MAKING FINANCIAL SUPERVISION WORK:
FINANCIAL REFORM IN SOUTH KOREA AND JAPAN

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I. Introduction

The focal point in this paper is to analyze institutional design and change of financial supervisory system as one of significant financial reform efforts in South Korea and to compare them with Japanese experience. Although the acuteness of financial crises of Korea and Japan as well as the role of external influence was different considerably, both countries have successfully initiated financial reform projects and established new supervisory systems to make their financial systems more competitive and transparent than before. In addition, given the similarities in state-society interactions prior to the crises and the timing of their financial reforms, we can better understand the dynamics of financial supervisory reform with comparative analyses. In this regard, the primary puzzles in this paper are as follows. Did Japan and Korea adopt similar institutional settings for financial supervision1 and reform because they had similar financial systems during development periods? If not, why did they choose different institutional designs? More specifically, who designed the financial supervision agencies and under what conditions? Finally, to what extent have the supervisory agencies changed over time, deviating from the original intention of the institutional designers?

In this paper, unlike previous works that directly compare the economic outcomes of financial reforms by taking financial supervision as one of independent variables, I would like to pay attention to the similarities and differences in the institutional characteristics of financial supervisory agencies of these two countries as a primary dependent variable. According to scholars who have studied institutions in depth, while social scientists have emphasized more or less successfully that “institutions matter” in political, economic, and social outcomes, they “have made far less progress in treating institutions as themselves important objects of explanation” (Aoki 2001, 1; Pierson 2000, 475). By analyzing and comparing financial supervisory institutions both synchronically and diachronically, I try to find out the mechanisms of institutional changes of financial supervision.

In order to answer the above questions, first, I will identify diverse approaches to financial supervisory reform and their limitations. Then, basic requirements for working financial supervision will be presented as a basis for comparative analyses. Next, I will briefly discuss pre-reform financial supervision in Japan and Korea. The following section will provide a detailed narrative of what happened in Korea concerning financial supervision before and after the financial crisis. Based on the diachronic changes of Korea’s financial supervisory system, the synchronic comparison between Korea and Japan’s experiences will follow. Finally, I will summarize the findings and the future research direction.

II. Financial Supervision: Taking Politics and Audience Seriously

There has been a plethora of research concerning financial reform and supervision not just in the academic works but also in policy prescriptions from diverse policy-related institutions as well as international financial institutions such as IMF, World Bank, and Bank for International Settlements (BIS). More specifically, however, while most works emphasize the benefits of prudential regulation through financial reform, their emphasis has been put on its significance per se rather than on the conditions under which financial supervision can be better designed and implemented as planned. Generally speaking, many economic analysts argue that

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1 In this paper, financial supervision will be used as including diverse activities such as financial supervisory policy-making, approving and revoking licenses for banks and non-bank financial institutions, setting and revising financial regulation, on-site inspection and off-site examination, and so on.
financial crises and/or globalization—e.g., increasing capital mobility and foreign direct investment—would accelerate more market-oriented financial reform such as arm’s-length financial regulation because, without it, governments would find it very hard to attract mobile capital which favor more liberalized and unregulated investment environment. Furthermore, they claim that such a ready-made guidance as “Core Principles for Effective Banking Supervision (or Core Principles)” developed by Basle Committee on Banking Supervision of BIS can be used promptly as a quick reference for financial supervision, making different countries’ supervisory systems converge on a similar system (BIS 1997). Finally, the existing literature on prudential financial supervision argues that central bank independence (CBI) should be one of the most crucial steps for stable financial system while, in reality, an increasing number of countries have established new supervisory agencies independent of central banks (Abrams and Taylor 2000).

This argument, however, is basically apolitical, not being able to take into account how diverse actors under existing institutional constraints and opportunities can adapt, transform, and resist this convergence. In this sense, financial supervision is not just a technical issue. Different financial supervisory systems constrain differentially the behaviors of politicians, bureaucrats and financiers who try to satisfy their personal and/or organizational interests. For example, certain supervisory systems are better designed for politicians and supervisors to make large profits—e.g., political money for individuals as well as for political parties, post-retirement positions, and prestige—in exchange for regulatory forbearance, loose supervision, and preferential treatment. More importantly, making laws and regulations can be considerably different from implementing and enforcing them in many regulatory policies for several reasons such as corruption and lack of implementation and monitoring capacity. Finally, given the fact that even the most advanced and arm’s-length financial supervision leaves considerable room for subjective assessment of inspectors, we need to analyze not just its formal institutional characteristics but also informal components such as organizational discipline, morale, and underlying incentive structures of diverse actors.

Therefore, it is highly probable that institutional choice among different financial supervisory systems and supervisory activities would become politically contentious among diverse actors to secure more favorable terms. In this sense, an increasing number of works refutes the apolitical explanation by contending that political factors, either as intervening variables or as direct independent variables, have significant influences on the choice of economic reform policies (Haggard and Kaufman 1992; Evans 1992; Haggard 2000; Mishkin 2000; Rosenbluth and Schaap 2003).

Most of political science literature on reform politics, however, predominantly focuses on (a) policy preferences of rational and purposive actors, (b) the role of policy-makers (or supply-side of policy-making) and (c) institutional choice. This analytical focus, however, underestimates or neglects (a) policy preferences when uncertainties prevail, (b) the role of the public (or demand-side of policy-making) and (c) post-reform institutional changes. First, it usually assumes that the policy preferences of relevant actors are quite stable and, therefore, predictable. This assumption might be an inevitable choice to build a theoretical framework. However, in a situation like an economic crisis, the policy preferences of certain actors can be extremely unstable and changeable in response to those of others and changing distribution of information. More significantly, because the longer-term consequences of institutional choices

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2 The reemployment practices of ex-bureaucrats can be found in Japan’s amakudari (or “decent from heaven”) and Korea’s “parachute appointment” practices, which will be discussed later in detail.
on their interests are much more uncertain during most economic crises, explanations based on rational actors’ policy preferences are likely to be less useful and may be even misleading.

Second, unlike economic reform policies such as trade liberalization, the financial reform policy options and their consequences are sometimes too technical and complex to be understood even by economic technocrats. Therefore, it is understandable that most works underestimate the demand-side factors such as the role of the public—both domestic and international—in financial reform politics combined with collective action problem. Economic hard times, however, may change not only policy preferences of diverse actors as mentioned above but also more fundamental rules of the game—e.g., who the actors are. Unlike economic good times when political visibility of financial issues is low, it becomes clearer who the principals are in bad times when financial, even technically sophisticated, issues become politically salient. This means that, depending on economic situations and issue salience, the pressures of unorganized public can be of great significance in determining reform processes and outcomes. Especially when political leaders and bureaucrats hesitate to take full charge of the possible policy failure risks during economic crises or when they take “audience costs” seriously (Fearon 1994), these direct and indirect roles of the public can be decisive in explaining the timing and overall direction of financial reform, if not its detailed contents. In this sense, rather than emphasizing either supply-side or demand-side of reform politics, we need to take seriously how these two interact with each other.

Third, the existing literature pays little attention to institutional change over time with an analytical focus on interdependent nature of various institutions. As Hall and Soskice emphasize, however, we cannot understand the sustainability of a new institution or its transformation from the original institutional design without taking into account the “fitness” between new and pre-existing institutional arrangements (2001; see also Aoki 2001). Furthermore, we need to distinguish incremental institutional changes in good times from those in hard times such as economic crisis and/or regime transition (North 1990; Gourevitch 1986). However, according to advocates of the institutionalist approach, theorizing the distinctive nature of institutional changes is not fully developed (Thelen and Steinmo 1992, 15; Pierson 2004).

In sum, while most works on financial supervision and policy prescriptions have largely failed to take political dynamics into consideration, political science literature on economic reform politics in general underestimates increasing uncertainties under crises and their role in changing policy preferences of actors, the possible role of the domestic public and international audience, and institutional change over time. In the following sections, these will be emphasized.

III. Toward Working Financial Supervision: Criteria for Comparison

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3 According to Fearon, state leaders should consider the possible “audience costs” when they choose to back down from interstate crises and also can exploit the costs by publicly “locking in” themselves to pursue preferable outcomes (1994, 577-582). In cases of economic reform, it might be argued that if political leaders commit themselves on the consistent reform efforts and successful outcome and then back down, they might suffer audience costs as the economic performance falters. Nevertheless, in Fearon’s arguments, one of the most significant—but easily overlooked—statements is that crises should be made “public event” (1994, 577 [italic original]). If certain actions or policy choices are neither visible nor audible to the public, the audience costs argument is irrelevant and useless in explaining state leaders’ reform efforts and non-state actors’ audience roles. Simply speaking, audience costs may not necessarily be counted by political leaders and policy-makers if the issues and stakes are invisible.
Before comparing Japanese and Korean cases, we need basic criteria with which we can differentiate various financial supervisory systems. According to scholars, governmental intervention in the financial system is essential for its well-functioning and preventing potential crises because of three primary reasons: (1) ubiquitous asymmetric information between borrowers and lenders that may cause adverse selection and moral hazard problem; (2) negative externalities of any single failure of financial institutions that may impose huge system-wide costs for a government; and (3) free-riding problem due to the costs for information gathering and distribution (Lee and Haggard 1995, 3-6; Mishkin 2000, 512-514). For example, because of asymmetric information, depositors would always worry about the potential risk of banks’ loans to unsound firms and be ready to withdraw their savings if there is no safety net provided by a government for preventing bank panics (Rosenbluth and Schaap 2003). Therefore, governments need to pay particular attention to creating and sustaining strong financial regulatory and supervisory systems to reduce excessive risks inherent in financial systems and to providing deposit insurance system for the worst case (Mishkin 2000, 524). Given the essential roles of governments, the question is not whether governments should intervene but how they should do.

In this sense, we can differentiate financial supervisory systems by looking at different ways of governmental intervention. For widely used criteria, I will use 25 core principles for effective banking supervision suggested by Basle Committee on Bank Supervision (BIS 1997). Among others, I would like to emphasize three important principles for a well-functioning financial system. First, financial supervisory institutions or agencies should possess operational independence from political and societal influences (Core Principle 1). Because financial regulation and supervision is politically-sensitive issue as explained above, supervisory agencies need to be “independent enough from the political process that is not encouraged to sweep problems under the rug and engage in regulatory forbearance” (Mishkin 2000, 528). The point here is that although it is unlikely that there exist a same threshold for independence that ensure regulatory forbearance would not occur in diverse financial environments, supervisory institutions should have at least some formal and/or informal ways—especially, personnel affairs—to protect their core decisions not wielded by political and private interests.

