Comparing the History of the Evolution of China's and Korea's Financial Supervisory Systems

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Ⅰ. Comparability Between China's and Korea's Economic and Financial Development

Being two of the most economically fast developing countries, China and Korea's economic growth during the past and the current centuries has been the center of world-wide attention and has already made enormous contribution to the economic development of the wider Asian region. They are geographically close to each other; both have Confucian cultural heritage and high regard for collective values and strong government; and have inseparable links in various aspects such as history and culture.

A military coup in May 1961 not only brought Park Chung-hee to the foreground in Korean history, but also brought Korea's economy to a new starting line. Under the guidance of a strong leader, the Korea's market economy reached new heights, and eventually developed its own unique characteristics. During the 1960s, the Korean government seized hold of the powers of investment initiatives[1], which guaranteed the comprehensive government intervention in the country's economic life. Besides direct financial investments, the government also proceeded to control capital flows via various financial mechanisms. Against the background of such financial reforms, the government seized hold of the economic lifeblood of private enterprises and established a government-oriented capital accumulation mechanism. Its indirect controls on private enterprises by way of credit distribution brought the activities of the great majority of enterprises within its orbit. At the same time, a planned regulatory system rich in Korean characteristics was also established.

Park Chung-hee's reforms touched every aspect of Korea's economic life. Although he established a government-oriented system with centralized powers, the basics were not changed, and the system of private property and the principles of market competition were still performing their basic functions; which is why the great majority of the Korean people could lived with or even idolized his authoritarian and autocratic rule. The growth and maturing of the entrepreneur stratum can be seen as evidence that the government-oriented economy advocated by Park Chung-hee was fundamentally still a market economy. During his rule, he turned around the dreadful relationship between government and entrepreneurs. Under the support of the new government, many outstanding entrepreneurs had regained their vitality and realized their talents. Although the achievement highlighted by Korea's economic take-off showed that entrepreneurs were certainly not beneath the government in their contributions, their burgeoning must, upon a closer look for reasons, be linked to the government's support. If the primary objective of entrepreneurs is maximizing profit, then success is guaranteed by accomplishing two things: firstly, to act in accordance with current market information; secondly, to be well-coordinated with the government. For Korean entrepreneurs, the latter was more important because only then would they receive various supports and assistance from the government. After nearly forty years of reforms and development, a new kind of government-entrepreneur relationship has appeared. Even though the government's ability to control the economy still exists, it is obviously withdrawing from the economic sphere gradually, the system of which is changing from a government-oriented mode to a people-oriented mode. With the extent of privatization and the strengths of market forces increasing, a comprehensive system of market economy has been formed.

A study of Korea's economic development and adjustment over many years reveals that its forms of market economy had features that were markedly different from the general patterns found in developed countries, whereas they shared some similarities with most developing countries in certain aspects such as the starting momentum and trends of development. Market economy in western developed countries was developed side by side with the Industrial Revolution within the particular economic structure of feudalist societies, with the naturally developed relationship between commodities and currencies as its preconditions, and the renewal of cultural ideas (The Enlightenment) and political systems as its leading force. Development of productivity and intensification of the division of labor had been the primary conditions for its development. While the market economies of developing countries such as Korea had started by a push by external forces, they lacked sufficient preparations in areas such as social structures, cultural ideas and political systems. These preparations could only be completed gradually in the process of economic development.

China's reforms and opening and the resulting achievements in more than twenty years have shown similarities in certain respects with their counterparts in Korea. In the early eighties of the Twentieth Century, a group of strong leaders with great foresight led by Deng Xiaoping also found themselves at a turning point in Chinese history. Following their visions that were underpinned by system innovation, institutional changes and ideological renewal, they set forth to explore the path for the re-invigorating of the great country and the revival of its economy; and with norm-breaking rate of development, created the Chinese miracle which saw China's economy took off with one huge leap and shocked the whole world. China adopted a transition model that incorporated changes to the economic structures but not the political ones, which to a certain extent guaranteed the political stability during the initial stages of reforms. In the processes of China's reforms and innovations, we had encountered issues similar to those experienced by Korea during the time of its economic take-off. Both had endeavored to develop and establish the structures of market economy under an environment that was not fully prepared for it, and to realize system transformations and innovations, following a pattern of development that is in direct contrast to the usual norms. During the process, featured prominently were the re-orientations of government functions and the new theories, new practices and new ways of thinking brought forth by various changes to the system.

