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The Bank of Korea
International Conference 2005
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Opening Address

May 27, 2005

Park, Seung

Governor

The Bank of Korea

(Greetings)

Ladies and gentlemen,

Welcome to 'The Bank of Korea International Conference 2005'. Let me express particular gratitude to our keynote speakers, Governor Toshihiko Fukui of the Bank of Japan; Governor Zhou Xiaochuan of the People's Bank of China; and Professor Bennett McCallum of Carnegie-Mellon University. I would also like to thank all the chairpersons, speakers and discussants including Governor Christian Noyer of the Bank of France.

This conference, marking the 55th anniversary of the Bank of Korea's foundation, is being held on the theme of 'The Effectiveness of Stabilization Policies'. We have seen rapid changes in the financial environment and the weakening of fiscal soundness in almost every country. As a result, the uncertainties surrounding macro-economic policies have greatly increased. In this situation, today's words of wisdom from eminent central bankers and scholars will be of great help to policy-makers of every central bank and government.

(International Cooperation to Correct Global Economic Imbalances)

Today's conference brings together distinguished figures from 33 central banks, international institutions and academia. On this occasion, I would like to say a few words about the importance of international economic cooperation.

Let's cast our minds back over history. There have been many cases in which, when a country had a rich and powerful neighbour, it was more likely to experience suffering and loss. In today's world, though, a wealthy and strong neighbour helps bring about mutual prosperity. With the swift spread of globalization, such relationships of inter-dependency are no longer limited to geographic neighbours but have extended to embrace all countries around the world. Now, all of us share a common lot on this earth, and no one country can develop in isolation. So the importance of international cooperation cannot be emphasized too much.

On the other hand, amid growing international trade and capital flows, global economic imbalances have

deepened. The United States' twin deficits have continued to pile up: Asian countries, in contrast, have shown large current-account surpluses. These imbalances may well be rectified through the adjustment of the exchange rate as the price variable and the economic structure as the real variable. Having said that, it must be acknowledged that in today's world, international trade tends to be decided by technology and the quality of products rather than by prices. In addition, the impact of economic structures, in forms such as consumer behaviour, has become greater. This means that there are limits to resolving the current imbalances through exchange rate adjustment alone.

In this light, I think we should broaden international cooperation, placing the emphasis on the adjustment of economic structures. The United States must devote greater efforts to rein in consumer spending and boost saving. The Asian countries, for their part, have to broaden the basis of domestic demand and increase imports of foreign products, which will bring about a higher quality of life for their citizens.

(Economic Cooperation within the Asian Region)

I would now like to talk a little more about economic cooperation within the Asian region. Asian economies developed swiftly both in terms of quality and of quantity, showing immense dynamism. The combined total of the Asian region's GDP made up only 6% of world GDP back in 1960, but by 1970 the share was 12% and by now it has expanded to about 26%.

The Asian countries have to undertake the roles and responsibilities that are in keeping with their economic size. For this, they should advance openness still further and dedicate their power toward the common prosperity of the international community as a whole. At the same time, they need to pursue more substantial cooperation within the region. They should promote a good neighbour policy, looking firmly toward the future, not dwelling on the unhappy chapters of the past. Broad-based interchanges ought to be strengthened across a wider range of fields including finance, scientific technology, information and culture, while trade should be widened further through

the conclusion of free-trade agreements. In particular, the central banks of the Asian region should contribute toward economic cooperation to the full, intensifying the mutually supportive relationships between them.

(Closing Words)

Against this backdrop, I expect today's conference to provide a good opportunity to raise international cooperation to new heights.

Under the revised Bank of Korea Act that came into effect last year, the Bank of Korea's independence in the conduct of monetary policy has been heightened. The Bank has also been given greater responsibility for price and financial market stability. This has spurred it on to strive even more earnestly to strengthen cooperation among central banks and to carry out its obligations for economic stabilization.

Drawing my remarks to a close, I would once more like to voice my deep gratitude to all of you for sparing your precious time to be with us here today. Thank you very much.