

LETTER FROM THE EDITOR

The Korean economy continues to show positive signs as of late. Many of the production and growth indicators have been improving faster than expected, although some claim that such improvements are only cosmetic since they are relative to the drastic plunges of last year. Meanwhile, the stock market has been on a tear, as investors, both domestic and foreign, become more and more optimistic about the outlook of the Korean economy. In fact, some are worrying that the economy may overheat, which has caused the government to hold back on trying to lower interest rates any further.

In truth, the economy does appear to be improving, but such improvement is not universal. The rapid turnaround is concentrated in certain industries such as semiconductors and automobiles; other industries are not faring nearly as well. What is worse, the massive inflow of capital is putting much pressure on the won to appreciate, which will not help Korea's export price competitiveness.

This month's **Current Issues** section starts with a look at the drastic changes taking place in the financial sector. Liquidity flows have made a dramatic shift this year, as the government flexibly adjusts its monetary and financial policies to try to stimulate the economy and the stock market.

Next, we analyze Korea's dwindling middle class in the IMF era, an undesirable consequence of the crisis which has profound implications. Even though the economy is starting to show signs of recovery, the middle class needs to

regain its consumption sentiment. Otherwise, the recovery cannot be sustained.

The third article is on Korea's automotive industry in the second half of 1999. The Korean auto industry has undergone a massive shakedown, with only two players left standing now. However, many challenges lie ahead for the survivors as they strive to integrate effectively their newly acquired operations and also prepare for increasing competition in both the domestic and overseas markets.

Our next article analyzes the performance of Korean companies during the FY 1998. This is particularly useful in assessing the progress in restructuring to date and also the future tasks needed to be implemented.

We close our **Current Issues** section with a look at the implementation strategy of knowledge management, a growing trend in the Korean corporate scene which will have greater importance in the future as Korea tries to transform itself into a knowledge-based economy.

Even though the situation is improving, it is still too early to say that the Korean economy is in the midst of solid recovery. What is worse, such improvements may cause some to feel additional restructuring is no longer needed. In this sense, we should be "optimistic, yet cautious"; we should remain hopeful about the future, but starkly aware of the tasks still needed to be done. **VIP**