II. The History Of The Evolution Of Korea's Financial Supervisory System: From Industry-Specific Divided Supervision to Integrated Supervision

In the process of its economic development, the Korean government had enforced controls on monetary flows not just through direct financial investments, but also via various financial institutions. It was against such a background of financial reforms that the government seized hold of the lifeblood of private enterprises and established a government-oriented mechanism for capital accumulation. In a brief outline, Korea's financial systems had on the whole gone through four stages of evolutions:

The First Stage: 1960s to 1970s - The Establishment Of A Government-Oriented Financial System That Was Consistent With Economic

Growth

Beginning in the 1960s, the Korean government had successfully implemented economic policies that were centered on growth. After the 1970s, Korea formally entered the orbit of its economic development, and created the world-noted *Hangang Miracle*, becoming a competitive country in the international market.

In order to support the five-year economic development plan that had started in 1961, the Korean government had implemented major reforms to the financial systems. In the later half of the 1950s, it retrieved the bank stocks that had always been held by a small number of entrepreneur conglomerates and had them under its control. In 1962, it revised Korea's banking laws comprehensively and strengthened its sway on the financial system. At the same time, in order to flexibly support the development of capitals, it had also established specialized banks and local banks such as agricultural co-operatives, small to medium sized entrepreneurial banks, the Kookmin Bank, the Korean Foreign Exchange Bank, and the Korean Housing Bank. In order to establish a community fund-raising system that could promote economic development, it enacted the Securities Exchange Law and the Insurance Law in 1962. At this point, Korea had established the financial system in a period of growth that would effectively support the implementation of its economic development plans.

During this period, financial supervision was chiefly the responsibilities of the Ministry of Finance and Economy (MOFE) and was carried out under a diversified industry-specific supervisory system. (1) Banking Supervision. The responsibilities for banking supervision were always carried out by the MOFE. However, the supervision and inspection of the Bank of Korea (Central Bank) upon its establishment were transferred to the Finance And Currency Commission (Office of Bank Supervision). Since the 1960s, the supervision of various newly established specialized banks and developmental institutions had belonged to the MOFE, therefore bank supervision had been concurrently carried out by the MOFE and the Office of Bank Supervision. (2) Securities Supervision. Prior to 1976, the MOFE had been performing the supervisory functions in regard to the securities market. Afterwards, in accordance with the Amended Securities and Exchange Act, the mandate was transferred to the Securities Regulatory Commission and the Securities Supervisory Board. (3) Insurance Supervision. The MOFE had been mandated with the supervision of insurance institutions over a long period of time. However, in 1978 the mandate was transferred to the Korean Insurance Corporation. In 1989, the mandate was again transferred to the newly established Insurance Supervisory Board. [1]

The Second Stage: 1980s - Transition From Direct Financial Supervision To Indirect Financial Supervision

Given that Korea was practicing a government-oriented economy, government intervention was inevitably the main feature of its financial system. Within such a framework, financial supervision was mainly used as a measure of macro-economic controls to work for short-term macro-economic policy objectives. The starting point for financial supervision was not the improvement of financial institutions' competiveness, but rather the over-protection of domestic financial institutions via the unlimited guarantee provided by the government. In the 1980s, the Korean government was aware of the harms caused by excessive intervention in the financial market, and started to lessen its intervention with financial institutions. In December 1980 the government announced its policies for financial development aimed at the self-regulation, privatization and internationalization of the finance sector, and gradually loosened its bank restrictions. Supervision measures also changed from the direct interventional mode to an indirect supervision mode that included open market policies and payment reserves systems. Control measures were also gradually becoming more market-oriented in order to secure an environment for the self-regulation of the banking industry.

In view of the results of these financial reforms, the implementation of financial liberalization, bank privatization and the loosening of financial controls was relatively inefficient and incomprehensive.[3] The main reason was that the policies for financial reforms during this stage lacked long-term planning and were carried out only in accordance with current situations and external needs. Contradictions with the existing systems frequently occurred, which made it necessary for controls to be re-introduced. In particular, since problems such as bankruptcies of heavy industries and bad debts for financial institutions due to government-oriented developmental policies could not be resolved within a short period of time, the progress of financial liberalization, loosening of controls and banking privatization had been slowed. Despite the government's awareness of a series of negative effects from excessive financial intervention, due to duplicate investments and closures of enterprises, as well as the strengthened needs for the funding support of small to medium sized enterprises, the government had in practice not lessened its intervention in the distribution of financial resources. In addition, the government continued to implement policies of government-oriented financial relief and the Central Bank's special financial assistance. As a result, the continuance of the government's financial intervention became a necessity and the independent nature of banking conducts continued to wilt.