Second, financial supervisory agencies should possess adequate resources as well (Core Principle 1; partly, 7, 8, 10, 14, 15, 16-20). Without sufficient resources—i.e., financial and personnel resources—, effective financial supervision is hard to achieve not only because these resources are directly used for off-site examination and on-site inspection but also because supervisees would engage in risky activities more if they know that supervisors lack those resources, exacerbating moral hazard problems. According to Mishkin, one of the key factors that were responsible for the S&L crisis in the U.S. in the 1980s was the “resistance by the U.S. Congress to providing S&L supervisory agencies with adequate resources to hire enough bank examiners” (2000, 524).

Third, financial supervisors should have supervisory measures to bring about timely corrective action when they find potential risks in financial institutions’ activities (Core Principle 22). Especially, prompt corrective action (PCA) with statutory authority by bank supervisors to stop risky financial activities when financial institutions do not have sufficient capital requirements is of great significance to stabilize financial system. The point here is that the measures and criteria for corrective actions should be pre-determined and clearly stated in order to reduce the incentives of regulatory forbearance of supervisors and increase the credibility and fairness of financial supervision. The effectiveness of PCA lies on the automatic-ness that leaves little room for regulatory forbearance and, at the same time, reduces the incentives of financial...
institutions to buy supervisors. In addition, although it has not been emphasized much in the “Core Principles,” if financial supervisors engage in regulatory forbearance, they should be accountable for their behaviors. Therefore, there should be some way to monitor the supervisors: making decision-making transparent; publishing daily and weekly activities and annual reports; and prohibiting reemployment of those involved supervisors to financial institutions for a certain period.

Although the above criteria—independence, resources, adequate measures—alone might not be sufficient for a well-functioning supervisory system, it is also very unlikely that, without them, effective supervision would be possible. Therefore, based on the above criteria, I would like to overview the pre-reform financial supervisory system in Japan and Korea as well as similarities and differences in their post-reform institutional arrangements for financial supervision.

IV. Brief History of Financial Supervision in Japan and Korea

a. Japan: MOF, Convoy System, and Amakudari

The financial system in Japan and Korea from the 1950s until recent reform efforts can be characterized by its bank-centered system, extensive and intensive government intervention—for an extreme case, nationalization of commercial banks in Korea by Park Chung Hee regime from 1961 to the early 1980s—, and cozy relationship between the supervisors and the supervisee (Choi 1993; Patrick 1994; Amyx 2004). The financial authorities in Japan and Korea similarly have pursued policies to keep relatively low interest rates in order to encourage savings to be allocated to industrial corporations, to regulate the financial sector through segmented markets with entry control, and to protect domestic financial institutions from external competition (Aoki et al. 1994, 26-32; Park 1994; Ueda 1994, 89-92). Nevertheless, there had been several unique characteristics of Japanese supervisory systems before recent financial reform efforts.

Concerning the three criteria, the supervisory system in Japan before recent financial reform efforts could be characterized by low independence of the supervisory agency, limited resources, and lack of adequate measures. First, one of the most significant characteristics had been the dominant role of the Ministry of Finance (MOF) in the Japanese financial regulation and supervision during most of the postwar period until 1998. Especially from the 1950s through the early 1970s, Japanese financial system had been tightly regulated, protected from international competition, and segmented into three principal sectors—banking, securities, and insurance—by the regulation of the MOF (Molteni 2001, 48; Ueda 1994, 92-97). Among others, the Banking Bureau, Securities Bureau, and International Finance Bureau played a crucial role in supervising almost all types of financial institutions. Although the Bank of Japan (BOJ) had also supervised financial institutions by conducting inspection as well as by monitoring daily operations, the influence of the MOF on the BOJ was significant (Kuroda 1998, 222-223). Especially, given the legal authority of the MOF to “issue general directives and give supervisory orders” under the Bank of Japan Law before revisions as well as the personnel affairs—such as alternate appointment of BOJ governor between BOJ officials and the MOF’s former administrative vice ministers and the appointment of BOJ’s executive auditors and comptroller by the MOF—, the predominant role of the MOF in financial regulation and supervision was unrivaled (Amyx 2004, 101-104).

Second, the financial regulation and supervision in Japan was based on the so-called “convoy system” (Aoki et al. 1994, 27-30. The term, “convoy,” was used to describe an administrative system where the speed of a fleet is determined by the speed of the slowest ship or
the least efficient bank through limiting competition (Ikeo 2001, 59). For example, because the MOF tightly regulated deposit interest rates, there had been little competition among banks in developing diverse financial products. The only competition that existed was over obtaining permission from the MOF for opening a new branch in the best possible location (Aoki et al. 1994, 30; Ueda 1994, 92-93; Saga 2001, 41). Moreover, by virtually limiting new entry into segmented markets through a licensing system, the MOF could keep numbers of ships in the system manageable, making stable relationships and low monitoring costs possible. In addition, the MOF prevented the collapse of financial institutions for most of the postwar period by forcing the failed banks to be absorbed by healthy banks to sustain the “convoy” system through behind-the-scenes coordination that lacked transparency (Saga 2001, 39).

Third, the regulatory policies by the MOF were not the only measures at the MOF’s hand. According to Aoki et al. (1994), the MOF had effectively monitored bank management through the amakudari system under which state officials were reemployed after retirement by private sectors. More specifically, under this system regulatory officials could have sufficient incentives to monitor financial institutions’ management effectively because their bad reputation such as incompetent regulators could make their post-retirement jobs precarious and less lucrative. However, this system was also accompanied by potential regulatory failures because of the opaque and exclusive relationship between kohai (junior) supervisors and senpai (senior) supervisees. As long as there existed ways in which supervisees could influence the decisions of current supervisors, the amakudari system might undermine the effectiveness of financial supervision and underestimate financial institutions’ risky business.

Finally, the available resources and adequate measures were limited for effective supervisory system. Not only the tangible resources such as the ratio of the number of inspectors to the number of supervised financial institutions but also the intangible ones such as organizational morale of supervisory bureaus in MOF was not favorable for effective financial supervision (Amyx 2004, 118, fn. 44). Moreover, as Amyx points out, “bank inspection did not focus on prudential regulation—that is, on bank solvency issues—but rather, focused on ensuring bank compliance with detailed administrative rules” (2004, 118). In addition, as will be examined later, the PCA measures had not been adopted until April 1998.

Nevertheless, the Japanese financial system based on these characteristics functioned well until the end of the high economic growth period of the late 1970s. However, when enlarged companies during the period began to be able to procure capitals outside conventional financial system and increased the share of fund procurement from the securities markets, this system became unstable. Especially, after the burst of the bubble, maintaining the past financial system in the process of resolving the bad loans problem became costly for the MOF. The turning point for the regulatory and supervisory system in Japan was the use of public funds to clean up the housing loan companies (jusen) in 1996 and increasing mistrust in the MOF with the revelation that the MOF and BOJ officials had been entertained by the companies (Amyx 2004, 169-171). In response, Prime Minister Hashimoto announced plans for an acceleration of financial reform with three principles—free, fair, and global—in November 1996. As a result of this “Big Bang” reform, the Securities Bureau and the Banking Bureau at the MOF was abolished and their supervisory authority was transferred to the Financial Supervisory Agency (FSA), which was newly created as an external organ of the Prime Minister’s Office and assumed the responsibility

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4 For securities business, no newcomers could acquire a license during the 30 years since 1968 when the license system was adopted (Saga 2001, 39).
of inspecting and supervising financial institutions.

b. Korea: Overlapping Authorities and “Parachute appointment”

Korea’s financial supervisory system before 1997\(^5\) was no better than Japanese counterpart in terms of the BIS criteria. Rather than the lack of transparency and operational independence and limited resources in Japan, however, overlapping authorities among diverse supervisory authorities and rotation system of bureaucrats encouraged regulatory forbearance and undermined effective financial supervision (Park and Kim 1994, 189). From licensing to developing new financial products, most activities in financial institutions were subject to the financial regulation, which were dispersed among the Ministry of Finance (the Ministry of Finance and Economy since 1994)\(^6\) and the Bank of Korea. Since 1950, when the Bank of Korea Act first passed, BOK—more specifically, the Office of Bank Supervision (OBS) of BOK—had assumed the supervisory authority over banking sector at least by law until the sixth revision of BOK Act on December 1997.\(^7\) The MOF (MOFE) exercised supervisory authorities over non-bank financial institutions through its agencies such as the Securities Supervisory Board (SSB, for securities houses), the Insurance Supervisory Board (ISB, for insurance companies), and the Non-bank Insurance Corporation (NBIC, for mutual savings and finance companies as well as merchant banks).

This multiplicity of financial supervisory system had significant negative impacts on the development of financial system in Korea. First, this dispersion of authority resulted in the lack of consistency in supervisory practices and high coordination costs among regulatory bodies. Moreover, according to the White Paper published by the Board of Audit and Inspection (2001), not only the tug-of-war between the MOF (MOFE) and BOK over more supervisory authorities but also the lack of clearer responsibilities undermined the effective financial supervision. For

\(^5\) As many scholars have put it, it had been almost impossible to explain the development of financial system without extensive and intensive intervention by the government in Korea (Nam and Kim 1994, 450). As recently as the early 1980s, nationwide commercial banks had been nationalized for two decades by the government and allocated credit following governmental development policy. Eager to promote economic development, the military regime led by Park Chung Hee in the early 1960s adopted drastic measures to share the investment risks of the private sector, channeling policy loans through nationalized banks and providing explicit repayment guarantees to foreign financial institutions on loans borrowed by Korean firms. However, the excesses of the government-orchestrated heavy and chemical industry (HCI) drive of the 1970s led to a reappraisal of the state-controlled financial system. Technocrats who initiated policy reform in the early 1980s believed that extensive government control in the financial sector had to be relaxed if the government was to escape from the vicious cycle of intervention. Nevertheless, the financial reform during the 1980s and early 1990s had been limited mainly on the issues of deregulating interest rates control and policy loans rather than effectively regulating and supervising privatized financial institutions (Choi 1993, 40-54).

