Financial Warfare, 25 Years Ago: The Recolonization of Korea. Seoul Black Monday, 1997. IMF Intervention in Korea

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Global Research, December 17, 2022
Global Research 10 July 2000

Region: Asia
Theme: Global Economy
In-depth Report: NORTH KOREA

Author's Note

Remember Black Monday, November 1997, which was ten followed by a deal with Wall Street on Christmas Eve, December 24, 1997. 25 years ago.

This article first published in July 2000 identifies the process whereby South Korean capitalism was literally hijacked at the height of the 1997-98 Asian Crisis. The objective was also to destabilize and its major business conglomerates as well as take over its banking system. The IMF reforms triggered a string of bankruptcies and the downfall of industrial wages.

The IMF program applied to a advanced market economy was to undermine national sovereignty as well as shunt the process of reunification of North and South Korea. The longer term objective is to open up North Korea to Western corporate capital as well as transform the DPRK into a new cheap labor frontier of the global economy. That was the fate of Vietnam starting in the early 1990s upon the lifting of US economic sanctions.

The deadly sanctions regime imposed on Pyongyang over a period of more than half a century combined with the relentless threat to wage a nuclear attack against North Korea are intended to eventually impose the "Free Market" on the DPRK Korea under the guidance of Wall Street and the IMF.

An expanded and updated version of this text was subsequently included in the second edition of my book, The Globalization of Poverty and the New World Order, Global Research, Montreal, 2003.

Michel Chossudovsky, April 6, 2013, December 17, 2022

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The Recolonization of Korea

Seoul Black Monday. IMF Intervention in Korea

by Michel Chossudovsky

June 10, 2000

In the late days of November 1997 an IMF team of economists led by trouble-shooter Hubert Neiss was swiftly rushed to Seoul. Its mandate: to negotiate a Mexican-style bail-out with a view to rapidly restoring economic health and stability. An important precedent had been set: the IMF's bitter economic medicine, routinely imposed on the Third World and Eastern Europe, was to be applied for the first time in an advanced industrial economy.

Washington had carefully set the stage in liaison with the US Embassy in Seoul. Barely a week before the arrival of the IMF mission, President Kim Young Sam had sacked his Finance Minister for having allegedly hindered negotiations with the IMF. A more acceptable individual was appointed on Washington's instructions. Very convenient: the new negotiator and Finance Minister Mr. Lim Chang-yuel happened to be a former IMF and World Bank official. Also fired at short notice was presidential economic adviser Kim In-ho, for having spurned the IMF option and said Seoul would restore international credibility through its own efforts. (1)

Finance Minister Lim was accustomed to the Washington scene. No sooner had he been appointed, he was whisked off to Washington for negotiations with his former colleague IMF Deputy Managing Director Stanley Fischer.

Seoul Black Monday

The government's dealings with the IMF had been a closely guarded State secret. On Friday 21st of November, the government officially announced that it would be seeking an IMF bailout. On the following business day, November 24th, Seoul Black Monday, the stock market crumbled to a ten year low over feared IMF austerity measures and expected corporate and bank collapses. Faithfully obeying orders from Washington, Finance Minister Lim had removed all exchange controls from the currency market with the result of enticing further speculative assaults against the won. (2)

Two days later, November 26th, the IMF mission headed by Mr. Hubert Neiss arrived at Seoul's Kimpo airport. And barely four days later on the 30th, the parties had already agreed on a Preliminary Agreement. The draft text had been prepared at IMF headquarters in Washington prior to the arrival of the mission. The policy solutions had already been decided in consultation with Wall Street and the US Treasury: no analysis or negotiation was deemed necessary.

Arm Twisting in the wake of the Presidential Race

But the deal was not yet wrapped up. The country was on the eve of a presidential election, and the front-runner opposition centre-left candidate Kim Dae jung remained firmly opposed to the IMF bailout agreement. He warned public opinion and accused the outgoing government of organising a massive sell-out of the Korean economy:

> 'Foreign investors can freely buy our entire financial sector, including 26 banks, 27 securities firms, 12 insurance companies and 21 merchant banks, all of which are listed on the Korean Stock Exchange, for just 5.5 trillion won,' that

is, $3.7 billion. (3)

Political turnaround

Barely two weeks later, upon winning the presidential race, Kim Dae jung had become an unbending supporter of strong economic medicine:

> I will boldly open the market. I will make it so that foreign investors will invest with confidence; in a mass rally he confirmed his unbending support for the IMF Pain is necessary for reform and we should take this risk as opportunity. (4)

Succumbing to political pressure, Kim Dae jung, a former dissident, political prisoner and starch opponent of the US backed military regimes of Park Chung Hee and Chun Doo Hwan, had caved in to Wall Street and Washington prior to his formal inauguration as the country's democratically elected president. In fact Washington had demanded in no uncertain terms that all three candidates in the presidential race commit themselves to adopting the IMF programme.

