
Letter from the Editor

The million dollar question still remains: when will the economy finally turn around? While there is hardly any consensus on this issue, there are indeed a number of positive signs. Exports in April totalled \$11.3 billion, while imports only rose 1.6% to \$12.88 billion. While this still translates into a deficit of \$1.5 billion, it marks the first time in 10 months that exports increased more than imports. The yen has been appreciating against the dollar, which will improve the price competitiveness of many of Korea's major export items which compete head-to-head against Japanese products in overseas markets. However, it will raise the price of the Japanese imports such as capital goods and machinery which are needed to sustain the Korean economy.

Other leading economic indicators have also been positive. Consumer prices have only risen 2.2% in the first four months of this year, the lowest level since 1989. Korea's foreign exchange holdings have risen to almost \$30 billion, after dipping down to \$29.15 billion in March. The stock market also seems to be anticipating an imminent recovery, with the KOSPI hurdling over the 700-pt. barrier and reaching 756.77 as of May 31. The strong jump was boosted by reports that the current account deficit narrowed to \$1.71 billion in April, much lower than the \$2.36 billion recorded in April last year. History is also on the side of the optimists, given the fact that Korean business cycles have historically averaged around 50 months in length, which means that the current cycle should be ending either in the 2nd or 3rd quarter of this year.

On the other hand, pessimists are pointing to the fact that investments are not expected to pick up throughout this year and that inventories remain at high levels. Both private and public consumption have also slowed down considerably in the wake of the civilian-led frugality campaign and the government's own belt-tightening efforts. Furthermore, the financial market still remains tense as many financial institutions are

being extremely selective in issuing new loans or even renewing standing ones. The recent agreement by banks and some other financial institutions to come to the rescue of certain companies in danger of going bankrupt has given a certain degree of stability to some firms, but also strain on those not covered by the agreement.

The financial sector has long been considered one of the weakest segments of the Korean economy. One of the biggest problems has been the lack of adequate supervision within the industry. This has particularly become a key issue with the proposed launching of the Office of Financial Supervision suggested by the Financial Reform Council. The **Industry Analysis** examines the reasons behind the formation of this new entity and what needs to be done for this office to be effective in its duties.

Another hot issue lately which has implications far beyond the actual economic details is the North Korean food aid issue. Recently, South Korean Red Cross officials agreed to provide 50,000 tons of food aid to the North after negotiating in Beijing with their North Korean counterparts. Many have reservations about providing Pyongyang with any sort of aid in light of their actions the last time food was given and their general stubbornness concerning issues such as the four-party peace talks. On the other hand, it is difficult to just standby and watch as the North cries out for food without feeling the urgent need to take care of our Northern brethren. The **VIP Forum** takes a detailed look at this more than just a humanitarian issue and analyzes how this will affect the prospects of a lasting peace, the ultimate prize in North-South relations.

In many ways, the Korean economy is in much better shape than it was just a few months ago, but that does not necessarily mean that the worst is over. It is essential that we make the most of positive factors such as the yen's appreciation to restructure our economy so that it is better able to withstand the ups and downs of the business cycle in the future. **VIP**