are involved: one is that such rising trend has not contributed to mitigation of the opposition of workers to structural change; the other one is that the number of recipients has decreased rather than increased due to the strict eligibility requirements based on age and the number of years of contribution, and thus questioning the degree of compliance of firms with the System.

A third concern is with industrial relations, in particular, in the context of the importance of enhancement of the labor market functionality. So far, under the KIM DJ administration, Tripartite Commission among the government, management, and the labor has been recognized as key entity to deal with issues of labor market as well as industrial relations in Korea. Government initiative or intervention didn't contribute to smooth undertaking of labor reform. It might have been possible that such direct commitment creates rationale for short-sighted egoistic strategy buildingby labor and management. Thus, government's non-intervention policy needs to considered seriously.

4) The Public Sector

Issues of National Pension System (NPS) and aging –related expenditures and health care are important.

The current NPS has some aspects of weakness. Firstly, combined with the retirement allowance, pension costs would exceed a quarter of the wage bill, with likely negative consequences for labor markets and potential growth.[8] Secondly, To sustain the NPS, rise in the contribution rate is required. Low level coverage of the self-employed and their under-reporting of their income are an obstacle against more participation. Thirdly, lack of linkages between NPS and the occupational schemes limits labor mobility and high proportion of assets in the pension fund poses risks.

NPS doesn't begin paying regular pensions until 2008. Korea has opportunities to address these weaknesses. Pension reform should aim at increasing the role of private sector savings for retirement, expanding coverage and limiting contribution rates to around 15 percent.

Aging-related expenditures concerned, I can say that Korea's overriding tendencies, increasing participation of women in the labor force and the smaller number of children per family and the traditional pattern of elderly care, should be considered to be complemented by a larger government role.

V. Lessons and Challenges

Korea has tried to implement the new market-oriented framework and accelerate public, corporate, finance, and labor restructuring, combined with policies to ensure macroeconomic stability in the long run.

These policy directions and focus have helped Korea maintain high growth rates, on the one hand, and left rooms for further progress, on the other.

Korea's rapid economic growth, which averaged 7½ percent between 1970 and 1997 and at the same time, substantially narrowed the income gap with some advanced countries. Such trend of economic growth appears in good shape though Korea is in need of better policies to cope with the following challenges:

1) Korea initiated a comprehensive multi-faceted reform package that was

8 It is projected that the contribution rate for the NPS will rise up to over 17 percent over the next few decades to provide the average income worker with forty years of contributions a pension equal to 60 percent of his or her average lifetime wage.

characterized by a simultaneous implementation of the four-sector reforms including corporate, financial, labor, and public sectors. One result of such efforts is that the extent of accomplishments turned out to differ among different sectors. So the question is why some sectoral reforms succeeded while others did not? Was it because of the different initial conditions of the globalization state of the sector or because of the different reform efforts by the government? The future policy options should consider the two factors at the same time, and for efficient consideration of them, sector-specific assessments on the hitherto undertakings are required.

2) In principle, crisis management is different from crisis prevention. The overriding evaluation is that Korea performed well in managing the crisis. Does it mean, however, that Korea is safe enough to prevent crisis recurrence? The answer is of course not. Effective implementation of a well-functioning market economy requires favorable macroeconomic conditions, structural strength, economic performance, and desirable changes in the behavior of economic agents. Here we need thorough analysis of the current state of Korean economy, which should be assessed based on the perspective on competition of each factor described above.

After the financial crisis, out of the injected public funds for financial restructuring, the amount of public fund’s principle that has to be reimbursed in the next 25 years estimates up to US$18 trillion (\212trillion and 100billion). Korean government officially estimated that out of US$18 trillion, portion of ordinary people’s share of repayment would be US$15 trillion (\174trillion and 600billion).

The government suggested a plan that the government’s estimate for reimbursement would be between US$0.4 million (\4 trillion and 300 billion) to US$0.4 million (\14trillion and 500 billion) every year until year 2027.

The economic crisis that Korea faced in end of 1997 taught us many lessons, particularly on the issues of transparency, accountability, and equitable stakeholder participation. Based on these lessons, Korea founded Fair Trade Commission, SFC and Tripartite Commission in 1998. Down the road, they have played and will play important roles in having the cause of industrial restructuring reflected in a wide range of Korea’s on going and future development.

Before I wrap up my presentation, I have four more, but with brief discussion.

First, on the role of institutional investors in the stock market, the size of the pension fund itself is not small in Korea. Nevertheless, their role has been small because of the heavy regulation by the government. Now it is considering to relax the regulation so that, for example, the pension can move freely for stock investment, which remains to be seen.

Second, moral hazard problem. Under the current context where the foreigners’ share in the stock market reaches almost 40%, government’s provision of rescue packages for weak companies can uplift the issue of moral hazard problems. Pro and cons are possible. More important thing is, however, we'd better assume that the market determines whether the package or provision of it is appropriate.

Third, institutional and structural restructuring can't be achieved without finding ways to secure qualified personnel. What Korea should do from now on is make sure of the success of both human and institutional capacity building.

Fourth and final, industrial restructuring must go hand in hand with enhancement of employability of the displaced workers. For further success of Korean Employment Insurance System and Social Safety Net, combination of labor market and education market is required.