Enforcing Enabling Legislation through Financial Blackmail

Kim Dae jung had also given a green light to the Korean parliament. A special session of the Legislature was held on the following day, December 23. The four main government motions concerning the IMF Agreement were adopted virtually without debate. (5) Enforced through financial blackmail, legislation had also been approved which stripped the Ministry of Economy and Finance and of its financial regulatory and supervisory functions. South Korea's Parliament had been transformed into a rubber stamp. Meanwhile, Moody's Investor Service, the Wall Street credit agency, acting on behalf of US banking interests, had rewarded Korea's compliance by downgrading ratings for Korean government and corporate bonds, including those of 20 banks, to 'junk bond' status. (5)

Negotiating a $57 Billion Bailout: Timetable of the Heist

19 November 1997- 24 December 1997

19 November: Outgoing President Kim Young-sam fires Minister of Finance Kang Kyong-shik for hindering negotiations with the IMF. Kang is replaced by Mr. Lim Chang-yuel, a former Executive director of the IMF.

20 November: Finance Minister Lim is rushed off to Washington for talks with his former colleague, IMF Deputy Managing Director Stanley Fischer.

21 November: The Repulbic of Korea (ROK) government formally announces that it will be seeking an Agreement with the IMF. The New Finance Minister is put in charge of negotiations with the IMF.

24 November: Seoul Black Monday. The Seoul stock market crumbles to a ten year low over feared IMF austerity measures and expected corporate and bank collapses.

26 November: The IMF mission arrives in Seoul headed by Mr. Hubert Neiss.

27 November: Shrouded in secrecy, talks between the IMF mission and ROK government officials commence.

30 November: After four days of negotiations, the IMF and the Government agree on a Preliminary Agreement.

1 December: The draft agreement is submitted to the approval of the ROK Cabinet.

3 December: IMF Managing Director Michel Camdessus arrives in Seoul to wrap up the deal. US Undersecretary of the Treasury David Lipton in discussions with Camdessus states that the deal cannot be finalized unless all three presidential candidates give their support to the IMF bailout.

4 December: The final text of the Agreement is ratified by the IMF Executive Board which approves a stand by arrangement for 21 billion dollars out of a total package of 57 billion.

5 December: Presidential candidate Kim Dae-jung expresses his opposition to the IMF Agreement and warns public opinion on its devastating economic and social impacts.

18 December: Kim Dae-jung wins the Presidential election and immediately declares his unconditional support for the IMF programme

22 December: US Under-secretary of the Treasury David Lipton arrives in Seoul. Lipton demands Kim Dae Jung to agree to massive layoffs of workers.

23 December: A special session of the Legislature is called. The Legislature rubber stamps four key government motions regarding the IMF programme.

24 December: Wall Street bankers are called to an emergency meeting on Christmas Eve. At midnight, the IMF agrees to rush 10 billion dollars to Seoul to meet an avalanche of maturing short-term debts.

26 December: Boxing Day: President-elect Kim Dae jung commits himself to tough actions: Companies must freeze or slash wages. If that proves not enough, layoffs will be inevitable.

Wall Street Bankers meet on Christmas Eve

The Korean Legislature had met in emergency sessions on December 23. The final decision concerning the 57 billion dollar deal took place the following day, on Christmas Eve December 24th, after office hours in New York. Wall Street's top financiers, from Chase Manhattan, Bank America, Citicorp and J. P. Morgan had been called in for a meeting at the Federal Reserve Bank of New York. Also at the Christmas Eve venue, were representatives of the big five New York merchant banks including Goldman Sachs, Lehman Brothers, Morgan Stanley and Salomon Smith Barney.(6)

And at midnight on Christmas Eve, upon receiving the green light from the banks, the IMF was allowed to rush 10 billion dollars to Seoul to meet the avalanche of maturing short-term debts. (7)

The coffers of Korea's central Bank had been ransacked. Creditors and speculators were anxiously awaiting to collect the loot. The same institutions which had earlier speculated against the Korean won were cashing in on the IMF bailout money. It was a scam.

Dismantling the Chaebols

The IMF bailout had derogated Korea's economic sovereignty, establishing a de facto colonial administration under a democratically elected president. It had plunged the country virtually overnight into a deep recession. The social impact was devastating. The standard of living collapsed; the IMF reforms depressed real wages and triggered massive unemployment.

The devaluation of the won, together with the stock market meltdown, generated a deadly chain of bankruptcies affecting both financial and industrial enterprises. The hidden agenda was to destroy Korean capitalism. The IMF program contributed to fracturing the chaebols.

