

LETTER FROM THE EDITOR

This month's most important economic event for the Korean economy was its graduation from the IMF program. Repaying the remaining stand-by loans from the IMF during the financial crisis of 1997, Korea regained its economic sovereignty. During the past three years under IMF conditionality, the Korean economy underwent tremendous change, including improved management transparency, governance and financial structure reform, and the introduction of a new financial regulatory system. Along with these reforms, we succeeded to establish a foundation for the recovery from the economic crisis.

Despite these positive points however, it cannot be denied that Korea's economy and corporate management still have their problems in terms of actual competitiveness. For example, in its macroeconomy, per capita GNI, which reflects the purchasing power of a national economy, still falls short of its 1997 level. Looking into the microeconomy, one can find that many listed companies are not able to make enough cash flow to cover its financial costs. Many outsiders rate the Korean economy's overall competitiveness as merely 30th or worse in the world. Infrastructure and public sector still remain as areas of immediate improvement. In addition, the worsening income inequality poses a new challenge for social cohesion. These problems arise from the fact that the structural reform, which mainly focused on the financial matters, has relatively neglected systemic reform to enhance the "quality" of the economy. The present recession can at least partially be attributed to these shortcomings, as well.

The Korean Macroeconomy and Korean Financial Market in this issue are filled with diagnoses of the current economic situation. Since the primary reason for the present recession is the lack of effective demand whether it is domestic or foreign, relatively good situation in the financial sector alone cannot provide the breakthrough for the sluggish economy. Only a harmonized policy-mix set of fiscal and monetary policies which are coupled with recovery in the international market would solve the problem. The essays in the Current Issues section identify some of the Korean economy's future points of endeavor. First, one should assess its overall competitiveness, especially from outsiders' viewpoint even though the assessment is quite harsh. Maybe a bitter assessment can help us more to shape up our future vision and strategy. The second essay deals with the Korean businesses' entry strategy into the world's fastest growing market, China. The third one turns eyes to the North again. In spite of the present bottleneck in the South-North relationship, a better understanding of North Korea's foreign trade will provide a solid ground for future transaction between the two Korean economies.

Now we know what caused the crisis, what cured the crisis, and more importantly, what failed to cure the crisis. For the Korean economy, this is the time to draw a new long term blueprint that is based on lessons from the past. Indeed, the "graduation" is always a "commencement." The editorial board hopes that the VIP Millennium Report sheds some light in this new journey. **VIP**