\(^6\) The Ministry of Finance of Korea was established in July 17, 1948 for the purpose of national tax policy-making, government finance and properties management, and financial and exchange rate policy-making and implementation. The Ministry of Finance and Economy was established in December 23, 1994 by combining MOF and Economic Planning Board (EPB). EPB had been established in July 23, 1961 so as to make macro-economic comprehensive economic plans such as Five-Year Plans for Economic and Social Development, making fiscal policies, and establish fair trade, etc (MOFE website).

\(^7\) When the original BOK Act passed in May 1950, the financial supervisory authority was the Bureau of Bank Supervision in BOK. It renamed to the Office of Bank Supervision when the BOK Act was first revised in May 1962 (BOK Act on May 5, 1950; revised on May 24, 1962).
example, while the Office of Bank Supervision of BOK supervised commercial banks, the trust business of the same commercial banks was under the supervision of the MOFE (Ji and Park 1999, 38). This overlap and opacity in the boundaries of supervisory authorities encouraged each authority to shift the focus of blame to the others in the case of regulatory failure. In terms of resources, although merchant banks were supposed to be regulated and supervised directly by the MOFE, it delegated its supervision to the Non-bank Insurance Corporation because the MOFE had fewer than 10 officers to supervise 30 merchant banks (Ji and Park 1999, 39).

Second, informal and close relationship between the supervisors and the supervised financial institutions was maintained through the practice of the so-called “parachute appointments” of the retired ex-regulators in top executive positions of those institutions. This practice—that is similar to *amakudari* in Japan but much less institutionalized and less extensive—was especially pervasive and entrenched among non-bank and government-related financial institutions (Park 2003, 8-9; Ji and Park 1999, 38). During military regimes—Chun Doo-Whan and Roh Tae-Woo administrations, many high-ranking ex-officials from the military and police services were appointed to important positions in financial institutions and related governmental agencies such as Korea Asset Management Corporation (KAMCO) (Donga Daily 03/07/1992). For example, as of November 1992, many top positions in most important government-owned financial institutions were filled by those who had no training in financial sectors: Credit Management Fund by ex-police official; The Korea Development Bank by ex-military official; Industrial Bank of Korea by ex-police official; Korea Minting and Security Printing Corporation by ex-military official; Korea Tabacco and Ginseng Corporation by ex-military official; and Housing and Commercial Bank by former Minister of Justice (Donga Daily 11/18/1992).

Even after democratic transition, this practice continued without major changes. Unlike during the non-democratic regimes under which military and police officials were the main beneficiaries of parachute appointment, however, the parachute appointment in financial institutions were dominated by ex-MOF (later, ex-MOFE) officials. As a result, media criticized this practice by describing that the whole financial system had become to be put under the trusteeship of the so-called MOFIA (MOF plus MAFIA). Although there is no systematic data concerning the patterns of MOFE parachute appointment, most important positions including the governors of BOK and three supervisory agencies—OBS, SSB, and ISB—, were filled by ex-MOFE bureaucrats (Chosun Daily 05/01/1996). For example, as of December 1995, around 390 former MOFE (including MOF) officials were reemployed in the high positions—at the level of board of directors—of financial institutions.

Last but not least, the rotation system in Korean bureaucracy made it more likely for supervisory bureaucrats to be susceptible to regulatory forbearance and to intentionally underestimate or conceal problems in financial institutions. Because those bureaucrats appointed as to be financial supervisors desire that nothing bad for their careers would happen during their incumbency, they are likely to choose to delay the occurrences of potential failures until they move to other bureaus. In addition, this rotation system can prevent the supervisors from gaining sufficient capacities and information to effectively supervise the financial system.

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8 For different reasons of regulatory forbearance, see Choi (2002, 252-255).
In sum, the supervisory authorities could not regulate financial system adequately. Although the resources, especially personnel, were not so limited as the Japanese counterparts were, the lack of unified system of supervision and regulation, “parachute appointment” and rotation system, together with the weak supervision performed by the supervisory agencies, created conditions favorable to regulatory arbitrage and forbearance.

V. Politics of Financial Supervision in Korea: Actors, Strategies, and Sequences

Financial crisis in late 1997 was critical for the institutional changes of financial supervisory system both in Korea and in Japan. Especially for Korea, the story surrounding financial supervisory reform in 1997 was full of surprises and reversals. To evaluate and compare the continuities and changes of policy preferences of each actor and their impacts on the resulting financial supervisory system more systematically, I would like to divide Korea’s financial supervisory reform into three distinct periods: (1) from the establishment of the Presidential Commission for Financial Reform (PCFR) to the failure of legislation; (2) financial crisis, presidential election, and the passage of Financial Reform Bills in December 1997; and (3) implementation phase since the passage.

a. First Phase: Key Actors and Their Strategies

The Presidential Commission for Financial Reform. Following the admission to OECD in late 1996, Korea should open up its financial market and lower its tight regulation over capital movements in line with OECD Code of Liberalization of Capital Movements and of Current Invisible Operations (OECD website). While this opening up of financial market made it easier for domestic firms to access cheaper capital, it also meant that domestic financial institutions should compete with foreign ones with less protection. This in turn required more enhanced financial supervisory system that could effectively reduce financial market volatility. However, more immediate rationale for financial reform in Korea came from the political needs for business revival partly because no actors could be free from the consideration of the incoming presidential election in December 1997. Therefore, President Kim Young Sam promised in his New Year’s Press Conference on January 7, 1997, that better services of finance and administration through financial reform should be provided primarily to the business sector in order to restore the vitality of the business necessary for economic restoration. To reform the overall financial system, he also promised that a new special commission—that would be comprised mainly by businessmen and civilians but exclude bureaucrats—would be formed (Chosun Daily, 01/07/1997).

When President Kim Young Sam announced that the financial reform committee be created to plan sweeping financial reform, this plan was regarded as a Korean-style financial “Big Bang” by both inside and outside observers (Chosun Daily, 01/11/1997; The Nikkei Weekly, 03/03/1997; Asia Pulse, 04/21/1997). Consequently, the Presidential Commission for Financial Reform (PCFR) was officially established on January 22, 1997 to help the corporate sector regain growth momentum and to meet global standards by upgrading financial system. When first proposed, PCFR was to consist of 31 members from business community, financial institutions, and academia as well as a staff of 15 full-time economists (Hahm 1999, 109-110). Mort importantly, it deliberately tried to exclude MOFE bureaucrats in an effort to limit their influence on its recommendations (Financial Times 06/04/1997). For instance, it was reported that the Financial Policy Office of the MOFE had been informed of the establishment of PCFR and general framework of financial reform only one day before the announcement (Chosun Daily
01/08/1997). By contrast, to give more voice to business community, representatives of corporate sectors were expected to account for more than half of the total number of the Commission. Nevertheless, those representing financial sector as well as academia who were regarded as being in a good relationship with MOFE made up a majority after all (Chosun Daily 01/21/1997). Therefore, it was widely acknowledged the final appointment of the PCFR members was made under the influence of the interests of the MOFE and financial sectors (News Plus 02/13/1997). This episode about personnel affairs was only a preliminary skirmish of incoming battles over how financial supervision should be reformed.

After extensive study, the Commission completed three sets of recommendations for financial reform that were reported to the President for implementation. In the second set of recommendations among three, reported to the President on June 3, 1997, the PCFR tackled more controversial issues such as the ownership of banks, the independence of the central bank, and the restructuring of supervisory systems, which intensified conflicts between the MOFE and BOK over monetary and regulatory policies. In addition, measures to facilitate the restructuring of the financial industry and to guarantee the soundness of the system were also included in the recommendations. More specifically, the PCFR’s main recommendations were as follows (Asia Pulse, 06/03/1997; Financial Times, 06/04/1997).

First, a financial watchdog committee, tentatively dubbed the “Financial Supervisory Board,” under the direct control of the Prime Minister needed to be created and the central bank’s independence (CBI) should be guaranteed. Second, to guarantee independence of the BOK, the authority over monetary and credit policy needed to be transferred to the Monetary Board as the BOK’s top policy-making body. Moreover, to further ensure CBI, the chairman of this board would also concurrently hold the post of BOK governor. The Monetary Board would be composed of seven members, including the chairman, who would be appointed by the president for a five-year term. However, according to the recommendations, while the chairman would be guaranteed a five-year term, he or she could be replaced in the case of his/her failure to meet the price control target. Third, regarding the financial supervision, the “Financial Supervisory Board” under the direct control of the Prime Minister would unify almost all supervisory activities in banking, securities, and insurance to simplify the existing fragmented and overlapping financial supervisory system. Fourth, however, the BOK would be left with limited authority to supervise banks and to ensure their credit and managerial soundness. As one may expect, these proposed changes of supervisory system by the PCFR provoked harsh debates

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9 The 31 members are comprised of 13 businesspersons, 9 financiers, and 9 financial specialists and professors.
11 The first and final sets of recommendations were widely accepted by most actors partly because they were too basic and vague. The first set of recommendations, reported in April 1997, aimed at removing outmoded rules and practices in the financial sector and providing an impetus for further reforms. They included deregulation of interest rates and fees, expansion for business boundaries, and improving the governance structure of financial institutions. In the third report, the PCFR addressed longer-term issues that were taken to be important for the future of the financial system and of the economy as a whole. These issues included developing long-term capital markets, restructuring the government-related financial institutions, and cultivating Seoul as a Northeast Asian regional financial center for the 21st century. The third report was submitted to the President in November 1997.
12 The same term with the president’s might be significant. This same term mean that the Monetary Board is not so independent from the president.
about whether these changes would produce anticipated consequences such as business revival and financial stability. Among others, the most severe battle was one between the MOFE and BOK (including other supervisory agencies).

**MOFE versus BOK.** The BOK, mostly satisfied with the recommendations, supported the PCFR, while the MOFE, in danger of losing most of its key monetary and supervisory roles, sought to pass its own set of reform packages in reaction to many of the recommendations (Asia Pulse, 06/03/1997). For financial supervisory reform, the highlight was the creation of a new powerful financial watchdog committee, stripping the supervisory authority of the MOFE and BOK as well as replacing OBS, SSB, ISB, and NBIC. The MOFE vehemently opposed this idea because, according to the recommendations, most authorities of the MOFE’s Financial Policy Office concerning licensing, inspection, and examination should be transferred to the new supervisory agency, only retaining planning functions. It meant that it would be inevitable to curtail the personnel and other resources of the Financial Policy Office that had been the very core of the MOFE. In contrast, although BOK opposed the idea of transferring its banking supervisory authority to the new agency, it was pleased with the recommendations that tried to allow more monetary independence by making the BOK governor replace the Minister of Finance and Economy as the head of the policy-making Monetary Board.

