
Letter from the Editor

October was clearly not the best of months for the Korean economy particularly the financial markets. The won/dollar exchange rate soared during the month, reaching as high as 984.79 at one point, before settling back down to the mid-960s range thanks to the strong intervention of the Bank of Korea. Worries about the exchange rate movements and additional bankruptcies combined with the woes in other Asian stock markets to cause the KOSPI stock index to dip down to 470.79 on October 31, although it recovered to close to the 500-point level the next day. Interest rates continued to inch up, with the 3-year corporate bond yield reaching 12.60, although this movement relatively small compared to the movements in the other markets. However, both Moody's and Standard and Poor's lowered their ratings for Korea's international credit, which will make it even harder for Korean firms to obtain funds overseas.

However, things may not be as bad as they appear. While it is true that some firms are in poor financial health and that the financial markets are experiencing some severe fluctuations these days, these sudden movements seem to be based more on short-term speculation than on an accurate long-term assessment of Korea's economic fundamentals.

Recently released data shows that Korea's trade and current account balances are much healthier than last year's, and industrial output is also improving. In addition, the raising of the foreign investment ceiling from the current 23% to 26% will hopefully provide some stability to the stock market. The Government also appears confident that it possesses enough foreign currency reserves to resist a further hike in the exchange rate. Furthermore, the Kia crisis seems to finally be moving toward a resolution with the Government's decision to convert loans extended by the Korea Development Bank into equity and the resumption of Kia's production.

One noteworthy development on the Korean Peninsula in October was Kim Jong-il's assumption of the title of General Secretary of the Korean Workers' Party. While it is still too early to tell exactly how this will change things in the ever-nebulous North, many are hoping it will help stabilize the situation in the North and possibly lead to further progress in South-North relations. We are fortunate to have an article by Aidan Foster-Carter, noted expert on North Korean affairs, which assesses the ramifications of this long-anticipated step.

Another upcoming development which could have far-reaching implications for the entire global economy is the global climate change treaty expected to be signed in Kyoto in early December, which will inevitably influence the industrial structure of every major economy by restricting the amount of greenhouse gas emissions. For our **Current Issues**, a member of our affiliate, the Hyundai Institute of Eco-Management, analyzes the varying positions of each side and the overall implications.

Our **Industry Analysis** focuses on how the concept of the employment contract and also career development are changing in Korea, a necessary trend considering Korea's ongoing transition toward a more advanced economic structure and also the rapidly changing global business environment. And for our **Trade Issues**, we take a look at the moves to establish a free-trade zone over the Internet, a rapidly emerging sector of commerce.

The biggest factor hampering the prospects of Korea's economic recovery is the instability in the financial markets. Therefore, it is imperative that the Government make every effort to stabilize the stock and foreign exchange markets and restore the confidence of investors and firms both domestic and foreign. This will allow Korea to proceed with the daunting, yet conquerable challenge of becoming a truly advanced nation. 