The Third Stage: 1990 – 1997; Comprehensive Opening of The Financial Sector, Continuance of The Implementation of The Industry-specific Divided Supervisory System

Entering the 1990s, as the Korean government begun to realize the one-sidedness and incomprehensiveness of such financial reforms. Facing pressures from advanced countries of Europe and America to open its market as well, Korea begun to quicken its pace in opening its financial industry. In 1993, unrestricted currency exchange for Korean Won in relation to both regular and capital projects was introduced. At the same time, access to the domestic market for foreign financial institutions was improved, and domestic branches of foreign banks were to receive citizen treatment, whereas the push to open the securities, insurance and investment trusts industries were intensified.

While accelerating its financial reforms, the Korean government was also stressing the importance of the stability of its financial supervisory system. Prior to 1997, the supervision of the financial sector was mainly the responsibilities of the MOFE and the Central Bank who were wholly responsible for the operations of Korea's economy. Policies on financial supervision had long been seen as serving for the purposes of industrial policies. Korea's diversified industry-specific mode of supervision lasted from the 1970s until the breakout of the Asian financial crisis in 1997. It was chiefly implemented by the Office of Bank Supervision, the Securities Supervisory Board, and the Insurance Supervisory Board.

The Forth Stage: After 1997 - The Establishment of An Integrated Cross-Section Mode of Supervision Headed by the Financial Supervisory Commission

Korea's economy suffered a severe blow because of the Asian financial crisis, with the financial sector bearing the blunt. Soon after the breakout of the crisis in 1997, Korea promptly introduced major adjustments and structural reforms to its financial supervisory systems. The chief measures were: (1) Financial supervisory functions were severed from the MOFE and the BOK, and centralized within the newly established Financial Supervisory Commission (FSC), which was directly under the State Council. The Financial Supervisory Bodies Act that was enacted on 3rd December 1997 further clarified Korea's financial supervisory model, transforming it from a mode of divided supervision headed by the three major supervisory bodies into a mode of integrated cross-sector supervision headed by the FSC. The Act also gave the FSC a considerable extent of legislative powers. According to the Act, the FSC had the rights to enact related regulations, implement industrial standards, and issued directives and suggestions to those under its supervision, and the functions of formulating general policies and standards through its legislative activities. This was a major transformation in the history of Korea's finance and supervision.[6]

After the Asian financial crises, Korea adopted a series of policies for financial and economic structural adjustments; and the spirit of financial supervision changed from one of "control and protection" towards one of "self-regulation and competition". Their aim was to insure the healthiness of the financial sector. By decentralizing the functions of financial supervision, the potential negative outcomes of over-centralization were to be avoided, and conditions would be created for a financial environment suitable for the market-oriented integrated operations of the future. As mandate and responsibilities were clearly defined, the best formation of supervisory policies was to be created by the demarcation, balancing and coordination of various functions.

However, it is still obvious that, despite Korea having gone through nine years of major transformations of its economic and financial structures, the goals of financial reforms have yet to be reached, and numerous problems still exist in its economic and financial operations. For economic and financial systems that have been under the controls of centralized authorities for a prolonged period of time, it is difficult to rely on institutional changes to build up a perfect market structure within a short period of time. It will require long-term persistent efforts.

III. The History Of The Progression Of China's Financial Supervisory System: From "Comprehensive Integration" To Industry-Specific Divided Supervision

From the establishment of The People's Bank Of China (PBOC) on 1st December 1948 until the initial period of reforms and opening, China's financial system was basically one of "Comprehensive Integration", in which the PBOC had full responsibilities for all financial operations. At this time the PBOC was truly an "omnipotent bank", incorporating all kinds financial businesses into itself. As the reforms and opening of China's economy evolved, part of the functions of this "omnipotent bank" was assigned to The Industrial and Commercial Bank of China, which, together with the restoration of the banking functions of The People's Construction Bank Of China, The Bank Of China and The Agricultural Bank Of China, became the four pillars of state-owned specialized banks in the 1980s. At the same time, the China People's Insurance Corporation was reinstated, and policy-oriented banks were established. A pattern was emerging where the supervisory system was being transformed from one of centralized management into one of financial industry-specific supervision. The process of this evolution had gone through five stages:

The First Stage: From The Founding of The Country to 1984; Implementing the "Comprehensive Integration" of The Financial System

