

## LETTER FROM THE EDITOR

Indeed, the most important event in the past month, not only to the Korean economy but also to the entire world, was the horrible terrorist attack on the major cities in the U.S. This incident totally dispersed any hope that a recovery from the current economic downturn would be just around the corner. This applies not only to Korea but also the rest of the world, including the US, Japan, and Europe. Furthermore, to some emerging markets, especially in Southeast Asia and Latin America, there is the risk that the recent attacks may trigger additional economic crises.

As soon as the terrorist attacks broke out, economists around the world began to assess the potential damage to the global economy. One of the most important focus of their analyses was, of course, the possibility of an oil embargo and oil price hike. There have emerged (and disappeared) many scenarios regarding the world petroleum market's future development and its impact on the global economy. Comparison between the current situation and the Gulf War was at the center of these analyses. Fortunately, however, oil prices seem to have stabilized at once; and the worries regarding the international oil market have been soothed.

Despite the apparent stability of oil prices, consumer sentiment around the world has been further frozen and it still remains as the most stubborn hindrance to economic recovery. For instance, in the U.S. economy, the usual sales increases during the Thanksgiving season and Christmas will not be witnessed this year. In the Korean economy, households are facing unstable employment and rising financial debt. Beside exogenous shocks such as the terrorist attack, these are the major facts blocking the Korean economy's recovery. With faltering exports and sluggish private consumption, Korean businesses cannot escape from a similar bind. Even with an improved financial structure, it is difficult to find business opportunities that are promising enough for new investment. The recent series of government policies that were hurriedly announced after the attack were meant to boost business and consumer sentiment. But they still raise questions in terms of effectiveness and timeliness.

With such difficulties in the macroeconomy, the wise man should look into its micro structure. In this issue of the VIP Millennium Report, three articles in the Current Issues section deal with such micro topics. One urgent topic is the prospects for Korea's key industries for 2001 and 2002. The article provides analysis of how key industries will perform in the current external and domestic conditions. The second and third articles are related to management strategy, and address the retirement allowance system and strategic alliances respectively. Such issues will be important for Korean companies, which will undergo a system of ongoing restructuring.

Aside from the timeliness of the government's policy prescriptions, the issue of effectiveness is really critical, and requires a closer look. In particular, it should be noted whether the market mechanism is working in each micro sector of the economy. There is an old Chinese saying: "if one cannot look into the distance, he must have problems nearby." In order to survive the current hardships, this is the time to get back to the basics of the economy. **VIP**