Letter from the Editor

Lately, there have been several encouraging signs that the Korean economy has passed through the trough of the business cycle and is starting the road to recovery. In December, industrial production rose a year-on-year 4.7%, the highest figure to date since the start of the economic crisis. Meanwhile, exports rose 3.7%, the third straight month of positive growth. Perhaps more importantly, the international credit rating agencies S&P and Fitch IBCA recently upgraded Korea's sovereign credit ratings from non-investment grade to investment grade, with Moody's also expected to upgrade Korea's credit rating in the near future. At the most recent policy review meeting, the Korean government and the IMF predicted that the Korean economy will recover in 1999, with the real GDP growth rate rising to 2% or more.

However, it is still too early to start celebrating. First, the increase in production is not linked to an increase in corporate sales but rather an inventory correction. In addition, the production figures which have been rising are all on a year-on-year basis, which means the improvement may be a technical rebound in statistical figures rather than an actual improvement. Another factor is the overwhelming extent to which industrial production was affected by the huge jump in semiconductor production. Furthermore, the future export prospects are somewhat cloudy, especially in light of the increasing potential trade friction. The U.S. recently said it would revive the controversial "Super 301" trade provision, which was used to apply trade pressure on countries including Korea in the past, and already announced that it would take Korea to the WTO for the import beef quota issue.

Difficult as it may be, policy makers must come up with economic stimulus measures which boost both domestic demand and exports. In particular, they need to find a way to induce middle-class consumption and also facility investment, both of which will be key to reviving domestic demand.

In this month's *VIP Economic Report*, our **Current Issues** section starts with a look at the emergence of foreign banks in the banking sector and its implications. Restructuring the financial sector has been one of the government's primary focuses over the past year, and the dramatic changes within the sector will undoubtedly have a major impact on the overall Korean economy. In a similar vein, we examine the changes in the money market after the introduction of mutual funds, which have been enormously popular as individual investors have been trying to capitalize on the active stock market.

Next, we focus on privatization policies for 1999 and the task which need to be done to facilitate the process. Privatization should not only help Korea to attract foreign capital but also raise productivity and efficiency within the relevant sectors. Another important change in the Korean business world in 1999 will be the rise of outsourcing, an efficient option for Korean firms aiming to enhance their competitiveness in the most effective manner. Finally, we take a look at the prospects of Internet business in Korea, an infant market as of yet but one which is sure to skyrocket in the 21st century.

It seems that the worst is over for the Korean economy, but we cannot afford to be complacent. In spite of the promising signs, 1999 will still be a difficult year as the Korean economy continues to restructure. However, we should be encouraged that the initial pains are now starting to bear fruit and we seem to be on the road to recovery. VIP