However, the financial reform bills with quite different contents were introduced after a series of behind-the-scenes meetings among four top-ranking policy-makers—the Minister of Finance and Economy, BOK Governor, Senior Economic Secretary to the President, and Chairman of PCFR—in the early June. The final version of the bills approved by the President was regarded as being heavily influenced by the policy preferences and organizational interests of the MOFE. For example, according to the bills, the role of BOK would be reduced to issuing bank notes, minting coins, and some managerial functions by newly establishing an executive office under the Monetary Board and making the staff of the office be governmental officials and support the Board. This change could severely undermine the original institutional design that had purported to guarantee central bank independence. By contrast, however, the Financial Policy Office of the MOFE would lose only less than one third of its organizational resources, most of them would be transferred intact to the new supervisory agency. Furthermore, the MOFE would retain the authority of licensing and punishment as well.

As one may expect, the resistance from BOK and other supervisory agencies was extraordinarily intense. Almost all staff of BOK protested against the bills and against its own Governor for the first time in its forty-seven years’ history. In addition, partly because there was increasing concerns for job uncertainty in the new agency, other supervisory agencies also pledged to block the passage of the bills in the National Assembly. The BOK labor union joined hands with unions of the three other supervisory boards, criticizing the bills in the sense that the reform bills completely ignored the specific and special natures of the relative industries. However, after the government decided to present the reform bills to the extraordinary session of the National Assembly, the ball went to the court of the lawmakers who had actual veto power. While policy debates and conflicts between the MOFE and BOK would be regarded as irrelevant

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13 Author interview with BOK official on 6/23/2005 and with FSS official (b) on 7/5/2005.
15 Author interview with FSS official (b) on 7/5/2005.
after the planned submission, the influence of strong resistance of BOK and other agencies became even bigger as the presidential election approached.

**Political Parties: NKP versus Opposition.** After the bills had been revised and planned to be submitted to the National Assembly, the game surrounding the financial supervisory system became more complicated and intensified. At the beginning, few believed that the reform bills would be endorsed because the biggest opposition party—the National Congress for New Politics (NCNP led by Kim Dae Jung)—expressed its position to oppose it. However, even though the ruling party—the New Korea Party (NKP led by the President and later Lee Hoi Chang)—was short of majority, it could make coalition with the Democratic Party, making it majority in the National Assembly (see [Table 2.]). The real problem for NKP was not the number of lawmakers itself, but the memory of its unilateral action to pass unpopular labor reform bills in January 1997 and its negative impacts on the party’s popularity. Therefore, it was widely acknowledged that if the opposition parties strongly opposed passage of the financial reform bills, the ruling NKP would find it difficult to push it through the National Assembly unilaterally. In that case, the bid to change the central banking and financial regulatory systems would be transferred to the next government.

[Table 2. about here]

More importantly, lawmakers became heavily influenced by the incoming presidential election. Even before the announcement of the reform bills, the policy deliberation council between NKP and the government agreed that NKP would not attempt to pass the bills and transfer it to the next government even if the PCFR would present a reform proposal. If we consider the intense opposition to the reform bills both from opposition parties, BOK and supervisory agencies, the hesitation of NKP to pass the bills actively was quite understandable. As a result of NKP’s hesitation along with political conflicts over the 1992 presidential election campaign fund among political parties, the financial reform bills could not be submitted in the extraordinary session of the National Assembly in June 1997 even though the President instructed the Deputy Premier and Minister of Finance and Economy, Kang Kyung-shik, to submit them to then-ongoing session (Korea Times 06/04/1997; 06/15/1997). However, after the President Kim Young Sam re-confirmed his strong volition for financial reform partly in order to deflect the public attention from the scandal relating to his son, the ruling NKP changed its position and attempted to pass the financial reform bills at the 185th regular session of the National Assembly that opened on September 10, 1997. Backed by the President’s strong will, the MOFE submitted 13 draft financial reform bills to the National Assembly for deliberation that were revised from the recommendations of the PCFR. Against this move of the MOFE, the BOK submitted a petition to the National Assembly on September 18, demanding that the BOK should maintain its role as the regulator of commercial banks (Korea Times 09/19/1997).

However, the passage of the thirteen reform bills was much more difficult than expected. First, the opposition parties—NCNP and ULD (United Liberal Democrats led by Kim Jong Pil)—opposed the idea of unifying existing banking, securities, and insurance supervisory bodies into a single agency. This was primarily because they feared the predictable loss of popularity in

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16 It was also reported that the President urged the Cabinet and NKP to make joint efforts to ensure the legislation of the financial reform bills before the end of 1997 (Korea Times 09/02/1997).
the face of fierce opposition from BOK, SSB, ISB, and NBIC. Alternatively, they proposed a consultative council for the coordination among these supervisory agencies. Second, even though the President urged that the bills should be passed as soon as possible, two events made the lawmakers of NKP (later, Grand National Party or GNP) reluctant to follow the President’s instruction. First, the conflicts between the President and the would-be presidential candidate of GNP (NKP), Lee Hoi Chang, made the party discipline looser, encouraging each lawmaker to find ways to survive uncertainties surrounding power struggles within the party as well as for the presidential election. To make matters worse, the President’s withdrawal from NKP made the close policy coordination between NKP and the government more difficult, making NKP majority party but not the ruling party.

Standing Committee for Finance and Economy. According to the National Assembly Act of Korea (Article 81), an examination of proposed bills needs to be made by related Standing Committees before being sent to the plenary session of the National Assembly. In the case of financial reform bills, the Finance and Economy Committee that consisted of 30 lawmakers took charge of them. Under this rule-of-game and member composition, the role of the Finance and Economy Committee was of tremendous significance given that the decisions by the Standing Committee usually pass the plenary session without critical changes.

One significant change was made at this stage of policy-making although the Finance and Economy Committee did not change much of the bills submitted by the MOFE. The Committee tried to place the new supervisory agency under the MOFE, not under the Office of Prime Minister (OPM) as proposed. Although the rationale for this change was not clearly made public at that time, we can infer that the individual interests of the lawmakers of this Committee. If the supervisory agency would be put under the OPM, it would be under the influence of the Government Administration Committee of the National Assembly because this standing committee has the power to inspect the OPM and its subordinate organizations. By contrast, if the agency would be put under the MOFE, the lawmakers of the Finance and Economy Committee could maintain a significant influence not only over the new supervisory agency but also over individual financial institutions. Given the weakening of party discipline and increasing uncertainty for the presidential election, the individual efforts to secure certain benefits at hand seemed to be the driving force of this decision.

17 The NKP and Democratic Party officially formed Grand National Party (GNP) in their joint convention on November 21, 1997 and nominated Lee Hoi Chang of the NKP as presidential candidate of the new party (Korea Times 11/22/1997). With the merger of the NKP and DP and joining of some independent lawmakers, GNP became an absolute majority party with 161 lawmakers out of the total 299.

18 It is difficult to measure the extent to which party discipline had been undermined due to the President Kim Young Sam’s withdrawal from the NKP. However, it was clear that synergetic effects of the conflicts between the President and presidential candidate and the President’s withdrawal for the party should not be underestimated.

19 Among 30 Committee members, those who supported the government-drafted reform bills were 17 members from NKP (14), Democratic Party (2), and NPP (1) (New Party by the People) and those who opposed the bills were 13 from NCNP and ULD.

20 Author interview with a lawmaker of Democratic Labor Party on 7/7/2005.

21 In addition, the National Assembly can have a special or standing committee investigate a specific matter of state administration on the request of more than a fourth of all the Assembly members (National Assembly of Korea websites).
On November 12, 1997, the subcommittee for legislation of the Finance and Economy Committee passed the revised bills with the above-mentioned change by vote and would present them to the full-session of the Committee before sending them to the plenary meeting of the National Assembly. However, the coalition of NCNP and ULD—among others, they agreed to select a single presidential candidate for the presidential election in December—strongly opposed the bills, especially the idea of depriving the BOK of its authority to supervise commercial banks, unifying three different supervisory agencies into a single agency, and placing it under the already-powerful MOFE. The two parties’ strong opposition raised the political costs of NKP’s unilateral passage of the bills during then-ongoing session that would close on November 18.

Furthermore, NCNP and ULD chose not to participate in the full-session of the Committee and not to vote on the bills, forcing NKP to decide either to pass the bills and pay for the whole political costs alone or to transfer them to the next administration or next session of the National Assembly. Forced to choose either to pass the bills unilaterally or to shelve the bills, NKP chose not to pass the bills if the opposition parties would not vote in fear of negative repercussions before the presidential election (Donga Daily 11/17/1997; Korea Times 11/18/1997). In addition, given the President’s departure from the majority party, NKP had little interest in undertaking burdensome legislative programs handed over from the administration. As a result of failing to narrow the differences over the controversial financial reform bills during the regular session of the National Assembly, the bills were to be shelved until after the presidential election to the next National Assembly session scheduled for the next January. Especially for those opposition parties whose joint presidential candidate Kim Dae Jung was enjoying a solid, but with shrinking gap, lead in most public opinion polls, it might be dangerous and politically costly to change its policy position and endorse the bills at only one month before the election (Korea Times 11/18/1997; see [Figure 1.]). Generally speaking, all the parties were to avoid the disposition of much disputed bills that potentially ran counter to their election strategies.

Although the Minister of Economy and Finance urged the passage of the bills during then-ongoing session and argued that if they could not be passed there would be no way except asking for IMF bailout program, the voice was not heard. The regular session of the National Assembly closed with passage of only 3 financial reform bills concerning deposit protection, stocks, insurance and credit guarantee affairs on November 18, 1997 (Donga Daily 11/18/1997).

