Korea refuses Daewoo foreign creditors

by Kathy Wolfe

"The first part of November could see a financial explosion" around the bankruptcy reorganization of South Korea's giant Daewoo conglomerate, a Chase Manhattan Bank spokesman for Daewoo's foreign creditors told *EIR* on Oct. 12. The banker threatened that the foreign creditors would not accept an orderly reorganization of the company's debt, estimated publicly at $55 billion, but privately at $85 billion, unless granted "preferential treatment," including a first grab at Daewoo assets and "South Korean government guarantees."

South Korea's Kim Dae-jung government, however, is refusing foreign bank demands. "The government insists it's a company debt, it's not a country debt, it's not up to the government to pay when the foreign private companies made a bad investment decision," the banker complained.

"We do not plan to provide any government backing for a particular private entity," Jun Kwang-woo, special adviser to Finance and Economy Minister Kang Bong-Kyun, told reporters on Sept. 30 in Seoul. "We made it very clear not just to the IMF [International Monetary Fund] and to [U.S. Treasury Secretary Lawrence] Summers, but to all others that there is no bailout program."

"The foreign creditors are not happy with this," the Chase banker said. "We say the Daewoo debt is the size of a small country, so we have a lot of complaints."

The Kim government has mandated that Daewoo's domestic Korean creditors organize an orderly "workout" of Daewoo's restructuring by Nov. 10, and if the foreign creditors don't play ball with the domestic Korean banks, they could be left out in the cold. On Nov. 10, the government has vowed to remove a freeze on Seoul's dozens of Investment Trust Companies (ITC), which hold a major share of Daewoo's bad loan paper. If the ITCs are unfrozen, individual and bank investors with money in the ITCs will rush to pull their money out.

But as of this writing, the foreign creditors have refused all invitations to Seoul "workout" meetings, because the government has refused their demands for "preferential treatment." "I don't know if this can be resolved by Nov. 10," the Chase man said. "If there's no Daewoo workout by then, there could be a major run on the ITCs and all the Seoul markets." What he didn't say was that this could extend to London, New York, and Tokyo, too.

While $55 billion is the standard market estimate of Daewoo's bad debt, Daewoo Economic Research Institute (DERI) reported on Oct. 11 that it could soon rise to 137 trillion Korean won, or $85 billion. Many Daewoo subsidiaries, such as Daewoo Motors, have frozen operations awaiting the workout, and idle factories mean no incoming cash, as debts mount. The total amount of non-performing and bad loans at all of South Korea's financial institutions "will snowball by the end of this year, due largely to the Daewoo crisis," DERI stated. If the ITCs go bad, that could add another $8-10 billion in bad ITC debt sitting on the books of Korean commercial banks, to the bad Daewoo debt already there.

While the IMF and Kim government have been bragging daily about the great success of the IMF's program in Korea, claiming an 8% GNP growth for 1999 and booming trade and foreign reserves, the dragging on of the Daewoo mess has worried the markets. Seoul's Korea Composite Stock Price Index has fallen 11% so far during October, and the bond market is a no-man's land. Companies wishing to borrow money, for example by issuing three-year corporate bonds, now have to pay double-digit yields (rates). Hyundai Motor, for example, had to offer nearly a 16% discount for a $500 million bond issue in London recently. Seoul markets are only holding together because the government has been making billions of dollars of bond purchases using its Market Stabilization Fund. South Korea's Financial Supervisory Commission said on Oct. 8 that it had spent 55.2 trillion won ($46 billion) so far out of its 64 trillion won scheme aimed at restructuring the financial industry, of which half had been used to buy bad loans from financial institutions.

Foreign banks hold up the works

The South Korean creditors' Corporate Restructuring Coordination Committee (CRCC) on Sept. 27 invited Daewoo's foreign creditors to Seoul for an Oct. 7 meeting to break the logjam, "but we refused," the Chase banker said, "precisely because the proposal did *not* grant foreign creditors preferential treatment." He confirmed Oct. 11 wire reports that the foreign creditors instead plan to get together on their own in Hong Kong on Oct. 22, to come up with a joint demand for preferential treatment, but they still won't meet with the Korean creditors or government. "The South Korean government won't budge, so there's a disconnect," he said.

The South Korean CRCC on Sept. 27 released a letter warning foreign bankers that their demands could push the entire conglomerate into a shutdown, causing companies all over the world to start suits and countersuits. While the CRCC does not say so, this could pull down derivatives and bank loans everywhere. "We are running out of time to deal with Daewoo's financial problems without formal court protection and all that entails," the CRCC letter said. "The best way to come to an accord on the terms of a forebearance agreement with Daewoo's foreign creditors—without which there can be no out-of-court restructuring—is to sit down and conduct serious, substantive discussions of the issues."