IMF Savages Korea, As LaRouche Defends It

by Kathy Wolfe and Mary Burdman

At the end of its consultations in Seoul on Nov. 1-14, the International Monetary Fund (IMF) issued an unprecedented public "recommendation" on Nov. 15, that South Korea immediately "liquidate" dozens more of the nation's industrial firms. This demand included the 12 remaining firms of the Daewoo Group, South Korea's second-largest industrial group, which had collapsed under $80 billion in debts last year.

This direct demand of the IMF to shut down productive industrial enterprises, which IMF Asia-Pacific Assistant Director Ajai Chopra termed "zombie companies," comes on top of the announcement by the South Korean government on Nov. 3, that, as the result of three years' IMF "restructuring" demands, 52 other firms were being liquidated. (see *EIR*, Nov. 15, 2000). Daewoo Motor, although not one of the 52, was forced into bankruptcy on Nov. 10, after its workers refused to accept mass layoffs. The shutdown is not only hitting suppliers throughout Korea, but also the economies of Poland, Ukraine, Romania, and other nations where South Korean industrialists have been big investors since 1989.

"None of the 12 Daewoo subsidiaries now undergoing workouts have shown any tangible improvement in their operations," Chopra wrote in "Corporate Reform Sagging," the nasty title of the IMF press release printed in Seoul newspapers on Nov. 15. "We urge the Korean government to immediately place them under court receivership and liquidate them. . . . The need for . . . tangible results, principally the exit of nonviable firms and asset sales, has now become imperative to ensure that the remaining problems do not jeopardize" Korea's entire economy, he threatened.

"Indeed," Chopra wrote, "the closure of nonviable companies may be a prerequisite for the growth of other companies, as these 'zombie companies' are crowding out credit for viable companies." It would seem that the giant Hyundai Engineering and Construction Co., is also to go on the chopping block.

South Korea is vulnerable to the IMF's demands. Through enormous effort and cost, the country has already repaid some $13.5 billion of the $19 billion it was forced to borrow when U.S. Treasury Secretary Larry Summers ordered it to go to the IMF during the depths of the 1997-98 crisis. But it still must pay some $5.5 billion, which comes due on Dec. 3, over the coming period. Even worse is the pressure being applied by Wall Street and London "investors," who have been dumping Korean assets, and generating a situation in which Korea faces a credit crunch, stock collapse, falling export markets, and rising energy costs, all at once.

These Wall Street and London operations are enforcing the IMF's demands. General Motors, Ford, Morgan Bank, AIG Insurance, and other foreign sharks, which brought on the current crisis by dumping Seoul stocks in September, made it known that they were "waiting for new developments" at Daewoo and other companies, as General Motors director David Jerome put it on Nov. 14. They are demanding that stock prices—which have fallen by 45% this year—crumble further, in order that they may eat the same companies at half the price.

The IMF is backing up its "urgings," by informing the Korean government, that it is "predicting" that the country's economic growth rate would fall by almost *half* next year, from 9.5%, to only 5.5%, and its current account surplus would "dwindle" to around $5-6 billion.

The effect on South Korea's real economy will be devastating. "The nightmare of mass unemployment is recurring," *Yonhap News* warned on Nov. 14, as the Ministry of Finance and Economy announced that 100,000 workers will be fired before year-end. Unemployment will soar in December to 900,000, an unemployment rate of 4.1%, and rise further to 1.10 million, or 5%, by February 2001.

This, the IMF applauded. "A pick up in the pace and depth of restructuring will result in higher unemployment that could dampen confidence; but the risks associated with inaction are likely to be greater," intoned Chopra.

IMF Thieves Exposed

"Terrible things are being done to Korea right at the moment by the IMF, including the United States," *EIR* Founder Lyndon LaRouche told a packed Washington press conference on Nov. 14, which was webcast on the Internet to international audiences. "What was done to Korea was a crime," he said, in answer to a question from Seoul's leading daily, *Chosun Ilbo*. "Everybody in Korea knows it. It was a crime that was done by its great partner, the United States—the conditions that were imposed in the 1999 period onward: a swindle."

LaRouche praised the "noble" efforts of South Korean President Kim Dae-jung for his "Sunshine Agreements" with the North, especially the economic program of reopening the railroads "and extending them into areas such as Beijing, the Trans-Siberian Railroad," and ultimately Europe.

"If we take Korea as a whole, China, and Russia, and across the sea to Japan, we have an area . . . which is one of the richest potential development areas of all time, in the ideal place for the infrastructure and the transportation through the area," he said. "We have one of the greatest opportunities for the improvement of conditions on this planet as a whole in that area, which includes some of the greatest concentrations of population. . . . This is where we have the greatest impact, on the greatest part of the human race, in the quickest way.

