
Letter from the Editor

Since the start of the new year, Korea's financial markets have been showing continued strength, which is encouraging expectations of an economic recovery in the near future. Thanks to the continued oversupply of dollars in the foreign exchange market, the won/dollar exchange rate has fallen and remains in the mid- to high-1,100 range. Interest rates continue to remain low, falling into the sub-8% range. In addition, the stock market has one of the hottest in the world over the last couple of months. After falling under the 300-point level in September, the KOSPI index has since doubled and has settled comfortably in the 600pt. range.

Foreign investment continues to flow in because of the improving outside views on Korea's prospects. The Korean economy should get an additional boost by the recent upgrade of Korea's sovereign credit ratings to investment grade by Fitch/IBCA and similar upgrades by Standard and Poor's and Moody's expected to come in the near future.

However, the fact remains that it is still too early to celebrate an economic recovery. Many analysts are worrying that a bubble may be forming in the stock market. The recent bullishness in the stock market is not necessarily backed up by a corresponding improvement in the economic fundamentals. Any turnaround in the real economy will be limited by the continued slump in the domestic demand and the less-than-rosy export prospects.

As we mentioned last month, the January issue of the *VIP Economic Report* is a special edition focusing on longer-term policy issues

under the sub-theme, "Toward a High-Efficiency Economy." After our usual **Economic Perspectives**, our special section starts with a comparative analysis of Korea's situation relative to past crisis countries and offers a possible scenario for emerging from the economic crisis. The next special article discusses the development of a knowledge-based economy within Korea's industrial structure, a shift which is essential to Korea's long-term future health. The third article examines the current labor and social welfare policies of the government, and the ideal future direction to maintain social cohesion in the midst of such rough times in the economy. Next, we look at how Korean companies must improve their financial management system in order to regain their competitive edge and put the Korean economy back on its feet. At the same time, Korean firms must also revamp their organizational systems and better utilize their available human resources if they are to successfully compete in the global market, the subject of the next article. We close with a review of the top ten news items of 1998 and predictions on what will be the top ten news events in the coming year.

The Korean economy is still in a difficult situation, and there are still many tasks which need to be done before the Korean economy will be able to recover its health. Nonetheless, it appears that the worst will soon be over, if not already, and if the Korean government, businesses, labor, and the public in general work together and press ahead with the necessary task of rebuilding the economy, then recovery will occur in the not-too-distant future. **VIP**