

# South Korea Battles Financial Locusts

by Mike Billington

The hubris of the ubiquitous private equity funds and their even more perverse offspring, the hedge funds, has run into a nationalist wall in South Korea, whose government, courts, and business institutions have fought back against the criminal looting by these financial locusts. Several foreign funds have been charged with corruption, and in some cases, their officers have been arrested. The population is increasingly enraged at the speculative theft of the nation's wealth.

The vulture funds swooped into South Korea in the wake of the speculative assault on the Asian currencies in 1997-98 by George Soros and his fellow hedge-fund bottom-feeders, which cut the value of the Korean currency, the won, in half—i.e., doubling the foreign debt in terms of the national currency. At the time, the Korean banks were forced to accept the demands of the money lenders from abroad to escape collapse, selling themselves for a small fraction of their actual worth. Five of the top eight banks fell to foreign control.

The Carlyle Fund, Newbridge, and Lone Star of Texas were some of the major funds buying up the distressed banks in Korea, after the International Monetary Fund (IMF) had first forced the government to absorb all their bad debts. Then, a few years later, the scavengers pulled out, taking massive profits out of the country. Some examples:

- Carlyle and JP Morgan Corsair II bought 36% of KorAm Bank for \$440 million in 2000, after a long fight using Carlyle's substantial political muscle to convince the government that they were not just looking for short-term gain; they sold it to Citibank two years later for a \$2 billion profit.

- Newbridge bought half of Korea First Bank in 2000 for \$420 million, selling it to Standard Charter in 2005 for \$1.7 billion.

- Goldman Sachs put \$500 million into Kookmin Bank in 1999, selling it in 2002-03 for \$1.1 billion. Kookmin became 74% foreign owned.

- Lone Star bought half of Korea Exchange Bank in 2003 for \$1.2 billion, and is now trying to sell it to the (foreign owned) Kookmin Bank for a \$4 billion (!) profit. This was the last straw for the Korean people and their government.

## Lone Star and Other Looters

The government moved rapidly to stop the Lone Star sale of Korea Exchange. At first, it was believed that the government was simply moving to stop the speculative looting of the nation's economy, and to question the way Lone Star had taken advantage of a loophole by buying the bank through a Belgium cutout, using a special Korean tax break for Belgium to avoid paying any taxes on the sale. Newbridge is under investigation for a similar scheme in their sale of Korea First.

However, government prosecutors have concluded that the entire process of Lone Star's purchase of Korea Exchange Bank was fraudulent. Indictments were handed down for the Korean executives, accused of fixing the sales price below its true value, and the government issued extradition requests to the United States for the American owners of Lone Star in December 2006. In February 2007, Lone Star snubbed its nose at the Korean officials, ordering a dividend payout of \$445 million (the first dividend in a decade) despite a 48% fall in the bank's net profits in 2006. This will give Lone Star, which owns 64.6% of the bank, about one-third of its original investment, in one fell swoop.

Despite Lone Star's troubles, other hedge-fund moguls are on the prowl in Korea. The notorious Carl Ichan, together with Warren Lichtenstein of Steel Partners hedge fund, bought 7% of the former government tobacco monopoly KT&G, got Lichtenstein placed on the board, and demanded that the company sell off several factory sites, dump "non-core" assets, and go public with some subsidiaries—typical hedge fund practices to extract loot from corporate entities—and backed up the demands with threats of a hostile takeover. Here, too, Korea fought back, with the state-run Industrial Bank of Korea stepping in to defend the company against the foreign predators. When labor unions demonstrated against the locusts, Ichan finally decided to pull out.

The impact of the financial raiders is summed up in a *Business Week* boast from April of 2004: "The private equity investors have done a world of good for the management of Korean banks. They have largely ceased being the financiers of Korea's huge conglomerates, opened their doors to ordinary consumers seeking retail loans and mortgages, and stopped taking orders from bureaucrats eager to help corporate patrons get cheap credit."

Indeed, several leading industrial *chaebol* (the large, mostly family-owned conglomerates in South Korea) have gone under, including Daewoo, Kia, Jinro, and Hanro Steel, taking with them significant quantities of state-of-the-art production facilities. One result is that much of the foreign hot money going through the banks and the funds now goes into real estate, creating one of the biggest real estate bubbles in the world, which is about to pop, along with its big-sister bubble in the United States.

The target of the global financial institutions has been the largely successful cooperation among the Korean govern-

ment, the banking system, and the industrial conglomerates in South Korea, the *chaebol*. In the eyes of globalist, synarchist financiers, the crime of this arrangement was that the *chaebol* favored productive growth over profitability for shareholders. This structure was blamed for the 1997-98 collapse of the South Korean currency, supposedly because the nationalist system protected production and the national interest against “market forces”—i.e., the speculators who had actually caused the crisis in the first place.