"But I'm extremely worried about the effects of the continuation of the destructive process, as we've seen in the Daewoo case," LaRouche said. "That should not happen! The sovereign industries of Korea, which were developed by Koreans, in the great [post-war] reconstruction of South Korea, industries which are invaluable for the treatment of North Korean development; which are invaluable for opening up those new areas of development in China, Russia: This must not be destroyed; this must be protected!"

LaRouche emphasized to Americans, that the economic growth of other nations, *benefits,* rather than competes with, the U.S. economy. "If people in Korea can produce a product which helps the world economy to grow, through the labor of Koreans, that is good for all of us. We do not want to take their jobs away from them, for the sake of protecting U.S. jobs. . . .

"Daewoo is one of the essential pegs in Korea's role in building up the economy of Central Asia. All the people of Central Asia need that product. . . . That will improve the total productive powers of labor in Asia, which will make the cost of living less, per capita, in the world as a whole; which will benefit us tremendously."

"Korea is extremely important," LaRouche said. "It's a country which has a mixture of cultures, a Buddhist background and a very strong Christian element. And because of that, Korea is one of the perfect countries . . . to function as an interface between European culture in general, and the whole of Asian culture in general. . . . Korea is, in that sense, one of the special jewels of the prospects of cooperation between European civilization as a whole, and Asian civilization. And therefore, I would defend it, especially from that standpoint, as well as its rights as a nation."

Taking over Reunification

However, the IMF, well aware that the South Korean economy is a jewel, is poised to pick the safe. Top on the IMF agenda, is to try to take control of the potential reunification of North and South Korea. Escalation of bankruptcy restructuring "is especially important because of the new demands and pressures that will arise with closer economic cooperation with North Korea," wrote the IMF's Chopra. "Looking ahead, the key issue remains implementation and ensuring a stronger role for markets to drive the process" of North-South cooperation.

In general, the IMF statement said, the agency "made a more general recommendation that the government make greater use" of bankruptcy everywhere, "as a tool to move restructuring forward," which "would expedite the liquidation of non-viable firms. . . . Much of the corporate sector remains highly leveraged by international standards and continues to suffer from low profitability, indicating that more needs to be done."

Chopra, echoing the demands of U.S. Ambassador Stephen Bosworth, also called for the speedy privatization of banks, which would have to mean selling them off to foreign buyers, because no Korean buyers have sufficient funds. One indication of the credit crisis in the Korean banking system, is that the Bank of Korea had to report on Nov. 13, that deposits at foreign banks in the country rose by $1.5 billion during January-October.

"The government's main task now is finishing reforming the six banks [Chohung, Korea Exchange, Hanvit, Cheju, Kwangju, and Peace banks] that submitted self-rescue plans, and prepare emergency assistance by raising at least 40 trillion won [roughly $37 billion] in public funds," the IMF said. Yet, the "government's policy should be guided by the principle that its interventions in capital markets should be minimal."

However, as the *Korea Times* warned on Nov. 13, "chain-reaction bankruptcies" are looming in South Korea, as loans come due and corporate bonds mature in the coming weeks. The mass liquidations have *not* succeeded in "freeing" funds for the surviving industries, as was alleged would happen. "The bond markets have not reacted. The companies on the liquidation list have already been regarded as 'dead' and consequently their commercial paper had already stopped trading. Such a situation will further worsen in the foreseeable future. The yield on a three-year government treasury bond last week tumbled to a record low of 7%, which means that financial institutions are seeking instead a safer shelter in government bonds, at the cost of a relatively low return."

At present, only top-rated bonds, such as "risk-free" government bonds, are being traded at all on the market. By the end of 2000, some $14 billion in bonds will come due, and another $1.5 billion by the end of March 2001, leading to reports that a severe crisis will come in December, *Chosun Ilbo* reported on Nov. 13.

To leave South Korea totally vulnerable, the IMF is also demanding that Seoul go ahead with the second stage of its foreign exchange liberalization, beginning on Jan. 1, which, Korean observers have warned, could cause a panic run on the Korean won, worse than that of 1997.

The sharks are circling. Maurice "Hank" Greenberg of AIG—known to be involved in dirty money operations—is leading a consortium pressing the Korean government to allow it to invest $1 billion in the financial units of the crisis-hit Hyundai group. The consortium would take over a 23.7% stake in Hyundai Securities for about $440 million and invest $264 million in each of two subsidiaries, Hyundai Investment Trust & Securities, and Hyundai Investment Trust Management.

AIG had made this proposal in August, but did not carry through, because its outrageous demands for government guarantees were unacceptable to Seoul. Now, with Hyundai's problems intensifying, AIG has gone on the offensive. South Korea's Financial Supervisory Commission chairman, Lee Keun-young, was reported saying on Nov. 13 that the Korean government "could review demands from AIG if that helps stabilize nervous financial markets."