Letter from the Editor

Just a short while ago, many were celebrating Korea's entry into the OECD, the so-called "club of rich nations." However, it seems that Korea has a few hurdles in its way as it strives to meet its obligations and liberalize its economy. In the month of January, two major economy-related topics have dominated the headlines. The first was the controversy spurred by the new labor regulations passed by the ruling New Korea Party at the end of last year. Labor representatives and opposition politicians have taken a joint hardline stance in criticizing the government and ruling party both for the contents of the new labor bill and also the manner in which it was passed.

The government has defended itself by saying that the new laws are necessary if Korea is to regain its economic competitiveness. For a time, it seemed that nationwide strikes might paralyze the nation, but fortunately this did not occur. The President has agreed to review the labor bill and tensions have lessened to a degree, but labor-management relations will most likely remain a controversial topic in the months to come.

The second major news item was the recent declaration of bankruptcy by Hanbo Iron and Steel. According to reports, Hanbo owes domestic financial institutions an astronomical 5 trillion won, which was largely used to finance the construction of a large-scale steel complex in Tangjin. Many questions are being raised as to how such a financially unstable company was able to continuously receive loans to this extent. International credit rating agencies are already adjusting downward their credit ratings for Korean banks, something which Korea's weak financial industry can ill afford.

These two events are an indication of the problems the Korean economy is facing as it tries to liberalize and deregulate. Fortunately for the nation, the Government realizes that short-term solutions will not suffice and has accordingly placed top priority on enhancing the nation's competitiveness and stability in its economic plans for 1997. The Government is targeting a growth rate of around 6% this year, down from last year's 6.9 to 7 percent, and intends to keep inflation under 4.5%.

Of particular concern are the current account and trade deficits. Last year's current account deficit reached a record $23-24 billion, and the Government is hoping to lower this to $14-16 billion this year. However, January marked another record high trade deficit of $3.7 billion. In the **Current Issues** section of this month's *VIP Economic Report*, we focus on how to deal with these deficits which ballooned in the past year.

One of the reasons often cited for Korea's loss of international competitiveness is the high cost of financing. In joining the OECD, Korea is obligated to liberalize its financial sector, generally regarded as one of the least developed sectors. To help domestic financial institutions prepare for this incoming stiff competition, the Korean government decided to allow M&A's in the financial sector last year. Our **Industry Analysis** takes a look at how this will affect the financial industry and why this is needed for Korean firms to enhance their competitiveness.

On a slightly brighter note, North Korea finally did issue an apology for last fall's submarine incident, perhaps paving the way for an improvement in South-North relations. Our **VIP Forum** evaluates the effectiveness of our current policy toward North Korea in view of the lessons from the German unification.

In a new section called **Trade Issues**, we will examine the information technology agreement (ITA) which was recently signed at the WTO meeting in Singapore. The ITA was hailed as the highlight of the first ministerial meeting of the fledgling world body and will undoubtedly have a major effect on Korea's trade in more ways than one.

For the Korean economy, this year has gotten off to a rocky start. Let us hope that the Lunar New Year will bring new signs of change for the better. VIP