Letter from the Editor

The National Statistical Office recently announced that according to various indices, the Korean economy will begin its recovery in October. This prediction may be affected by the resolution of the Kia situation, but if the financial markets regain their stability, recovery could very well be just around the corner.

The Kia Group recently filed for court protection at the end of September, hoping to buy time until it can regain its feet, but its creditors are convinced that such efforts are futile. Of course, not only is the fate of the Kia Group at stake but also the future of thousands of parts suppliers and vendors who deal with Kia either directly or indirectly.

Already facing a high percentage of insolvent loans and fearing such a cascading chain of bankruptcies, financial institutions continue to be conservative in their lending and the market liquidity remains tight. Interest rates continue their steady climb, with the yield on 3-year corporate bond rates reaching 12.63% as of Sept. 29. The stock market has also been battered by the fears of these bankruptcies as of late, with the KOSPI index dropping to 625.07 after being in the upper 700s just a couple of months ago. In addition, the won continues to depreciate against the dollar, with the exchange rate reaching 915 won/dollar, a record since Korea adopted the average market rate system in 1990.

Some worry that Korea may experience a currency crisis similar to those recently experienced in Southeast Asia. However, it should be remembered that Korea's current situation is fundamentally different from those of the Southeast Asian countries' in several significant ways. For instance, Korea's economic fundamentals such as its growth rate or its current account deficit to GDP ratio are much more solid than those for say Thailand recently or Mexico in 1994. The Korean economy is also showing some encouraging signs at the moment, with the current account deficit shrinking to $714 million and a trade surplus of $116 million being recorded in August.

In this issue of the *VIP Economic Report*, our **Current Issues** section looks in greater detail at the possibility of a foreign exchange crisis and also examines foreign hedge funds, charged by many as the chief culprits of the Southeast Asian currency crisis. In our **Industry Analysis**, we take a look at how the concept of human resources development and labor-management relations must change in the course of Korea's painful process of restructuring around value-added and knowledge-intensive industries.

The recent four-party talks in New York proved to be of little benefit as the North continued to insist on the removal of U.S. troops from the South and also guaranteed food aid before any further progress. Without a question, unification will be a long and tiring process. It can only help to study the closest parallel to our situation, the German reunification. In our **VIP Forum**, two lessons derived from the German experience, a positive one and a negative one. In addition, this issue features HRI's 1998 forecasts for Korea's major economic indicators and industries.

It does not seem likely that Korea will suffer a currency crisis, although the longer the financial markets remain unstable, the more and more this possibility increases. Therefore the government should make utmost efforts to soothe the financial markets so that firms can pursue restructuring and refine their competitiveness at a lower cost, thereby hastening any impending recovery. VIP