Since the founding of the country until 1984, a financial system of "Comprehensive Integration" was practiced and was consistent with the highly centralized planned economic system of the time. For this reason, the influences that banks could have on the national economy were very limited. Resources distribution and formations mainly relied on the government and its financial policies, with banks acting only as a supplementary force. Against this background, the financial industry could hardly have become the core of economic activities. Therefore, at this time there was no financial supervisory authorities, no objects of supervision, nor were there any supervisory laws or regulations. It was a complete void as to the system of financial institutions as well as supervisory systems. Financial supervision in this stage was fundamentally characterized by its inhibitory nature, which was demonstrated by its inhibition of market access and financial innovations. Its content mainly consisted in the highly centralized and planned management of the issuance of currency and capital. Administrative measures were the main supervisory tools.

The Second Stage: 1984 – 1992; The Burgeoning of Industry-specific Divided Supervision

Beginning in 1984, our country had been formulating a bipolar banking system based on the central bank and specialized banks. The PBOC was to execute the functions of a central bank, carrying out the integrated supervision of the banking, securities, insurance and trust investment industries. This was an age when financial institutions in China grew in numbers and developed with the highest speed. A large number of banks and non-bank financial institutions sprang into being at a historical rate, making it the golden era of development for China's financial industry. Accordingly, in regard to the main responsibilities of financial supervision: for the approval of market access, the approval of new banking operational institutions was to be the primary responsibility.

。In 1986, the State Council announced the Temporary Provisions On The People's Republic Of China's Banking Supervision, which took China's banking supervision onto its first step towards legalization. However, despite its legislative delineation, banking supervision at the time was still characterized by the planned and administrative mode of financial regulation. Standardized, market-oriented and scientific banking supervision was still at a stage of being explored. In the early 1990s, upon the establishment of the Shenzhen and Shanghai Securities Exchanges, China's securities market was formally started. The securities industry became another ascendant industry following the huge development of the banking sector. In the face of this new financial development, how to strengthen securities supervision had become the new issue in the supervision agenda. In October 1992, the State Council Securities Commission and the China Securities Regulatory Commission (CSRC) were established, marking the transition from the past setup of divided supervision of the securities market by the Ministry Of Finance, the State Planning Commission and the People's Bank to the establishment of the system of unified supervision of the securities market. The establishment of the CSRC marked the first step towards "divided industry; divided supervision" for our country's financial industries.

Following the further intensification of reforms of the economic system and the swift development of the financial sector, on 25th December 1993 the State Council announced the Decision On Financial System Reforms, defining the two major functions of the PBOC in implementing monetary policies and carrying out financial supervision.

The Third Stage: 1993 – 1998; Banking Supervision On Track for Regularization and Legalization

In 1994, three policy-oriented banks (The National Development Bank, The Import & Export Bank Of China and The Agricultural Development Bank Of China) were established, laying the foundation for the PBOC to carry out market-oriented supervision of commercial banks. In 1993 the first national conference for the supervision of financial institutions was held to highlight the importance of making financial supervision one of the primary functions of the PBOC. Since March 1995, following the announcement of the PBOC Law, Commercial Bank Law, Negotiable Instruments Law, and Guarantee Law，China's banking supervision had entered a new phase, and was advancing towards legalization and regularization. In 1996, our country joined the Bank Of International Clearance and the Basel Committee, and made substantial progress in the areas of regularized on-site inspection, off-shore investigation, strengthened guidance for the internal controls of commercial banks, and the implementation of risk-based classification systems for loans. Banking supervision based on international standards and rules had progressed from theories to feasible practice. Continuous maturing and regularization of supervision was the main feature in the banking supervision of this period.

The Forth Stage: 1998 – 2002; Accelerated Reforms of The Financial Supervisory System

The outbreak of the Asian Financial Crisis in 1997 made us profoundly realize that financial risks are ever-present. Once loopholes exist in risk management and prevention, financial crisis will inevitably result and, eventually, the sustained development of the economy will be harmed. Therefore, financial security is equivalent to national security. Following the outbreak of the financial crisis, in November 1997, the Central Committee convened a national ad hoc meeting to discuss the financial tasks ahead, and proposed to establish within roughly three years a modernized system of financial organization, financial market, financial control and supervision that is suited to a socialist market economy. The outcome of the conference was the Notification By The State Council Of The CPC Central Committee Regarding The Intensification Of Financial Reforms, The Rectification Of Financial Order, And The Prevention Of Financial Risks, a document aimed at guiding the reforms and development of China's financial industry.

