LETTER FROM THE EDITOR

After late 1998, the Korean economy has shown a continuous upturn. In the early stage of recovery from late 1998 to early 1999, the economy mostly benefited from loosening of the tight monetary policy agreed upon between the IMF and the Korean government. Basic macroeconomic conditions started to recover during this period, and for about a year afterwards, the economy's growth was mostly driven by internal forces such as a recovery in consumer spending and the stock market boom. Recently, even facility investment, which had been severely hit by the crisis, is showing a revival. For such economic recovery and growth to continue however, a macroeconomic policy that simply targets the performance of the various components of GDP is not enough. As one can witness in the super-prolonged economic growth in the US, sustained growth is only possible when policy is coupled with structural changes in the economy, such as technological advances or management reforms. In Korea's case, some experts hoped that the sectoral reform or restructuring pursued under IMF supervision would play this role. However, contrary to this hope, the Korean economy and policy-makers, in terms of time and managerial capacity, simply could not afford to implement a new economy similar to that of the US. The bottom line is that the Korean economy is again subject to the ups and downs of the business cycle, and as a result, there are some predictions that the economy may enter a downturn in the second half of 2000. This assessment apparently based on much slower consumption, investment, and exports. In addition, rising oil prices have acted as an unexpected hindrance to prolonged growth. In this situation, government policies are concentrating on preventing the business cycle from plunging too quickly. One important assignment in particular is to find out how to offset the factors of instability that are ambushing the financial market.

This edition's Current Issues begins with an article that surveys the competitiveness of Korea's manufacturing industry, which should play a major role in a continued growth. This article uses refined data to measure the production effectiveness of Korea's manufacturing industries. The second article is about the new horizon of Korea's economy, namely North Korea. Specifically, it delves into the SOC issue and related investment strategies. The third article deals with a recent issue of utmost importance in the financial sector. The introduction of financial holding companies is an unavoidable solution to the problem of bad banks. Before adopting new institutions however, it is essential to examine the problems of the new system and methods of dealing with them. The fourth article sheds some light on the real estate market, which is the sector currently undergoing the greatest difficulty in the Korean economy. Considering that real estate is harder to liquidate than other assets of bankrupt firms, one can hope that it will be a breakthrough in the vulture capital market.

If the Korean economy passes its peak during the second half, the extent of difficulty it will face is uncertain. Even though the situation will not be as bad as during the early phases of the IMF bailout program, we will see how much the Korean economy has fostered the ability to endure another downturn. VIP