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## Letter from the Editor

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For a while, it appeared that an economic recovery might be right around the corner, probably in the fourth quarter of this year, but those hopes have been tainted with bad news. The aftermath of the Kia crisis continues to linger, and the financial markets have been unstable, with interest rates rising, the value of the won dropping, and liquidity remaining tight. The government recently unveiled a package of stabilization measures to address this instability. It announced that it would guarantee financial institutions' external debts in an effort to boost Korea's sagging overseas credit rating. It also said that it would provide special loans to Korea First Bank and ailing merchant banks, battered by the repeated string of bankruptcies. These measures proved to be insufficient, though, and the markets remained unsteady. The three-year corporate bond rate remained at 12.16% as of September 1, after having fallen well under 12% in recent months. The exchange rate soared to 909.50 won/dollar for a moment, a record since March 1990, before falling back to the 905 range with the central bank's intervention. The stock market has also been in the doldrums, with the KOSPI falling well under 700, wiping out any recent gains. Most investors seem to be taking a wait and see attitude.

In this month's edition of the *VIP Economic Report*, our **Current Issues** section analyzes the recent string of bankruptcies and the possibility of a full-fledged banking crisis occurring in Korea. Many are worried, especially since some predict Korea's foreign currency reserves will dip under the \$30 billion mark again after having surged to \$33.7 billion at the end of July. The massive devaluation of Southeast Asian currencies have added to fears, but it should be remembered that the situations are not exactly

the same.

On the North Korean front, the shocking defection of North Korean Ambassador to Egypt Jang Sung-gil has thrown cold water on what progress was being made in negotiations on the four-way peace talks. His defection, though, could provide valuable insight on North Korea's situation, particularly its missile sales to the Middle East. It is hoped, though, that progress on the peace talks will resume shortly, and that this is only a temporary pause. Our **VIP Forum** this month takes a look at the costs entailed in reunification and ways of reducing what will undoubtedly be a significant economic burden.

Our **Industry Analysis** focuses on the Korean telecommunications industry, an increasingly important industry which will be instrumental in determining Korea's economic fortunes in the 21st century. In **Trade Issues**, we examine the recent developments in U.S.-Korean auto trade, a perennial problem area which has once again resurfaced. While Korea has some legitimate ground for its defense, withstanding U.S. pressure over the long run will be no easy task. We conclude with our usual sections on the Korean economy, stock and bond markets, the world economy, and statistics.

Originally, we were predicting that the economy could begin to recover in the fourth quarter of this year, but with the Kia crisis, it appears that an upturn will not occur until the first quarter of next year at the earliest. While the export picture has brightened somewhat, this is more the result of the enhanced price competitiveness due to the won's depreciation than a substantive improvement in the economy. We predict that in the second half of 1997, GDP will grow 6.6% to make this year's annual GDP growth rate 6.3%. **VIP**