

LETTER FROM THE EDITOR

This past month has been a test of the true health or soundness of the Korean economy. In spite of the recovery and steady progress in restructuring, there were some concerns over what would happen if the Korean economy were subjected to external or internal shocks—namely, would the economy remain steady or would it falter and face another crisis?

In the last month, several factors or shocks have emerged which are negative for Korea: a potential interest rate hike in the domestic money market, the renewed possibility of the Chinese yuan's depreciation, and the financial turmoil surrounding the Daewoo Group, one of the largest business groups in Korea. The market's response to these developments was swift. Stocks immediately fell by a record margin, and some foreign investors began to pull out their capital, causing the won/dollar exchange rate to rise. Fortunately, the government moved quickly to take control of the situation, and the market reacted favorably, with the major financial indicators quickly regaining their stability.

In the future, Korea will continue to face these tests of how it handles or responds to internal or external shocks. For now, policy-makers should focus on cultivating the capability to appropriately respond to such shocks. At the same time, economic recovery and future growth should stem from a solid real economy and gains made through restructuring.

In line with this, our August issue's **Current Issues** section starts by analyzing the results and implications of the latest IMF policy review with

the Korean government. With Korea's improving economic situation, this meeting could spell the beginning of the end of the so-called "IMF" era.

Next, we have an article on the elimination of the import source diversification system, which will have a profound effect on the domestic market and consequently Korean businesses. As the Korean market is opened to more Japanese brands, consumers will enjoy a wider range of choices; however, Korean firms will have to work harder to ensure their quality meets the highest standards even in the domestic market.

Our third article focuses on the value of the Internet to Korean companies, based on a survey by the Korean Chamber of Commerce. The Internet remains an underutilized resource for many Korean companies, something which should change if they are to maximize their competitiveness in the future.

Finally, we compare the economic performance of "high-knowledge" industries versus "low-knowledge" industries. This article provides substantive support or background to the generally accepted concept that Korea must transform itself to a knowledge-based economy in the 21st century.

The Korean economy responded well enough to the recent tests from both outside and within, but such tests will continuously emerge in the future. Korea must respond to such challenges swiftly and adroitly to build up confidence in the economy, while proceeding with economic restructuring as planned to secure a lasting economic foundation. **VIP**