

Brits target Korean, Chinese banks, Japan

by Kathy Wolfe

Beginning with the \$5.8 billion collapse of Hanbo Steel company in late January, followed by a cascade of industrial and currency crises, South Korea joined Japan in a general bankruptcy of its banking system. Since the U.S. and European banking systems are just as bankrupt, British Empire spokesmen, in an effort to throw the weight of the looming international financial collapse upon the more productive *physical* economies of East Asia, have begun to shout about South Korea's banks.

Seoul's bad bank debt, at upwards of \$20 billion, due to the London-inspired deregulation of Korea's economy, is in fact horrendous. The top four banks have lent over \$7 billion to Hanbo Steel alone. In February, the \$2.3 billion Sammi Steel group went under, and on April 15, the nation's largest liquor company, Jinro Group, announced that it had some \$3.5 billion in bad debt and was trying to raise an emergency bailout fund of \$1.34 billion. The Bank of Korea (central bank) in April and May has spent \$3-5 billion making quick cash injection of hard currency to banks holding these loans.

Banks in London and New York have now slapped a "Korea premium" on inter-bank credit lines to South Korean banks in the London and New York Eurodollar market. Just as Japanese banks have been hit with a "Japan premium," South Korean banks are now considered "high risk" and are being forced to pay extra for funds. The banking systems of both Japan and South Korea must thus be immediately reorganized as part of a New Bretton Woods agreement, or the entire productive machine-tool sector of these two economies, so vital to construction of the Eurasian Land-Bridge, will be rapidly destroyed.

In a further general attack on the Eurasian Land-Bridge, London has added China to the list of Asian nations which investors should avoid. Since China is perhaps the one nation on earth whose economy might survive a world financial crash, this is particularly insane. The *Wall Street Journal-Europe*, in a front-page feature on May 7 entitled "Tottering Banks in Emerging Markets Threaten Prosperity," reviewed charges by former International Monetary Fund economist Morris Goldstein about the lack of regulatory supervision worldwide. "Most alarming of all, the biggest banking bust may lie ahead in China," Goldstein said. "The central bank conservatively estimates that one-fifth of the \$600 billion in Chinese bank loans are bad."

Good-bye to the 'East Asian miracle'

"First Japan, now Korea—it looks as if the famous 'East Asian miracle' is about to turn into a re-run of the Latin American debacle," laughed an international banker at the British-owned Morgan Guaranty Trust in a recent interview. All of East Asia could soon be "red-lined" by the Anglo-American banks, he said. "Let's face it, whether it's Japanese banks' bad loans to real estate, or Korean banks' bad loans to steel and auto plants, the root cause is the same, and you could see more of this sort of 'red-lining,' just as we saw in Latin America in the early 1980s." This refers to the New York bankers' practice of drawing a red line around a neighborhood into which minorities move, and refusing to make housing loans.

Other bankers say that South Korea is facing "another Mexico crisis," with the simultaneous collapse of the Korean currency, the won, which has fallen over 15% in value against the U.S. dollar this year. International speculators are betting that the Korean central bank "will soon be out of reserves," a Korean source told *EIR*. "If this continues, Korea may soon be heading for another currency crisis like the run on the Mexican peso in recent years."

The won fell from 790 per dollar in December, to around 900 in early May; and one Citibank Seoul foreign exchange trader is widely quoted threatening that there will be 930 won to the dollar by June, a fall of 17% on the year. Dealers said the Bank of Korea has been selling \$100 to \$150 million a day to defend the won. Speculators are betting that the central bank's intervention will soon exhaust itself. The Bank of Korea announced reserves of \$30 billion at the end of February. *EIR* estimates that reserves are now below \$25 billion.

Interest payments on rising foreign debt, now estimated at more than \$100 billion, has become a major part of the current account deficit, which the speculators cite in their attacks on the Korean won.

Business Week, owned by London's Lazard bank, crowed about it all in a recent cover story, "For Asia's Bad Banks, It's Pay-Up Time." It said that every bank in China, Taiwan, Thailand, and Indonesia, as well as in Japan and South Korea, is bankrupt, and urged capital to flee to the British bastions of "Hongkong and Singapore, where banking systems remain rock solid." With a photo montage showing Chinese, Japanese, and other banks sinking into the sea, they report that Japanese banks have \$366 billion in bad loans, banks in mainland China have \$240 billion in bad loans, banks in South Korea \$11 billion, in Taiwan \$10 billion, in Thailand \$15.5 billion, and in Indonesia bad loans are 20% of all bank loans.

Other than China, banks in most Asian nations probably have twice the bad debt reported by *Business Week*. Yet, Citibank Vice Chairman Bill Rhodes and Henry Kissinger crony and AIG chairman Maurice Greenberg, the sources for *Business Week's* story who have both been trying to corner the Chinese banking and insurance markets of late, do not say a peep about banking problems at Citibank or in London, let alone in Hongkong or Singapore.