In sum, the financial reform efforts in Korea until the end of the regular session of the National Assembly were far from a success. This is not only because of the strong opposition but also because of the recent changes in the political landscape that provided different incentives to lawmakers. Even though NKP, which supported the total passage of the revised reform bills, was short of majority by one seat in the 30-member Finance and Economy Committee for a majority, it could make coalition with the Democratic Party if it really wanted to pass them. More important was the fact that NKP feared possible backlash just one month before the presidential election and some NKP members were hesitant to support the bills after the President had left the party. As increasing absentee rate of the NKP lawmakers in crucial meetings indicated,
underlying was the lack or weakening of party discipline (Chosun Daily 11/13/1997; 12/23/1997; Korea Times 11/19/1997). 22

b. Second Phase: Financial Crisis, Presidential Election, and Audience Costs

It was only after Korea officially applied for IMF bailout program on November 21 and the new president was elected on December 18 when three major parties—GNP, NCNP, and ULD—agreed to pass the financial reform bills no later than the end of 1997. However, the detailed contents of the financial reform bills were yet to be determined. On December 20, chief policymakers—Chairmen of Policy Committee—of the three parties agreed to open an extraordinary session of the National Assembly for passage of the financial reform bills and to place the new supervisory agency under OPM to guarantee its independence and effective operation rather than under the wing of the MOFE (Korea Times 12/21/1997). However, the lawmakers of the Finance and Economy Committee, especially those of GNP, insisted on placing it under the MOFE, contending that the bills should be reexamined with a clean slate (Chosun Daily 12/23/1997). On December 24, the subcommittee for legislation of the Finance and Economy Committee decided again that the new Financial Supervisory Commission (FSC) would be established under the MOFE in April 1998 against the compromise among three parties’ top decision-makers. In addition, it proposed that three different supervisory agencies would be unified under the name of Financial Supervisory Service (FSS) that would be under the control of FSC in 1999. The FSC would have its own executive office—that would be filled with officials from MOFE—and its chairman would have the status of minister, authorized to participate in the Cabinet meetings with a right to speak (Chosun Daily 12/24/1997). 23 However, more importantly, the subcommittee revised the bills concerning the appointment of the Commission’s chairman and vice chairmen, making influential intervention of Minister of Finance and Economy possible (Chosun Daily 12/26/1997).

It was on December 29 when critical changes were made at the last minute. Although the Finance and Economy Committee tried to pass the revised reform bills to send them to the plenary meeting of the National Assembly, it gave up its plan in the face of the strong opposition of the President-elect Kim Dae Jung. He strongly opposed the plan on the ground that it might hurt the spirit of independence of the financial supervisory agency from the influence of the MOFE and IMF would not prefer the institutional design (Korea Times 12/30/1997). As a result of this strong political leadership, the FSC was determined to be established under the OPM.

In short, the imperatives of financial reform had been recognized well before the financial crisis in Korea. Although the PCFR’s comprehensive reform recommendations was the foundation of most subsequent efforts to restructure the financial system, the actual policy-making processes and outcomes were not a simple reflection of them. Rather, they were full of surprises and reversals. The original institutional design for financial supervision by the PCFR was to ensure the independence of financial supervision from policy setting from MOFE (Hahm 1999, 125). However, this PCFR’s original intention was not realized to the extent that might be possible if other conditions would have been met. Because the original plan was made under the pre-crisis situation, PCFR could not predict the extent to which this issue could be contentious

22 Even on the last day of the regular session on November 18, the House suffered difficulties in convening a plenary sitting due to the lack of quorum (Korea Times 11/19/1997).
23 For the issue of stripping the supervisory authority over banks of BOK, it gave BOK the authority to request information related to financial institutions’ management and to request joint inspection as the .
and political factors could impede or facilitate the actual implementation of the ideas. The above story shows that we need to take into account not only what are the policy preferences of relevant actors but also how situational factors interact with actors in order to understand the institutional design of supervisory system. The prominent example was the failure of NKP lawmakers to pass the revised reform bills that reflected their own preferences in the Financial and Economy Committee and the plenary meeting of the National Assembly even though they could enjoy a majority and the extraordinary political leadership of newly elected Kim Dae Jung under economic crisis. However, the story did not end at this point. The most interesting turnover remained to be seen during the implementation phase of supervisory reform.

c. Final Phase: Colonizing FSC by MOFE and Some Evidence

As a result of the enactment of the financial reform bills called as “Act on the Establishment of Financial Supervisory Organizations (AEFSO)” on December 31, 1997, the relationship among the MOFE, BOK, and FSC became to be as follows. The MOFE would be responsible for drawing-up supervision-related bills. The BOK would relinquish its banking supervisory authority and become an independent body responsible for monetary policy. However, the BOK, as a lender of last resort, would retain some of its previous supervision functions such as checking bank prudential requirements—but under or with FSC. The Monetary Board would have the right to request a reconsideration of any decision made by the FSC that may involve measures directly related to monetary policy. Although this new system were purported to define clearer responsibilities and authorities compared with the pre-reform structure, the supervisory system was not properly designed to ensure the designers’ original intention—independence from potential bureaucratic influence. First, the influence of the MOFE on FSC have increased rapidly since 1999 when it succeeded in changing the internal structure of FSC by enlarging the executive office—administrative body—that had been supposed only to support the basic functions of FSC. Originally, the Act (AEFSO) stipulated that “the necessary matters on the organization of the Financial Supervisory Commission shall be prescribed by the Commission’s own regulations” (Law No. 5490, Article 15-1 [italic added]). In addition, its Article 15-2 said that “the Financial Supervisory Commission may have minimum level of public officials necessary for the Commission’s budget, accounting, and other administrative affairs, which shall be prescribed by the Presidential Decree” ([italic added]). Consequently, by the Presidential Decree (No. 15766) enacted on April 1, 1998, the number of total FSC member was determined to be 19 as [Table 3] indicates. Most of those who made up for the executive office came from the MOFE.

| Table 3. about here |
| Figure 2. about here |

However, the MOFE exploited its authority to draft the bills related to financial supervision, abolishing the Article 15-2 in May 1999. Moreover, it amended the Article 15-1, stripping the authority to modify the organizational structure of FSC and making the organizational structure as well as its personnel number changeable by presidential decrees. This was possible because the MOFE utilized the loophole to minimize the potential debates within

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24 This outcome cannot be explained properly in such theoretical framework as veto player argument.
the related Standing Committee in the National Assembly by not amending the Act directly but by amending the “Government Organization Act” (Kim 2001, 8). At the same day, the Presidential Decree No. 16323 changed the personnel number of the office from 19 to 33 and its organizational structure, newly creating Planning and Administration Office (see [Table 3.] and [Figure 2.]). From then on until March 2004, there have been five more presidential decrees that changed the personnel numbers and organizational structures. Accordingly, the personnel number increased from 33 to 70 and, more importantly, the executive office gradually became to be specialized into several bureaus and divisions and to engage in the policy-making processes of FSC, going beyond the original idea. As a consequence, overlapping of operation between the specialized bureaus and divisions in FSC and departments in FSS became increasingly problematic.

Legally speaking, the supervisory policy-making and operational independence of FSC could be uninfluenced by the enlargement of the executive office. However, in practice, given the fact that the FSC itself was comprised of 9 members—6 members were, either directly or indirectly, related to the government and only 3 members were non-bureaucratic civilians—and the lack of sufficient supporting resources, the increase of the MOFE’s influence was not surprising. To make matters worse, the frequent changes of FSC chairmen could increase the actual power of the executive office and undermine the credibility of supervisory independence (World Bank 2003, 6-7).

Measuring the extent to which these changes have undermined the effectiveness of financial supervision is extremely difficult for now. However, three recent events can be used as proxy indicators of their impacts. First, as [Table 4-1. and 4-2.] indicates, the reemployment of retiring officials in supervision-related organizations—MOFE, FSC, and FSS—to financial institutions showed that the practice of “parachute appointment” has actually increased since 1998. Although there exists a great need for more systematic researches, the “parachute appointment” at the end of the Kim Dae Jung administration as of January 2002 seemed to be no less than those under previous administrations (see [Table 5.]).

[Table 4-1. and 4-2. about here]
[Table 5. about here]

Second, the rotation system among the bureaus within the MOFE that undermined the capacity-building of regulators and encouraged regulatory forbearance has been transformed into that between the MOFE—especially, the Financial Policy Office—and the executive office of FSC. Again, although a systematic data-collection is premature and the extent to which this new rotation system has been institutionalized needs to be analyzed, it seems that most key positions in the FSC have been taken charge of by the MOFE’s career bureaucrats.26 For example, the Director-General of the Bureau of Financial Policy at the MOFE as of June 2004 (Kim S. D.) held a position at the FSC as Director-General of the Bureau of Supervisory Policy I just before he came back to the MOFE. Also, his subordinate, the Director of Financial Policy Division of that Bureau (Kim G. S.) worked at FSC as Director of Banking Supervision Division before he came back to the ministry. As one may expect, most director-generals and directors in FSC came from the MOFE as of June 2004. As explained before, the rotation system or secondment system may increase the potentiality of regulatory forbearance. Moreover, it is highly probable that the

26 Author interview with FSS official (b) on 7/5/2005.
operational independence of FSC from the MOFE became severely undermined due to these newly emerging informal institutions.

Finally, the supervisory failures have increased and consequently restructuring supervisory system became a subject of debate again currently. Most conspicuously, several corruptive scandals and illegal loans with FSS staff involved\(^{27}\) as well as increasing bad loan problems of credit card companies increased public criticism against the FSC/FSS system and provided fertile ground for the MOFE’s critics, blaming the lack of accountability of supervisors. According to the MOFE officials, because the status of a FSS supervisor is not a governmental official, it is inevitable that he or she lacks a kind of public service mind. Although whether or not current supervisory system be restructured is yet to be seen, the point here is the very fact that the system itself became a subject of debate means the initial institutional design alone is not sufficient to understand subsequent institutional changes and we need to take into account how institutions develop in the web of formal and informal institutions.

