Letter from the Editor

The Korean economy faces a bleak environment in the days ahead. On the domestic side, Korea recorded a negative economic growth rate of -3.8% in the first quarter, the first such quarterly drop since 1980. Unemployment has already topped 1.5 million, and the restructuring process is still just getting underway in earnest. Domestic demand has shriveled up, worsening the already severe recession. Even though the corporate bond rate has fallen to near pre-crisis levels, this has not been reflected in the domestic financial market, which remains gripped by a tight credit crunch as financial institutions are unwilling to extend credit in these uncertain times. To make matters worse, exports are also starting to drop. The Asian market remains depressed, and Japan is suffering from its own massive problems and uncertainties, particularly with the stunning defeat of LDP in the recent elections. In addition, the U.S. and Europe are also now beginning to feel the effects of the Asian crisis.

What is clear now is that Korea cannot afford to sit back and take a passive attitude toward economic restructuring. Toward this end, the Korean Government recently undertook a number of steps to accelerate the restructuring process. On June 18, the Government announced a list of 55 non-viable firms which would be forced to close their doors. While some have criticized the move as being mere window dressing and lacking substance, the move was a symbolically important first step which shows Korea is serious about the full-scale restructuring of the corporate sector, especially since a second and third list are expected to be announced shortly. Our first **Current Issues** piece analyzes the significance and implications of this business closure list. In addition, we have a feature on the so-called "London Approach" which will provide perspective on the background and nature of the restructuring approach.

Shortly after that, the Korean Government announced that five commercial banks would be merged with healthier banks, while seven others were given conditional approval to carry out their submitted restructuring plans. This was a major move in the fundamental restructuring of Korea's financial sector, an essential prerequisite for any possible economic recovery. Our next **Current Issues** feature takes a closer look at the mergers of these banks and also what lies ahead in the course of financial restructuring.

And finally, our last **Current Issues** focuses on the problem-ridden Japanese economy and its impact on the rest of Asia. Japan has no choice but to undergo massive financial and economic restructuring itself; delays in doing so only serve to add to the immense uncertainties within the region and forestall an Asian economic recovery. The change in governments will hopefully provide some badly-needed impetus for economic change.

In our continuing effort to better serve our readers, we are planning to make further modifications to the content, style and staff of the *VIP Economic Report*. We hope that these changes will reflect more accurately the needs of our readers and help them to better understand the ongoing dramatic changes in the Korean economy. VIP