Letter from the Editor

As we cross the halfway point of 1997, things appear to be looking up for the Korean economy. Perhaps the brightest sign was June's trade surplus of $98 million, the first such surplus in 30 months. The turnaround was largely attributed to the improved performance of leading export items such as semiconductors, petrochemicals and iron and steel. In addition, the stronger Japanese yen, which improves Korea's competitiveness in many major export items, is leading many to believe that the export picture will continue to brighten.

At the same time, consumer prices have only increased 4.4% for the first six months compared to the same period last year, the lowest inflation gain in 10 years. The Government feels fairly confident that it will be able to attain its inflation target of 4.5% this year.

Other signs are positive. The jobless rate is falling, reaching 2.5% in May, as compared to the 2.8% in April and the 3.4% in March. Interest rates continue to drop, with the yields on 3-year corporate bonds remaining well under 12%, and the won/dollar exchange rate seems to have stabilized at around the 890 level. And Korea's foreign exchange holdings, which dropped to a low $29.1 billion at the end of March, have risen sharply to $33.3 billion at the end of June.

However, it is still too early to say that the Korean economy will soon witness a full-fledged recovery. Domestic consumption and investment still remain subdued. Consumption is only expected to grow by 5.2% this year, the lowest level in 16 years. Facility investment will drop 2.8% this year as businesses are cautious about the business environment, partly because of the impending presidential elections in December. The Federation of Korean Industries business survey index (BSI) stood 87 in July, higher than June's 80, but still well below the benchmark 100 which represents neutral sentiments. Thus, in spite of the emerging positive signs, many feel that the economy will not get underway fully until next year.

One of the most common scapegoats for Korea's recent economic woes has been the Korean financial industry, a fundamental cause of the economy's high-cost/low-efficiency structure. The Government recently released a financial reform plan. While virtually everyone agrees that financial reform is badly needed, heated debate is occurring over certain points, including transferring financial regulatory authority to a newly established Office of Financial Supervision. Such opposition makes it unlikely that the proposal will be passed by the National Assembly as is, but financial reform in one form or another is essential to Korea's future economic development.

Hand in hand with such regulatory reform must be efforts to improve industry productivity. In our **Industry Analysis**, we take a look at ways to improve the Korean banking industry's productivity and also the underlying issues of the debate over financial reform. In a related topic, our **Current Issues** focuses on the prospects of the Korean financial futures industry, whose importance will increase tremendously with the further liberalization of the Korean financial market.

In our **VIP Forum**, we analyze how the Japanese economy struggled out of its recessions in the past, which is particularly valuable in light of Korea's current economic situation. For our **Let's Talk** section, we are fortunate to have a speech given by Deputy Prime Minister/Minister of Finance and Economy Kang Kyong Shik on the current state of the Korean economy and the proposed financial reform plan.

The Korean economy is still far from being in perfect health. It should be remembered that there is much work left to do as we enter into an ever more competitive age. VIP