VI. Comparing Supervisory Agencies: FSA in Japan and FSC/FSS in Korea

In the previous section, I look into the institutional design and development of Korea’s financial supervision in greater detail. Both Japan and Korea tried to reform their respective financial systems by establishing new financial supervisory agencies and making supervision work better. In this section, I would like to compare financial supervisory institutions in Japan and in Korea based on the previous sections and existing literature, especially for Japanese case by Amyx (2004).

a. Operational Independence

First, as explained above, the independence of supervisory agencies is of great significance in making financial supervision not wielded by political calculations and private interests. In addition, we can divide it into operational and budgetary independence. The budgetary independence of the financial supervisory agencies in Japan and Korea shows different configuration to a certain extent. Because Japan’s financial supervisory agencies have been government organizations, they have been funded by the National Budget, regulated by the Fiscal Law. By contrast, while the Korea’s FSC, a government organization, is funded by the National Budget, the FSS—a quasi-government organization—has three different budgetary sources: the government, Bank of Korea, and levies from supervised institutions. For example, in 2002 the levies from regulated institutions consisted of 58% of the FSS’s total budget, fees charged on securities issuance for 25%, and contributions from government, BOK, and financial institutions for remaining 17% (Lee 2002).

Although supervisory agencies both in Japan and in Korea have enjoyed the independence at least legally, however, operational independence—especially for personnel affairs—has showed crucial differences. Given the fact that the establishment of financial

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\(^{27}\) For example, the so-called “Chung Hyun-Joon Gate” brought forth wide-spread criticism. Mr. Chung was the major shareholder of three finance companies—Chungwoo Mutual Savings and Finance, Dongbang Mutual Savings and Finance, and Daeshin Mutual Savings and Finance. He was alleged to have paid some 359 million Won (around $300,000) in bribes to Chang Rae-Chan, a former top official of FSC. In exchange, Mr. Chang kept quiet about illegal loans that Mr. Chung took from the three companies. After a warrant for Mr. Chang’s arrest was issued, he committed suicide (Korea Herald 10/25/2000; 12/26/2000). In addition, Kim Young-Jae, Assistant Governor of FSS, was charged in November 2000 with taking 49.5 million Won (around $45,000) from the Asia Banking Corp (Korea Herald 03/15/2002).
supervisory agencies was implemented over several years and the fact that a crucial issue had been independence from the MOF and the MOFE respectively, the direction of change over time have diverged. Japanese financial supervisory agencies—Financial Supervisory Agency (FSA) from June 1998 to July 2000, Financial Reconstruction Commission (FRC) from December 1998 to January 2001, and Financial Service Agency (FSA) since July 2000—have become increasingly independent from the MOF. In sharp contrast, Korea’s counterpart system—policy-making Financial Supervisory Commission (FSC) since April 1998 and policy-implementing Financial Supervisory Service (FSS) since January 1999—seemed to be independent from the MOFE at a glance, but not in practice as the previous section shows.

In Japan, the idea of transfer of supervisory authorities from the MOF to a new and independent agency was initiated as part of the MOF reform in 1996. Because of the MOF’s mismanagement of jusen as well as its officials’ scandals, the MOF itself became a major target of public criticism. Under this circumstance, even though the MOF’s internal project team originally suggested that a new supervisory agency should be established under the MOF, the LDP politicians “feared electoral repercussions in the absence of more drastic changes to the MOF” (Amyx 2004, 175). More important, “accusations that the ministry [MOF] asserted undue influenced over other agencies’ decisionmaking through such staffing patterns, however, led the governing coalition to agree that those FSA officials in responsible posts (kanbu) would be prohibited from later returning to their agencies of origin” (Amyx 2004, 176 [italic added]). The clear-cut severance concerning personnel affairs strengthened the responsibility of career-level supervisors and lessened the potentiality of regulatory forbearance, if not eliminate.

By contrast, although Korea’s newly established supervisory system right after the financial crisis in 1997 seemed to be more independent than the Japanese counterpart, it became more dependent on the MOFE over time. As explained above in detail, although the FSC was created under the Office of the Prime Minister rather than the MOFE to ensure its independence, the organizational changes of the FSC initiated by the MOFE since May 1999 showed that the MOFE kept trying to regain the control over financial supervision by non-legislative ways. Moreover, the organizational enlargement of the executive office from 19 to 70 as well as the rotation system from the MOFE to the executive office of the FSC and vice versa clearly showed that the original institutional design has been seriously compromised in its actual implementation phase.

In Japan, the overall direction of institutional changes in financial supervision had been to reduce the influence of the MOF. Actually, the initial role of the MOF in designing the details of the FSA was crucial and therefore the “eventual package of legislative proposals for MOF reform and establishment of the FSA was a collection of government proposals (seifu-an) rather than of Diet member proposals (giin-an)” (Amyx 2004, 176-177). However, the MOF again became a primary target of change after a series of events such as arrest of the MOF officials in the early 1998, the poor electoral result of the Upper House election in July, and the increasing influence of DPJ on policy-making (Amyx 2004, 200-207). Under this crisis-like situation, the traditional ties between the MOF and Diet in institutional design became politically costly for politicians. Consequently, the “Law Concerning Emergency Measures for the Revitalization of Function to the Financial System” that passed in the Diet and created the FRC “contrasted sharply with the process leading up to the establishment of the FSA” (Amyx 2004, 206-207). In contrast to the earlier reform, therefore, the additional transfer of authority from the MOF this time went to entities that the ministry could not potentially “colonize.”
b. Resources for Financial Supervision

Second, the resources available for these agencies show differences as well. Japanese policy-makers abolished the Banking and Securities Bureaus from the MOF in 1998, and their supervisory authority was transferred to the FSA, which was newly created as an external organ of the Prime Minister’s Office. As of 1995, the staff of Banking and Securities Bureaus together totaled 217 officials, while 112 officials employed in the Inspections Division in the Minister’s Secretariat (Amyx 2004, 212). However, as of 2000, the Inspection Bureau of FSA alone had 319 staff. Currently the staff in Japan’s FSA total up to 1,202; 259 were employed in Planning and Coordination Bureau, 478 in Inspection Bureau; and 187 in Supervisory Bureau (FSA website).

Comparatively, the total number of staff of the FSC and the FSS has been greater than that of Japanese counterpart. As shown before, the total number of the FSC staff increased from 19 to 70. Before the establishment of the FSS, the total number of staff in four supervisory agencies was 1,705. The number decreased to 1,262 as of December 1999, but increased again almost up to the previous level, 1,613 as of December 2002.

However, two points need to be clarified. First, while the FSS in Korea has its own regional offices and the staff in regions conducts on-site inspection, the FSA in Japan has relied on the regional offices of the MOF for inspecting and supervising regional banks. Second, even if we include the staff in regional MOF officials, it numbered 2,083 (766 from FSA and 1,350 from regional offices of MOF) as of 2000. Although Korea’s financial supervisory system seems to have more resources in terms of number of regulators, we need to take into account other types of resources as well as the size of economy and financial sector.

c. Adequate Supervisory Measures (PCA)

Prompt corrective action (PCA) with statutory authority is one of critical measures to reduce regulatory forbearance. In Japan, after the legislation of adopting PCA measures was passed along with FSA establishment, it was implemented in April 1998. Under this scheme, the supervisory authority has lost much of its flexibility and discretion because it has become mandatory to intervene in a pre-determined way once a financial institution’s capital falls below certain thresholds. Especially from late 1998, the FSA used PCA measures actively, which showed fundamental behavioral difference from the MOF’s regulatory forbearance (Amyx 2004, 218-219).

Similarly, Korea’s FSC/FSS adopted PCA measures. Since a legal basis for the enforcement of PCA was established by the “Act Concerning the Structural Improvement of the Financial Industry” (ACSIFI) in 1997, the FSC has continuously made clear and specified PCA measures for banks, securities companies, insurance companies and merchant banks. In addition, the FSS made clear that it would review the performance status of normalization plans for each bank subject to PCA, and if the bank did not or could not perform part or all of its normalization plan, the FSS would take necessary actions and actually did (FSC website). In both countries, the PCA measures have been taken as a significant step to undermine the past opacity in decision-
making and reduce regulatory forbearance while they have increased audience costs for supervisors because their behaviors should be visible.

VII. Domestics Politics in Establishing Financial Supervisory System

Actually, compared to supervisory systems in other countries, Korea and Japan share many common characteristics in their overall institutional designs as well as timing of institutional changes. However, one of crucial differences between FSA in Japan and FSC/FSS in Korea has been the level of departure from past regulatory practices in their institutional changes. Given the overwhelming role of the MOF in Japan and the MOFE in Korea, the original ideas of financial reform in both countries started from the question of how to make new supervisory agencies independent from the powerful predecessors. At a glance, the institutional design of Korea’s FSC/FSS system seems to be more premeditated and discussed more in depth than that of Japan’s FRC/FSA. Even in Japanese cases, the institutional design for the establishment of the Financial Supervisory Agency that resulted from lots of studies and negotiations contrasted with the reorganization by establishing the FRC to oversee the FSA that took only about two month for deliberation. What happened during these processes? Although the actual political and legislative processes of establishing financial supervisory agencies were more complex, I would argue that the differences between Japanese and Korean cases can be found in the role of the public as vigilant audience and party politics as policy supplier.

a. Demands for Credible Commitment: Timing Matters

When we examine the experiences of Japan and Korea, the different timing of policy-making legislation was of tremendous significance. As mentioned before, situational factors can have a significant influence on actors’ calculation. The trajectories of the institutional designs of Japan and Korea show that the designs had been more likely to be inflexible—or hard to change in the future—so as to provide more credible commitment to the audience when it had been designed under the crisis-like atmosphere than otherwise. Usually the details of institutional changes do not attracted much public attention. However, economic crisis or crisis-like situations make the public vigilant, not being satisfied with scratching and opaque changes of previous system. As a response, politicians also try to find scapegoats—normally, previous systems—for the crisis. In this case, their commitments for changes of the previous systems, especially when elections are impending as in Korea and Japan, should be credible to the public or at least look like so. To make their commitments credible, they need to bind their hand, making their decisions hard to change. As for the supervisory reform of Japan and Korea, how to institutionalize the independence of new supervisory agencies from the previous ones became an indicator of such credible commitment.

