Letter from the Publisher

It has been about six months since Korea concluded the agreement for an IMF-led $58 billion bailout package in the midst of a burgeoning financial crisis. To a certain degree, the situation has improved. The worst of the currency crisis has passed by, thanks in large part to the recent debt-restructuring agreement, the successful global bond issue and, of course, the support of organizations such as the IMF. Korea's foreign exchange reserves continue to be bolstered by hefty current account surpluses each month, and foreign investment into Korea is starting to increase. However, the Korean economy still facing some difficulties. Even though the won/dollar exchange rate seems to have stabilized in the 1400 range, the foreign exchange market retains some volatility. The Korean stock market has entered into a prolonged downturn. Furthermore, the process of economic restructuring is proving more painful than originally expected, with the unemployment rate and bankruptcy level rising at alarming rates. What is more, the restructuring process is only just getting underway; the light at the end of the tunnel is still in the distance.

If Korea is to restructure its economy and successfully emerge from the present crisis, it seems only natural that we examine in detail exactly what went wrong. It is true that there were some unexpected external factors, such as the financial crisis which developed in Southeast Asia and the so-called "semiconductor shock" of last year. However, a closer analysis shows that the fundamental reasons for Korea's economic woes are more structural in nature. In fact, increasingly serious structural problems have simultaneously surfaced in virtually every area of the Korean economy. In a sense, however, it seems only natural that the Korean economy is experiencing such problems given its rapid and compressed growth pattern. It took only 30 years for Korea to industrialize, a process which other countries needed almost a century to achieve. As a result, the Korean economy has lost its vitality even before reaching the level of the advanced economies. More specific reasons for the crisis include businesses' excessive borrowing and imprudent investment, the relative underdevelopment of Korean financial institutions, and the lack of proper and effective government policies.

It is clear that Korea is at a critical juncture, and at this point, there is little margin for error. Certain economic reforms must be implemented swiftly: increased market opening, improving businesses' financial structures, enhancing management transparency, ensuring government policies are market-oriented, and making the labor market more flexible, among others. Almost everyone is in agreement of the necessity and urgency of these reforms. However, there is some room for debate as to which reforms should be given greatest priority, and perhaps more importantly, how can these reforms be successfully achieved.

This special edition of the *VIP Economic Report* is designed to provide a clear and in-depth analysis of the current status of the Korean economy. Our aim is to help our readers gain a greater understanding of the complex background and the various factors which are dictating the pace and direction of the ongoing reform efforts, and also provide some useful policy suggestions.

In closing, I would like to thank the members of our editorial board and staff for their efforts in publishing in th *VIP Economic Report*, and also our readers for their positive feedback and their continued readership. VIP