
Letter from the Editor

From a statistical standpoint, the Korean economy appears to have bottomed out and the business cycle is now entering into a recovery phase. Both the coincident and leading composite indices have been rising for the past five months, and industrial production has also picked up, rising 14.7 percent in January year-on-year. Consumption and investment are also starting to revive.

However, even though most of the main indicators have rebounded, for the most part it does not feel like the economy is actually recovering. Domestic demand still remains sluggish, particularly among the non-high-income brackets. At the same time, unemployment continues to rise, reaching a record-high 8.5% in January. What is worse, this number may break the 9% barrier in the coming months.

In addition, exports actually dropped in February, although admittedly this was due in large part to seasonal and other special factors. Nonetheless, with the grim external circumstances, the falling yen, and the won's continued strength, it does not seem likely that exports will show a significant increase in the coming months.

In this month's *VIP Economic Report*, we start our **Current Issues** with an overview of one year of DJnomics, a look at the Korean economy's economic performance under the new principles of Kim Dae-jung administration in its first year. Next we follow with an analysis of current South-North economic cooperation and

its future prospects. New horizons have been opened thanks to Kim Dae-jung's "sunshine" policy and separation of politics from the economy, as evidenced by Hyundai's historic North Korea projects.

Our third article examines the upcoming foreign exchange liberalization and the implications for the financial futures market. The next **Current Issues** focuses on the real estate market and domestic construction industry in 1999, which should revive if a full economic recovery is to take place. Our management-related article this issue takes a look at the success factors of foreign direct investment by studying the case of Yuhan Kimberly, clearly one of the most successful foreign investments to date.

And finally, we close with a guest contribution from Dr. Ralf Müller, who writes about financial restructuring and foreign banks in Korea, obviously a topic of great concern for the domestic and foreign business community. HRI welcomes such contributions from outside readers; however, we cannot guarantee their inclusion until they have been reviewed.

As was noted above, the situation is starting to turn around for the Korean economy, but the difficulties are far from over. The worst thing that can happen now is if we lose steam and fail to complete the painful, yet necessary process of economic restructuring. Any delays in doing so will only prolong the pain and weaken whatever competitive edge that has been gained. 