LETTER FROM THE EDITOR

The Korean economy continues to show strong signs of recovery. Industrial production increased by more than 20% in May, while wholesale and retail sales also continued to rise. Exports also registered a healthy 12.8% increase to reach a record $12.98 billion in June. Unemployment continues to decline, reaching 6.5% in May after hitting 8.7% just several months ago. Meanwhile, both interest rates and the exchange rate remain on a stable or downward trend, while the stock market has been on an amazing bullish tear.

The most recent trends, particularly the improvements in facility investment and exports, are especially encouraging since they indicate that parts of the economy which had been relatively lagging are also starting to recover. Such balance will be needed if the current recovery is to be maintained, particularly without inflationary pressures.

The Korean government and the IMF are expected to hold another policy review session in July, at which it is expected they will confirm a growth target of around 6% for the year. Given these encouraging developments and the evident restoration of confidence in the Korean economy both domestically and internationally, there is increasing hope that Korea will be able to graduate from the IMF program soon, perhaps by the end of the year.

However, even though the situation has obviously improved, it is essential that we do not forget the lessons painfully learned over the past year and a half. Firms must continuously strive to keep their costs down, improve their financial structures, and adopt innovative new business strategies to keep apace with their international competitors. From a larger perspective, Korea must continue with restructuring, shoring up the financial sector while revamping its lower value-added industries.

This month's issue starts with a look at potential inflationary pressures facing the Korean economy for the rest of the year. This is a key concern for policy makers as they try to boost the economy without letting it overheat. Next, we look at the recent export trends of Korea's major industries for this year and next. Overall, Korean exports are doing well, but one should realize certain sectors are faring much better than others. In a similar vein, our third article analyzes the drop in Korea's unit labor cost last year and how they affected various industries. The conclusions of these two articles suggest which industries are in the most dire need of restructuring and what must be done to sustain their competitiveness.

Looking ahead to the future, our fourth article examines the current status and future prospects of Korea's burgeoning game industry. This growing global industry not only fits nicely within Korea's avowed intent to adopt a knowledge-based economy, it seems particularly suited to Korean firms given the recent craze for online-gaming. The most popular game has been Starcraft, by Blizzard, which is the focus of our final article. This real-time strategy game surprisingly provides suitable lessons particularly for Korean firms on how they should adapt their management paradigm.

It is heartening that Korea is approaching the end of the tunnel and will soon graduate from the IMF program. However, many potential obstacles still remain, and complacency or hesitancy in implementing the remaining tasks of restructuring will not only delay a full-fledged recovery, it will leave us forever vulnerable to another crisis. As such, we should not lose sight of our goals and finish this restructuring battle to the very end. VIP