ECONOMIC RECOVERY: An opportunity missed?

SONIA TAN

Market-based financing rather than the government will push reform in Korea's financial system, says Dr Root in his book, Korea's Recovery: Don't Count on the Government.

PUTTING OFF REFORM

- Many insiders doubt that the Korean bureaucracy is ready for reforms that would trim its control over the levers of economic decision making.
- During the crisis, the overall condition of the economy was everybody's concern and this provided a window of opportunity to seek a coordinated solution.
- But the quick recovery has led separate interest groups to feather their own nests while ignoring the plight of the nation.
- The Korean government has not enjoyed enough support to implement the comprehensive reform programme envisioned by President Kim.
- Without coordinated political reform, brokered by well-organised political parties, progress in legal reform is likely to be piecemeal and haphazard.

SOUTH KOREAN ECONOMY

Thirst for funds will push change

By **NARENDRA AGGARWAL**

MARKET forces and the need for capital are factors that will push change in Korea's financial system, as banks in the country will no longer be the key source of investment capital, says the director of a US think-tank.

Dr Hilton Root, director of Global Studies at the Santa Monica, California-based Milken Institute, said the Korean economy had been quick to recover and was back at the pre-crisis level, but this had unfortunately reduced the urgency for financial reform, and for the state to divest its vast capital holdings.

In an interview with The Straits Times, Dr Root said: "The crisis provided a window of opportunity to seek a coordinated solution since the overall condition of the economy was everyone's concern."

But the country's quick recovery may have eliminated that opportunity as each interest group focused on its own well-being, resulting in social and political fragmentation, said Dr Root who was in Singapore for the Asia Development Forum, organised by the Institute of South-east Asian Studies last week.

Dr Root, who has just published a study entitled "Korea's recovery: don't count on the government", felt that the regional focus of the recent parliamentary election reflected this fragmentation.

No consensus emerged on a reform agenda needed to dramatically restructure the economy, he said.

He pointed out that following the collapse of Korea's banking system well over half of the country's capital assets were now owned by the government.

What was worrying was that "there is no clear programme for divestment" and this made the country vulnerable to future crises, he warned.

The Korean banks would be unable to resume their central role as the key source of money for industry. As a result, companies would have to turn to capital market alternatives — bond and equity markets and Internet banking — for funding.

"Seeking new forms of finance will compel firms to change management practices, concentrate on shareholder value and adopt disclosure standards that are more rigorous than that demanded by Korean law," Dr Root argues.

A bonus would be that the collapse of the banks would weaken the "cozy links between firms and politicians who once provided privileged access to cheap credit in exchange for contributions".

Market-based financing would provide new sources of entrepreneurial capital and open society by placin power in the hands of firm better adapted to a changin global marketplace.

"Companies will becom more transparent, despit governmental gridlock, because the firms that do no adapt tougher standards will fall behind while the companies that embrace market-based financing will enjo significant advantages," he added.

A durable recovery in Korea would depend on creating a legal framework that includes strong provisions for bankruptcy. The protection of minority shareholder rights would also be needed to support effective capital markets, he added.