In this regard, the difference between the establishment of FSA (Financial Supervisory Agency, not Financial Services Agency) and of FRC and the similarity between the former FSA and FSC/FSS establishment were the level of involvement of the previously powerful agencies: MOF and MOFE. The MOF “played a key role in working out important details for the new agency [Financial Supervisory Agency] and thereby heavily influenced the nature of change in the regulatory authorities” (Amyx 2004, 176). In Korea, although the recommendations of PCFR were taken into account, the very fact that the MOFE drafted the financial reform bills before the financial crisis meant the critical role of the MOFE. The MOFE changed the details in significant ways such as establishment of the executive office under the FSC, leaving room for future intervention (Chosun Daily 07/24/1997). Even after the financial crisis occurred in Korea,
chaebol (Korean business conglomerate) rather than MOFE were the focal point of harsh public criticism. Unlike Korea, Japan’s focus was on the MOF.

By contrast, the proposal to establish the FRC in 1998 was presented by DPJ. Moreover, the timing of the proposal was too bad for the MOF officials: the devastating result for LDP and favorable result for DPJ of the Upper House election in July 1998; the corruption scandals of the MOF; and the precipitating drop of Nikkei average on October 5, 1998. The situational factors forced the MOF to be excluded from the policy-making processes and the resultant legislation “included in the Financial Revitalization package enacted further changes in financial regulatory structures that provided the FSA with more insulation from MOF influence, and boosted the agency’s credibility as an independent regulator” (Amyx 2004, 210).

In most cases, the role of the public is limited due to collective action problem and lack of sufficient information. Economic hardship with impending elections made the public—as principals—ready to punish those agents who went against its will. Depending on timing, the public demand different level of disconnectedness from previous systems as well as different level of credibility in policy-makers’ commitments. The diachronic and synchronic analyses show that the public demands and policy-makers responses have been critical in the institutional design and change of supervisory system in Japan and Korea.

b. Intra-party Politics: Supply-side Story

One of the primary sources for the shift from relation-centered system characterized by informality and opacity toward a more arm’s-length, rules-based system in Japan lay in the capacity of those outside the financial policy network: the opposition parties and LDP backbenchers (Amyx 2004, 197). From a comparative perspective, among other factors, I would argue that party discipline have had a significant influence on the processes of establishing supervisory agencies.

When party discipline is defined as the ability of a political party to muster its members’ support for the policies of its leadership, it has been argued that the overall party discipline in parliamentary system is higher than that in the presidential system (Cheibub and Limongi 2002). However, Korea had been a deviant case due to the bossism—the so-called “three Kims system”—that had prevailed until recently. The three Kims system had based on the charismatic leadership and mobilization capacities of Kim Young Sam, Kim Dae Jung, and Kim Jong Pil. For example, three Kims had monopolized the power to nominate the parties’ candidates for the National Assembly. The criteria for selection were personal loyalty to the party leader, loyalty to the party, and the ability to finance one’s own campaign and perhaps to donate substantial funds to the party (Sejong Institute 2000). However, two factors exacerbated this “three Kims” system, making it increasingly unsustainable: natural aging of the bosses and the characteristics of the single five-year term presidential system. Especially, the latter meant that because the primary purpose of all bosses had been to become a president, the life as a political boss ironically began to demise when the boss was elected as president. The rampant lame duck phenomena and corruptive behaviors at the end of Kim Young Sam and Kim Dae Jung administrations were no more than the symptoms of the impending demise of bosses.

In this sense, the change of policy preferences of the ruling party’s lawmakers of the Finance and Economy Committee of the National Assembly from those of their boss, the President Kim Young Sam, would have been unthinkable if the reform bills would have been introduced at the first half of the presidential term. Only when the party discipline had been seriously weakened after the withdrawal of their boss from the NKP and in the face of impending
termination of his presidential term, the change could be made. Moreover, as [Figure 1] shows, the pessimistic expectation of the presidential election encouraged them to put their own interests over the policies made by the government. Even though the bosses—three Kims—could use party politics “as an instrument of personal ambition and opted for mergers or breakups whenever the situation required them,” one of their biggest problems lay on the fact that if a boss would reach the top, there would be no way to stay there (Kim 2000, 78). In short, because of the weakening of party discipline inherent in the personalized party system along with presidentialism, we could not witness the passage of the financial reform bills even though the ruling NKP could enjoy substantial majority in the National Assembly.

By contrast, it is hard to tell that party discipline of LDP became weakened by the emergence of “new generation of policy experts (seisaku shinjinrui)” and their different ways of policy-making and information-gathering (Amyx 2004, 205-206). Rather, the very fact that the LDP’s dominance in both Houses could not be guaranteed due to increasing competition among political parties and that it needs to coalesce with other parties can increase its party discipline even though its policy-making capacity has declined significantly since 1989.

VIII. Concluding Remarks

In this paper, I try to examine the trajectories of financial supervision system building in Korea in detail and to compare Korean experiences with Japanese cases. Starting from the existing literature and its limitation, I would like to emphasize that it might be misleading to compare institutional choices of Korea and Japan only synchronically without diachronic analysis of the direction of institutional change such as the MOFE’s efforts to regain the control over the FSC in Korea and increasing independence of FSA from the MOF in Japan. Several key empirical findings such as the emerging rotation system between the MOFE and FSC show this pattern clearly. In the paper, the existence or lack of on-going public attention to dismantling the previous invested interests was regarded as one of the primary causes of these different directions.

Finally, several limitations and direction for further research need to be specified. First, this research can and should be complemented by subsequent researches on the changing patterns of “parachute appointment” in Korea and “rotation system” between the MOFE and FSC/FSS given that there is no systematic research on these topics. Second, comprehensive analyses require not just the relationship between MOF/FSA in Japan and MOFE/FSC/FSS in Korea but also their relationships with deposit insurance system, asset management corporations, and central banks. For example, whether central banks should have rights for on-site inspection and examination and, if so, how the overlapping can influence the financial system need to be empirically examined. Finally, theoretical frameworks concerning institutional design and change need to be more fully developed. There has been little effort to theorize institutional change of financial supervision and apply it to a sufficient number of cases. In this sense, comparative research could be a fertile ground for more sophisticated theory-building efforts.
Heon Joo Jung, NPSA 2005

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Bank of Korea: www.bok.or.kr
Financial Services Agency of Japan: www.fsa.go.jp
Financial Supervisory Commission of Korea: www.fsc.go.kr
Financial Supervisory Service of Korea: www.fss.or.kr
Ministry of Finance and Economy of Korea: www.mofe.go.kr
Ministry of Finance of Japan: www.mof.go.kr
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[Table 1] Reemployment from MOFE to Financial Institutions as of December 1, 1995.

<table>
<thead>
<tr>
<th>Types of Financial Institutions</th>
<th>Number of Former MOFE officials</th>
</tr>
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<tbody>
<tr>
<td>Bank</td>
<td>153</td>
</tr>
<tr>
<td>Securities</td>
<td>98</td>
</tr>
<tr>
<td>Insurance</td>
<td>43</td>
</tr>
<tr>
<td>Investment Finance Company, Merchant Bank, Mutual Savings and Finance Company</td>
<td>17</td>
</tr>
<tr>
<td>Credit Card Company, Lease Assessment Company, Venture Capital Corporation</td>
<td>47</td>
</tr>
<tr>
<td>State-managed Public Corporation</td>
<td>23</td>
</tr>
<tr>
<td>State-owned Research Institute</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>390</td>
</tr>
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</table>

Source: Chosun Daily (05/01/1996)

[Table 2] The Composition of the 15th National Assembly by Political Parties

<table>
<thead>
<tr>
<th></th>
<th>NKP</th>
<th>NCNP</th>
<th>ULP</th>
<th>DP</th>
<th>Independent</th>
<th>Total</th>
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</thead>
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<tr>
<td>Local constituency seats</td>
<td>121</td>
<td>66</td>
<td>41</td>
<td>9</td>
<td>16</td>
<td>253</td>
</tr>
<tr>
<td>National constituency seats</td>
<td>18</td>
<td>13</td>
<td>9</td>
<td>6</td>
<td>0</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>139</td>
<td>79</td>
<td>50</td>
<td>15</td>
<td>16</td>
<td>299</td>
</tr>
</tbody>
</table>

Source: National Election Commission of Korea, Database of the National Election Commission (http://home.nec.go.kr:7070/sinfo/sinfo.htm); NKP (National Korea Party led by Kim Young Sam, the ruling party), NCNP (National Congress for New Politics led by Kim Dae Jung), ULD (United Liberal Democrats led by Kim Jong Pil), and DP (Democratic Party).
[Figure 1] The Changes of Supporting Rate for Presidential Candidate and Election Result

<table>
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<tr>
<td>Act on the Establishment of Financial Supervisory Organizations, Article 15-1 and 15-2, Pres. Decree No. 15766</td>
<td>Pres. Decree No. 16323</td>
<td>Pres. Decree No. 16677</td>
<td>Pres. Decree No. 17130</td>
<td>Pres. Decree No. 17511</td>
<td>Pres. Decree No. 18275</td>
<td>Pres. Decree No. 18328</td>
<td>(see Figure 2)</td>
</tr>
</tbody>
</table>
[Figure 2] Organizational Changes of FSC

[Figure 2-1] April 1998—May 1999

FSC

Chairman
Vice-Chairman
Standing Commissioner

Securities and Futures Commission

Chairman
Standing Commissioner

Executive Office
[Figure 2-3] January 2000—February 2001

FSC

Chairman
Vice-Chairman
Standing Commissioner

Public Information Office
Supervisory Regulation Office
Coordination & Cooperation Office

Securities and Futures Commission
Chairman
Standing Commissioner

Planning & Administration Office

General Services Division
Planning & Cooperation Division
Committee Administration Division
[Figure 2-4] February 2001—February 2002

FSC

Chairman
Vice-Chairman
Standing Commissioner

Securities and Futures Commission
Chairman
Standing Commissioner

Public Information Office

Planning & Administration Office

Financial Supervisory Policy Bureau I

Financial Supervisory Policy Division
Banking Supervisory Policy Division
Market Monitoring Division

Financial Supervisory Policy Bureau II

Securities Supervisory Policy Division
Insurance Supervisory Policy Division
Non-banking Financial Institution Supervisory Policy Division
Since February 2002

[Figure 2-5] The name “General Services Division” has changed into “Innovations and Administration Division” on March 22, 2004, although the overall functions have remained unchanged (Presidential Degree No. 18328)
**[Table 4-1] Reemployment from Financial Supervisory Agencies to Financial Institutions, 1998-2001 (by institution)**