In a short space of time, the PBOC carried out a large-scale modification of its organizational structure, setting up branches at the multi-administrative-region level while abolishing the provincial level structure. It also strengthened the supervision, expurgation and revamping of various kinds of financial institutions such as commercial banks and partnering financial institutions.

In order to prevent the transference, cross-over and penetration of risks in integrated financial operations, and to construct fire-walls for the banking, securities and insurance industries, the government carried out its even more distinct vision of discrete operations and industry-specific divided supervision, and implemented reforms to an even greater extent under the existing supervisory system. In April 1998, the State Council Securities Commission and the China Securities Regulatory Commission (deputy-ministry level) were merged to form the ministry-level Commission having the same name as the latter. In November of the same year, the State Council approved the establishment of the China Insurance Regulatory Commission (deputy-ministry level at the time) to be in charge of the supervision of the insurance industry, whereby the second step towards discrete operations and industry-specific divided supervision was taken. The PBOC was to be mainly responsible for the supervision of the banking and trust investment industries. Such was the prototype for the "Troika" structure of today.

In 2001 China joined the WTO and opening its financial sector was one of its major commitments after the entry. Constructing a competitive financial system was an important task facing the Chinese government and the financial supervisory authorities. In March 2002, the State Council of the CPC Central Government convened the Second National Conference On Financial Tasks to discuss ways of dealing with the challenges presented to China's financial industry after joining the WTO. The Conference proposed: financial supervision was to have the greatest priority among all financial tasks; a five-level classification system for loan quality standards was to be comprehensively implemented in the banking industry; the PBOC was to lead in the formulation of the supervisory system, comprehensive reforms of state-owned commercial banks, reforms of rural credit associations, and other supervisory programs. The prevention of financial risks and the building of a comprehensive financial supervision system were major features in the financial reforms and development of this period.

The Fifth Stage: After 2003; Constructing And Perfecting The Industry-Specific Divided Supervisory System

On 28th April 2003, financial supervisory functions were discharged by the PBOC and taken up by the newly established China Banking Regulatory Commission who would perform related duties such as the approval, supervision and regulation of banks, asset management corporations, trust investment corporations and other deposit type financial institutions. On 27th December of the same year, the People's Republic Of China's Banking Supervision And Regulation Act was promulgated, becoming our country's first specialized law regarding banking supervision and regulation.

By this time, the "Troika" for China's financial supervision was truly complete. A departmentalized financial supervisory system was formed in which the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC) and the China Insurance Regulatory Commission (CIRC) would have clearly demarcated functions and would work in close co-ordination. After the establishment of these three financial supervisory commissions, the era of "Comprehensive Unification" in which the PBOC had for over fifty years centralized both monetary policies and banking supervision within itself came to an end. The PBOC was advancing towards becoming an independent central bank. Being a central bank that was focused on monetary polices, the PBOC greatly enhanced its independent status and functions.

Along with the appearance and development of mixed financial operations, the CBRC, CSRC and CIRC are working hard to enhance co-operation. Their first joint meeting on supervision was convened on 18th September 2003, which carried the "Memorandum On The Sharing Of Tasks And Co-operation By The CBRC, CSRC And CIRC In Regard To Financial Supervision And Regulation". A set-up of "One Industry, Three Commissions" for financial supervision was well on track for exploring ways of co-operation and development. Currently economic globalization and financial internationalization are constantly developing. Economic and financial relationships between countries are getting ever closer. Their interactions and penetrations into each other are deepening. Strengthening national financial supervision alone will not be sufficient. Thus, the internationalization of financial supervision has become the main feature of supervision. Under the "One Industry, Three Commission" set-up, China's financial supervision and regulation is certain to continue maturing with the passage of time.

IV. Conclusion

There is a certain degree of comparability in China and Korea's economic and financial development. In regard to the taking-off of the economy, what had caught the world's attention in Korea's economy was the opening of its market since the 1970s (the sixties was the period of its construction of a government-oriented market economy), the opening of its financial market in the eighties in particular, and the appreciation of the Korea Won in the nineties, which were all ten years earlier in time than those in China. In other words, for all the issues currently encountered by China in its market economy and financial reforms and development, one can find traces of the same in the various stages of Korea's economic development. They can provide us with a frame of reference that will help us explore and understand the orientation for financial reform and development.

