

Dollar's turn to crash; Korea, Japan reject IMF-type 'reform'

by Kathy Wolfe

After two years of the "Asia crisis," it was the dollar's turn to crash on Aug. 3, falling to 113 yen, a 9.6% decline against the yen since its slide began in June, as the global financial crisis is now careening out of control. Japanese Finance Minister Kiichi Miyazawa announced on Aug. 4 that he had telephoned U.S. Treasury Secretary Lawrence Summers to tell him the dollar's drop "wasn't good," and to demand action, but he received none. His ministry said on Aug. 2 that Japan had bought more than \$37 billion in a vain attempt to support the dollar during June and July.

South Korean President Kim Dae-jung's government also said on July 30 that it would not bail out the \$15 billion which New York and London banks have loaned to the giant Daewoo conglomerate. Daewoo, Korea's second-largest firm with \$65 billion in assets and \$80 billion in debt, is trying to avoid default, which would bring down Seoul's six major banks and threaten several New York banks.

The crash of the \$12 trillion Wall Street stock market bubble is meanwhile now being predicted daily by commentators ranging from former West German Chancellor Helmut Schmidt to Tokyo's *Nihon Keizai* financial journal, and by economists including former U.S. Treasury official C. Fred Bergsten and MIT Prof. Paul Krugman. It's not just that Federal Reserve Chairman Alan Greenspan may raise interest rates at the Fed's next meeting on Aug. 25; most markets have already pre-discounted that. The problem is that at least two-thirds of the \$300 trillion *global* international debt bubble, including \$200 trillion in derivatives and other bad debt is, quite simply, held in dollars. Increasingly aware that there is nothing to back the dollar up, investors are growing leery of any dollar asset.

In an Aug. 1 column on his website entitled "A Dollar Crisis," Krugman wrote: "The dollar is doing a Wile E. Coyote and is destined to plunge as soon as investors take a hard

look at the numbers. For those without a proper cultural education, Mr. Coyote was the hapless pursuer in the Road Runner cartoons. He had the habit of running five or six steps horizontally off the edge of a cliff before looking down, realizing there was nothing but air beneath, and only then plunging to the ground." The Dow, he wrote, will plunge with it. A Federal Reserve-Treasury working group has assembled to plan against a possible dollar crash, he added.

Globalization discredited

After two years of having their own currencies and companies trashed, only to be bought up by Anglo-American foreign investors at fire-sale prices, Asian nations may have had enough. "In seminars from Seoul to Kuala Lumpur to Beijing . . . leaders of East Asia are reflecting on what has happened to them over the past two years," Japan Policy Research Institute president Chalmers Johnson wrote in the July 25 *Los Angeles Times*. They now see that London and New York hedge funds "were let loose on them, . . . [they] raped Thailand, Indonesia, and South Korea, and then turned the shivering survivors over to the IMF [International Monetary Fund]—not to help the victims, but to ensure that no Western bank was stuck with 'non-performing loans.' "

Since the \$3.5 billion August 1998 Fed bailout of New York's Long Term Capital Management hedge fund, however, Asians have taken a second look at the hedge fund/IMF system, Johnson writes. This "made East Asia's 'crony capitalism' look tame. . . . Globalization was discredited as a crooked financiers' scam." At an Asahi Newspaper conference in Tokyo on July 28-30, "the consensus was that the IMF policy in Asia has been a disaster," one observer said. (See ASEAN article, this issue.)

Something of this is behind South Korea's Kim Dae-jung government's refusal to sell off Daewoo Co.

Apparently, the IMF and the Anglo-American banks, aware that they are facing big losses in a dollar and stock market crash, were trying to launch "Asia Crisis III" (after rounds I and II in 1997 and 1998). The idea was to make some quick big money with a new round of speculation against Asian currencies and buy-outs of Asian companies.

The Daewoo crisis "was created by a string of IMF press releases on Korea, telling Kim: 'Watch it, boys, you're not restructuring as we've told you to,'" an Asian scholar told *EIR* on July 30. "The IMF economists have been complaining for months that South Korea has not sold off huge chunks of the *chaebol* [conglomerates] to Anglo-American companies."

The objective was to force Seoul to sell large slices of Daewoo, Hyundai, and Samsung, South Korea's three largest firms, to foreigners, he said. The message is, "'If you don't globalize on our terms, we'll trash you.' The Anglo-Americans want to buy Korean businesses cheap."