<table>
<thead>
<tr>
<th></th>
<th>Total retirement</th>
<th>Reemployed officials after retirement</th>
<th>Reemployed in financial institutions</th>
<th>BOK</th>
<th>KDIC</th>
<th>KAMCO</th>
<th>KCGF/ KTCGF</th>
<th>State-owned banks</th>
<th>Banks</th>
<th>NBFI</th>
<th>Related Institutions</th>
<th>ETC</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOFE</td>
<td>81</td>
<td>55</td>
<td>40 (72.7%)</td>
<td>2</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>FSC</td>
<td>6</td>
<td>6</td>
<td>5 (83.3%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>FSS</td>
<td>40</td>
<td>32</td>
<td>25 (78.1%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>7</td>
<td>12</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>127</strong></td>
<td><strong>93</strong></td>
<td><strong>70 (75.3%)</strong></td>
<td>2</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td>7</td>
<td>10</td>
<td>18</td>
<td>16</td>
<td>3</td>
</tr>
</tbody>
</table>

1) The retired officials are career officials.
2) Those who also held positions at FSS are calculated as being included in FSS.
3) Includes those who retired due to age limits, who did not seek reemployment, and who could not be identified.
4) KCGF: Korea Credit Guarantee Fund; KTCGF: Korea Technology Credit Guarantee Fund
5) Includes securities houses, insurance companies, merchant banks, investment, and credit card companies.
6) Includes Korea Financial Telecommunications & Clearings Institute, Korea Stock Exchange, Korea Securities Depository, KOSCOM, KOSDAQ, KOSDAQ Committee, Korea Futures Exchange, Korea Insurance Development Institute, Korea Life Insurance Association, Asset Management Association of Korea, etc.
7) Includes KDB Loan Star, etc.

**[Table 4-2] Reemployment from Financial Supervisory Agencies to Financial Institutions (by year)**

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<thead>
<tr>
<th></th>
<th>Total retirement</th>
<th>Reemployed among retired officials</th>
<th>Reemployed in financial institutions</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
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<tr>
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<td>81</td>
<td>55</td>
<td>40 (72.7%)</td>
<td>11</td>
<td>12</td>
<td>8</td>
<td>9</td>
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<tr>
<td>FSC</td>
<td>6</td>
<td>6</td>
<td>5 (83.3%)</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>2</td>
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<tr>
<td>FSS</td>
<td>40</td>
<td>32</td>
<td>25 (78.1%)</td>
<td>-</td>
<td>2</td>
<td>7</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>127</strong></td>
<td><strong>93</strong></td>
<td><strong>70 (75.3%)</strong></td>
<td>11</td>
<td>14</td>
<td>18</td>
<td>27</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>(15.7%)</td>
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<td>(20.0%)</td>
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<td></td>
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<td></td>
<td>(25.7%)</td>
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<td></td>
<td></td>
<td></td>
<td>(38.6%)</td>
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Source: An (2002); adapted by the author.
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<th>Position</th>
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<tbody>
<tr>
<td>Governor, Korea Development Bank</td>
<td>Jung, KY</td>
<td>• Director-General of Financial Policy Bureau, MOFE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Vice-Chairman of FSC</td>
</tr>
<tr>
<td>Chairman and CEO, Industrial Bank of Korea</td>
<td>Kim, JC</td>
<td>• Director-General of Public Living Bureau, MOFE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Deputy Governor of FSS</td>
</tr>
<tr>
<td>Chairman and President, Export-Import Bank of Korea</td>
<td>Lee, YH</td>
<td>• Deputy Minister of Planning and Management Office, MOFE</td>
</tr>
<tr>
<td>Chairman and President, Korea Finance and Securities</td>
<td>Maeng, JJ</td>
<td>• Director-General of Treasure Bureau, MOFE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Assistant Minister for Economic Policy Coordination, Office for Government</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Policy Coordination (Office of Prime Minister)</td>
</tr>
<tr>
<td>Chairman and President, Korea Technology Credit Guarantee Fund</td>
<td>Lee, KK</td>
<td>• Assistant Minister, MOFE</td>
</tr>
<tr>
<td>Chairman and President, Korea Credit Guarantee Fund</td>
<td>Lee, JS</td>
<td>• Director-General of National Tax tribunal, MOFE</td>
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<tr>
<td>Chairman and CEO, Daehan Investment and Securities</td>
<td>Kim, BK</td>
<td>• Standing Commissioner, Korea Fair Trade Commission</td>
</tr>
<tr>
<td>Chairman and President, Korea Deposit Insurance Corporation</td>
<td>Lee, IW</td>
<td>• Tax Senior Judge of National Tax tribunal, MOFE</td>
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<tr>
<td>President and CEO, Korea Asset Management Corporation</td>
<td>Yon, WY</td>
<td>• Director-General of International Finance Bureau, MOFE</td>
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<td></td>
<td></td>
<td>• Standing Commissioner, Financial Supervisory Commission</td>
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<tr>
<td>Chairman and CEO, Korea Futures Exchange</td>
<td>Kang, JH</td>
<td>• Tax Senior Judge of National Tax tribunal, MOFE</td>
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<tr>
<td>CEO, Korea Securities Computer Corporation</td>
<td>Huh, NJ</td>
<td>• Tax Senior Judge of National Tax tribunal, MOFE</td>
</tr>
<tr>
<td>Chairman and CEO, Korea Securities Depository</td>
<td>Roh, HK</td>
<td>• Savings Senior Judge, MOF</td>
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<td>• Auditor, Financial Supervisory Service</td>
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<tr>
<td>Chairman, Kosdaq Committee</td>
<td>Jung, ED</td>
<td>• Director-General of Treasury Bureau, MOFE</td>
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<tr>
<td>Chairman and CEO, Asset Management Association of Korea</td>
<td>Yang, MK</td>
<td>• Director of Task Force for ASEM, MOFE</td>
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<td></td>
<td></td>
<td>• Chairman and President, Export-Import Bank of Korea</td>
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<tr>
<td>Chairman and CEO, Association for Merchant Bank</td>
<td>Moon, HS</td>
<td>• Deputy Minister of Planning and Management Office, MOFE</td>
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<td>(Jonghap Kumyung Hyuphoi)</td>
<td></td>
<td>• President of Tax College</td>
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<td>CEO and Chairman, Korean Reinsurance Company</td>
<td>Park, JW</td>
<td>• Director-general, MOFE</td>
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<td>CEO, BC Card</td>
<td>Lee, HK</td>
<td>• Tax Senior Judge of National Tax tribunal, MOFE</td>
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<td>Deputy Governor, Financial Supervisory Service</td>
<td>Kang, KS</td>
<td>• Public Information Officer, Financial Supervisory Commission</td>
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<td>• Director-general of Treasury Bureau, MOFE</td>
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<td>• President of Tax College</td>
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<td>Name</td>
<td>Role</td>
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<td>------</td>
<td>----------------------------------------------------------------------</td>
</tr>
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<td>Auditor, Korea Development Bank</td>
<td>Kang, SI</td>
<td>• Tax Senior Judge of National Tax Tribunal, MOFE</td>
</tr>
<tr>
<td>Vice Chairman, The Korea Securities Dealers Association</td>
<td>Shin, HJ</td>
<td>• Director of Banking System Division, MOFE</td>
</tr>
<tr>
<td>• Auditor, Industrial Bank of Korea</td>
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<td>• Auditor, Industrial Bank of Korea</td>
</tr>
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<td>Assistant Vice President, Korea Stock Exchange</td>
<td>Lee, MK</td>
<td>• Tax Judge of National Tax tribunal, MOFE</td>
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<tr>
<td>Vice Chairman, The Korea Federation of Banks</td>
<td>Kim, JS</td>
<td>• Tax Senior Judge of National Tax tribunal, MOFE</td>
</tr>
<tr>
<td>Auditor, The Korea Federation of Banks</td>
<td>Yang, JT</td>
<td>• Administration Office of National Tax tribunal, MOFE</td>
</tr>
<tr>
<td>Auditor, Export-Import Bank of Korea</td>
<td>Ji, YK</td>
<td>• MOFE</td>
</tr>
<tr>
<td>Auditor, Hanvit Bank</td>
<td>Park, JK</td>
<td>• Director-General of Planning and Management Office, Korea Customs Service</td>
</tr>
<tr>
<td>Vice President, Kookmin Bank</td>
<td>Lee, WJ</td>
<td>• Director of Government Properties Division, MOFE</td>
</tr>
<tr>
<td>Auditor, Kookmin Bank</td>
<td>Lee, JM</td>
<td>• Tax Senior Judge of National Tax tribunal, MOFE</td>
</tr>
<tr>
<td>Auditor, Industrial Bank of Korea</td>
<td>Kang, KS</td>
<td>• Planning and Management Officer, Public Procurement Service</td>
</tr>
</tbody>
</table>

Source: *Chosun Daily* (1/18/2002)
### Table 6: The Number of Staff in Financial Services Agency in Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>Planning and Coordination Bureau</th>
<th>Inspection Bureau</th>
<th>Supervisory Bureau</th>
<th>Securities and Exchange Surveillance Commission</th>
<th>Certified Public Accountants and Auditing Oversight Board</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>204</td>
<td>319</td>
<td>131</td>
<td>112</td>
<td>4</td>
<td>766</td>
</tr>
<tr>
<td>2001</td>
<td>229</td>
<td>440</td>
<td>164</td>
<td>134</td>
<td>0</td>
<td>967</td>
</tr>
<tr>
<td>2002</td>
<td>238</td>
<td>404</td>
<td>156</td>
<td>182</td>
<td>40</td>
<td>980</td>
</tr>
<tr>
<td>2003</td>
<td>252</td>
<td>460</td>
<td>171</td>
<td>217</td>
<td></td>
<td>1100</td>
</tr>
<tr>
<td>2004</td>
<td>259</td>
<td>478</td>
<td>187</td>
<td>237</td>
<td></td>
<td>1202</td>
</tr>
</tbody>
</table>

Source: Lee (2004, 61); FSA website (http://www.fsa.go.jp/info/info/sosiki.html)

### Table 7: The Number of Staff in Financial Supervisory Service in Korea

<table>
<thead>
<tr>
<th>Year</th>
<th>Before Unification</th>
<th>1999</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1,705</td>
<td>1,262</td>
<td>1,476</td>
<td>1,544</td>
<td>1,613</td>
</tr>
</tbody>
</table>