1. Modes of Financial Supervision Are Adjusted In Dynamic Environments

A mode of financial supervision is the structural arrangement of a country's system of financial supervisory institutions and laws and regulations. Although the mode of financial operations in use is an important reference in the choice of a mode of financial supervision, the two are not always correspondent or consistent with each other. Various combinations of different operational modes and supervisory modes could all be successful. The key is to choose a mode of financial supervision that suits a particular country according to the stage and direction of its financial development and its objectives and capabilities in carrying out the supervisory tasks. In view of the history of the development of China and Korea's financial supervision, the choice of a country's mode of supervision is closely related to its level of economic and financial development. It is perfected throughout a constant process of reforms, trials and errors, and exploration. There is no universal law, nor can any other country's experience be copied to suit one's own national conditions entirely. Since the 1960s, Korea's economy had been increasing its market-orientation while its financial reform had been moving ahead constantly. Along with the constant development and transformation of the financial market, mixed operations within Korean financial enterprises had been widespread, and there had been a certain amount of integrated financial corporations. However, with each industry-specific supervisory body conducting its own, supervisory efficiency had not been high, coordination had been difficult, and problem of blind spot had been getting more and more pronounced. Therefore, after 1997 Korea chose to establish a unified mode of financial supervision, hoping to fully cover all kind of financial institutions and to block all the loopholes in financial supervision. China completed the framework for its system of industry-specific divided supervision in 2003, although it had been the subject of a lot of criticism from the industry and the academic circles. In view of the experience of Korea and other countries, whether the choice is the industry-specific mode or the centralized supervisory mode, there is no universal right or wrong, nor is there any universal compatibility or incompatibility. It is closely related to a country's particular legal system, financial environment, habits and efficiency; and it is subjected to constant adjustment throughout a process of dynamic development. Since China has chosen the industry-specific supervisory system, it should focus on enhancing supervisory efficiency, co-operation and co-ordination, avoiding the problems that had occurred within the mode in the past, further strengthening mechanisms for information-sharing, and refining joint-inspection systems, in order to adapt to the innovations and development of the financial industry. Taking the United States for instance[6], since its promulgation of the Modernization Of Financial Services Act in 1999, the existing system of discrete business operations was broken down and a system of mixed business operation was adopted instead. However, the mode of industry-specific crossover supervision continued to be used, and dual-level supervisory authorities were established within the federal and state governments. Despite numerous criticisms within the country, Greenspan, ex-chairman of the Federal Reserve, consistently opposed to the mode of unified supervision, insisting that the establishment of two or more financial supervisory institutions could provide a good competitive mechanism and promote constant improvement and innovation for financial supervision.

2. Financial Crisis Is The Reflection Of The Unhealthy State of A Country's Financial System

A survey of the development of Korea's financial industry reveals that Korea's financial system has changed from the government-oriented model of the 1960s to the market-oriented model of today, and its supervisory system has changed from the government-centralized-control and industry-specific supervision to the current unified supervision; a process that spanned over forty years. During the initial period of "Official Finance", the government had been using the financial industry as a tool to execute its macro-economic plans and production policies, while having a direct control on bank credit operations and the scopes of market exchange activities. Although this kind of financial system had some positive effects in areas such as the government's efforts in raising funds for economic development, particularly in regard to the development of vital production industries, its negative impact had also been profound.。It had severely deprived banks of their operational initiative, lowered their capacity in managing and controlling loan risks, weakened their competitiveness, and led to an enormous accumulation of hidden risks. The Financial Crisis was the final breakout of the problems accumulated within Korea's finance and supervisory system over a long period of time.

3. The Opening Of The Financial Industry Must Be Based On The Financial Development And Security Of A Country

After the Financial Crisis, in face of the pressures from the IMF and its own commitments, Korea fully opened the door for access to its financial sector by foreign capitals. One prominent outcome was the enormous changes to the shares-holding structures of financial institutions. The banking and securities industries absorbed a large amount of overseas capitals. Foreign holdings of stocks were widespread, and the largest stockholders for banks like Foreign Exchange, Korean-American, National, Hana and First were all foreign merchants. At the same time, the market shares for foreign capitals in the securities and insurance industries were also rising. The reorganization and opening of financial structures had enabled the internationalization of Korea's financial market to advance rapidly, but had also been a subject of considerable controversy. When selling financial institutions to foreign investors becomes the only choice, long-term strategic partners for industrial development should be sought instead of private equity funds[7]. Moreover, since the acquisition motives of foreign capitals and the host nation's position could hardly be consistent, there is an objective potential for hidden risks to the host nations financial security. In the process of stock-acquisition by foreign capitals, the appearance of short-term capitals and various investment funds with strong speculative characteristics could easily lead to instability in the host nation's banking industry.

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