The gamble with Daewoo

Daewoo had borrowed much more than other Korean companies—\$80 billion in debt, against only \$65 billion in assets. When Daewoo announced on July 19 that it couldn't pay some \$6 billion in domestic loans, "the headquarters of every major foreign creditor" in London and New York began demanding all their money back, a Citibank source told *EIR*. The foreign banks demanded that all \$15 billion in foreign loans be paid first, and that Daewoo be put into bankruptcy, carved up, and sold to foreigners. Standard & Poor's rating service, Goldman Sachs investment bank, and others began issuing harshly negative reports on Daewoo. In a gamble, they demanded bankruptcy for a company big enough to bring down the global financial system.

Daewoo is still "in deep kimchi." Holding the foreign creditors off, the Kim government arranged for South Korea's four largest banks to loan Daewoo the \$6 billion to roll over its domestic loans. In exchange, the Korean banks received \$9 billion in collateral (stock in Daewoo and its subsidiaries), which the government has said domestic banks may sell as they please. Foreign banks, however, were told to wait for their money, at least until \$5.5 billion of it comes due in December.

"Foreign banks are furious," a Chase Manhattan banker told *EIR* on July 30. The *New York Times* that day went ballistic against Seoul. "The government's decision to take charge of the overhaul of Daewoo [rather than selling it off] . . . can be seen as the biggest sign of backsliding . . . against the IMF reform. . . . The support for Daewoo was a reminder of the old order . . . when government-directed lending, not market forces, determined winners and losers in the economy."

Korea has refused to sell its best companies to foreigners, the *New York Times* frothed. It especially complained that the well-publicized sales of Korea First Bank and SeoulBank to the Anglo-American Newbridge Capital and Hongkong & Shanghai Bank, have not yet been approved in fact by the

Kim government.

At this writing, the Daewoo crisis is hanging fire. On Aug. 1, the government set Daewoo management free to produce its own reorganization plan; on Aug. 3, South Korean creditors, now expanded to a group of six Korean banks, rejected Daewoo's initial draft. On Aug. 4, the Finance Ministry announced that Korean creditors have been rolling over \$10.5 billion since July 19, and the amount will snowball to \$14 billion by year's end. Daewoo has now promised to come up with a \$15 billion restructuring plan by Aug. 11.

"For the foreign banks, in most cases, there's no alternative but to negotiate. Daewoo is too big to fail," the Citibank source concluded.

Unlikely without Japan

Even this small amount of resistance in Seoul is "highly unlikely without the behind-the-scenes support of Japan," one Asia specialist told *EIR*. While neither Seoul nor Tokyo has a clue about a viable solution, anger in Japan at the brain-dead IMF system is clearly building.

Japan's Financial Revitalization Commission (FRC), for example, made a surprise announcement on July 29 that, as of Aug. 5, it is suspending the banking license of Crédit Suisse Financial Products (CSFP), the derivatives arm of the Crédit Suisse bank group, and revoking its license on Nov. 5. CSFP was caught selling illegal derivatives to Japanese banks and companies, derivatives deliberately designed to help them to lie to Tokyo authorities about their financial losses.

"CSFP's Tokyo branch as an organization evaded and obstructed investigations and offered extremely inappropriate products to clients, in view of their disclosed financial position, in large volumes and on a repeated basis," the FRC said in a statement.

On the same day, Tokyo's Financial Supervisory Agency announced suspension of some operations of Crédit Suisse's four other main units in Japan: Crédit Suisse First Boston, Crédit Suisse Trust & Banking, Crédit Suisse First Boston Securities (Japan), and Crédit Suisse Asset Management.

Finance Minister Miyazawa and officials all over Tokyo have had it with Washington's dollar mega-mismanagement. The yen's rise is forcing many Japanese companies to shut down production that a high yen makes too expensive to export, and lay off more workers. On Aug. 3, Miyazawa reported on his wake-up call to Summers. "Something must be done. . . . If necessary, we must respond," he said.

The dollar's drop "will be a disruptive factor" for Japan's economy, Japan's Economic Planning Agency chief Taichi Sakaiya told the press on Aug. 2, after the government announced that Japan's jobless rate surged to a postwar record high of 4.9% in June. The total number of unemployed hit 3.29 million, an increase of 450,000, as exporters continue to "downsize" from foreign exchange rate shock. Sakaiya pointed out that Japan had no control over the situation, which was due to the dollar's "weak trend," and that Japan must watch U.S. economic conditions carefully.