

LETTER FROM THE EDITOR

It seems that the Korean economy is finally starting to recover, although at a slow, steady pace. Recently released statistics showed that industrial production in February increased 4% over the same month last year, which is all the more impressive since there were three less working days this year.

The big question seems to be, will this recovery hold up? Even though some industries such as automobiles have showed renewed growth over the past several months, there is no guarantee that this trend will last for more than a quarter or two. In other words, in terms of industries, the Korean economy has little to depend on for steady and solid growth.

In terms of GDP components, exports cannot be expected to lead the business cycle during the first half of this year, especially given the generally morose external conditions. The problem is that even though domestic demand has been picking up, the improvement is not enough to make up for the slack in exports. Roughly speaking, domestic demand needs to improve by around 10%p in order to compensate for the slower export growth and sustain the economic recovery. Facing relatively sluggish exports this year, the government policy should be focused on how to boost domestic demand. Also, identifying and supporting new leading industries is of mounting importance not only for this year's economic recovery but for the sustained growth of the Korean economy in coming years.

This month's *VIP Economic Report* first takes a look at consumption patterns in the IMF era, which have changed dramatically since the outbreak of the crisis. Charting these trends gives a clue as to which areas of consumption will

probably show the biggest recovery the months ahead. The next **Current Issues** tackles the problem of the fiscal burden entailed in restructuring the financial sector. While significant progress has been made in this area, more needs to be done and the entailed fiscal burden will inevitably be considerable, which will influence future economic policy direction.

Our next article focuses on the business prospects of the Mt. Kumgang tourism project. While political, social and cultural benefits of this project have been touted by many, it should also be remembered that this is a viable business venture with great promise for the future.

The fourth article analyzes the launching of the Korea futures exchange this month. The new exchange should facilitate the maturation of the Korean financial sector and help firms to hedge their risk better, leaving them less vulnerable to sudden shocks in financial indicators. We close our **Current Issues** section with two articles looking at recent trends in Korea's corporate culture: the introduction of stock option packages and the proliferation of incentive-based compensation system. Both of these developments show that performance will be the ultimate standard or goal in the revamped Korean economy.

As you have noticed, we have refreshed the internal layout and design of the *VIP Economic Report* in a symbolic effort to capture the momentum of the economic turnaround and contribute to what will hopefully be a sustained recovery. One thing that will remain unchanged, though, is our commitment to providing our readers with timely and informative analysis of the major trends and events pertaining to the Korean economy. **VIP**