## In Steps Lazard

A popular “anti-*chaebol*” movement was created as a front for the hedge fund and private equity fund vultures, run by Jang Ha-sung, a Wharton School-trained professor and dean of the Korea University Business School. Jang created the People’s Solidarity for Participatory Democracy a decade ago, to go after the *chaebol*. However, Jang has recently given up his cover as a populist “progressive,” fighting against the *chaebol*, to become the local comprador for one of the leading international investment banks involved in leveraged buyouts and raids on corporations, Lazard Frères.

Jang rose to prominence after the 1997-98 crisis, becoming known as the “*chaebol*-sniper” and the “latter-day David,” while also being wined and dined by the World Bank and the Wall Street elite. The IMF “rescue” package for South Korea in December 1997 included the condition that the *chaebol* grant new rights to “minority shareholders,” such as those represented by Jang’s People’s Solidarity movement.

What Jang meant by “the people” in this “People’s Solidarity” was not the poor or the trade unionists, but the minority shareholders who, he argued, were not making a big enough return on their investments. To Jang’s controllers, South Korea’s crime lay in the fact that it has experienced 8% average growth over 40 years—but the stock market isn’t where the action is. Publicly traded companies average a 2% dividend, with “only” 20% of earnings paid out as dividends.

As Jang himself complained in a *Financial Times* op-ed on Nov. 30, 2006: “Korea’s successful economic growth for 30 years from the late 1960s was driven by government initiatives rather than market forces.” But in the 1990s, Jang wrote, Korea “recognized that protectionist policies and government intervention would no longer ensure sustainable long-term growth in a globalized economy.” Jang argued that turning the tightly controlled *chaebol* and the highly regulated banking system over to the ravages of the speculators would create a “160% increase in share prices.” Jang did not mention that this process would also force the downsizing or collapse of highly developed productive industries in steel, auto, and other advanced manufacturing enterprises—as has proven true in the United States and Europe as well.

Jang used “minority shareholder” lawsuits to break open the *chaebol* for the hedge funds, working with such firms as Tiger Management (run by Soros’s partner Julian H. Robertson), Scudder Kemper, and Oppenheimer Global Fund. By 2006, Lazard recognized that Jang offered a perfect way to introduce hedge funds under Korean direction—especially since the foreign hedge funds were under attack by nationalist sentiment.

So, Lazard Asset Management opened an office in Seoul in 2005, and in 2006, officially set up Jang as head of the Korean Corporate Governance Fund, which is known in Korea simply as the Jang Ha Sung Fund. Managed by Lazard, with Lazard’s money, Jang is now buying stakes of about 5% in numerous Korean firms and playing the predatory game of forcing higher dividend payouts, downsizing, and driving up share values at the expense of the long-term health of the firm.

## Supreme Court vs. LBOs

Jang is not fooling anyone with his “friend of the people” rhetoric, as even the financial press has noted that his Lazard-backed firm is simply a hedge fund in its character, out for short-term profits under the guise that “good management” is defined as that which benefits the shareholders.

Another development must be causing headaches for Lazard, the leveraged buy-out kingpin: the extraordinary ruling by the Korean Supreme Court on Nov. 9, 2006, declaring leveraged buyouts (LBOs) to be illegal.

In a case which received little national coverage, and virtually none outside Korea, other than in *EIR*, the Court ruled: “In the case where a person takes out a loan from a financial institution and later provides the asset [of the company being taken over] as collateral, *the so-called Leveraged Buyout method*, to raise funds to take over a company . . . , the company that is taken over bears the risk of losing the asset that is provided as collateral. So, the collateral provision shall not be permitted.”

What does this mean? As *EIR* wrote in the Jan. 5, 2007 issue: “With the 2006 ‘debt-leveraged takeover’ bubble reaching \$4 trillion in ‘market value,’ which is, in fact, largely just new borrowings from commercial and investment banks and hedge funds, this bubble is threatening many nations with corporate debt blowouts in 2007. Fully \$500 billion or more of this ‘market value’ in takeovers was done during December alone.”

The South Korean Supreme Court ruling signifies that, at least in Korea, such “leveraged” creation of new debt, based purely on stealing it from existing productive enterprises or infrastructure, is illegal. If applied internationally (as proposed by *EIR* founder Lyndon LaRouche), this would reveal the state of bankruptcy of the entire banking system in the United States and Europe, which is being kept afloat to a large extent by this massive creation of new debts for leveraged buyouts.