> Chaebol's are conglomerates of many companies clustered around one holding company. The parent company is usually controlled by one family. In 1988, the 40 top chaebol grouped a total of 671 separate companies. Hyundai and Daewoo are examples. They produce widely differing products, everything from cars to TV sets. Chaebols do not, and this is important, control banks. (What is a chaebol?, at http://megastories.com/seasia/skorea/chaebol/chaewhat.htm)

The latter had been invited to establish strategic alliances with foreign firms meaning their eventual takeover and control by foreign capital. Acting directly on behalf of Wall Street, the IMF had demanded the dismantling of the Daewoo Group including the sell-off of the 12 so-called troubled Daewoo affiliate companies. Daewoo Motors was up for grabs. Korea's entire auto parts industry was in crisis leading to mass layoffs and bankruptcies of auto-parts suppliers. (8)

Meanwhile, the creditors of Korea's largest business empire, Hyundai, had demanded that group's break-up. With the so-called spin off, meaning the fracture of Hyundai, foreign capital had been invited in to pick up the pieces, meaning Hyundai's profitable car and ship building units,at good prices. Korea's high tech, electronics and manufacturing economy was up for grabs. Western corporations had gone on a shopping spree, buying up industrial assets at rock-bottom prices. The devaluation of the won, combined with the slide of the Seoul stock market, had dramatically depressed the dollar value of Korean assets.

California and Texas Tycoons to the Rescue

America had come to the rescue of Korea's 'troubled banks'. For a meager $454 million, a controlling share (51%) of Korea First Bank (KFB) was transferred to Newbridge Capital Ltd, a US outfit specializing in leveraged buyouts.(9) In one fell swoop, a California-based investment firm, with no visible prior experience in commercial banking, had gained control of one of Korea's oldest banking institutions with 5,000 employees and a modern network of branch offices through out the country.

Under the terms of its agreement with Newbridge, the ROK government had granted so-called put back options to KFB (Korea First Bank) which entitled the new owners to demand compensation for all losses stemming from non-performing loans made prior to the sale.

What this meant in practice was a total cash injection by the ROK government (in several installments) into the KFB of 17.3 trillion won, an amount equivalent to 35 times the price Newbridge Capital had paid the government in the first place. (10)

In a modern form of highway robbery, a totally fictitious investment of 454 million dollars by Newbridge had enabled the new owners to cash in on a 15.9 billion dollar government hand-out. Not bad! And behind this lucrative scam, the Wall Street underwriter Morgan Stanley Dean Witter was also cashing in on fat commissions from both the ROK government and the new American owners of KFB.

And how was the government going to finance this multi-billion dollar handout? Through lower wages, massive layoffs of public employees including teachers and health workers, drastic cuts in social programs as well as billions of dollars of borrowed money.

Financed by the Korean Treasury, the new Texan and Californian owners of KFB had become domestic creditors of Korea's troubled business conglomerates. Without having risked a single dollar, they now had the power to shake up, downsize or close down entire branches of Korean industry as they see fit, including electronics, automobile production, heavy industry, semiconductors, etc. Most of the business takeover proposals and spin-offs of the chaebols required the direct consent of Western financial interests. The fate of the workers of the chaebols was also in the hands of the new American owners.

The ROK government had not only lost control over the privatization program, it had allowed the entire financial services industry to be broken into. Chase Manhattan had purchased a majority interest in Good Money Securities. Goldman Sachs' had acquired control of Kookmin Bank while New York Life had taken over its insurance arm Kookmin Life.(11)

The wholesale privatization of major public utilities had also been demanded, including Korea Telecom and Korea Gas. Korea Electric Power Corporation (KEPCO) was to be broken down into several smaller electricity companies prior to being placed on the auction block. Pohang Iron & Steel Corp. (POSCO) was also to become fully privatized. A similar fate awaits Hanjung, the State owned Korea Heavy Industries and Construction Company, slated to enter into a strategic alliance with Westinghouse.

Instating a System of Direct Colonial Rule

The system of indirect colonial rule first instated by the US Military under President Sygman Rhee in 1945 had been disbanded. Korea's ruling business elites had been crushed. An entirely new system of government under President Kim Dae Jung had been established, geared towards the fracture of the chaebols and the dismantling of Korean capitalism. In other words, the signing of the IMF bailout Agreement in December 1997 marks an important and significant transformation in the structure of the Korean State. It also marks a decisive step in inter-Korean relations and Washington's design to extend the free market to the entire Korean Peninsula.

Reunification and the Free Market

An IMF negotiating mission was rushed to Seoul in early June 2000, barely a few days before the historic inter-Korean Summit in Pyongyang between President Kim Dae jung and Democratic People's Republic of Korea (DPRK) Chairman Kim Jong il. Careful timing. The IMF's presence in Seoul was barely noticed by the Korean press. Firmly behind Kim Dae jung, South Koreans had their eyes riveted on the promise of the country's reunification. Other political issues were shoved to the sideline

Meanwhile backstage, removed from the heat of public debate, the IMF team was quietly putting the finishing touches on a new IMF Agreement to be duly signed by Finance Minister Lee Hun-jai, prior to his departure for the Pyongyang Summit.

It was a carefully planned sell-out: the June 2000 Agreement was more deadly than the first one signed in December 1997. In it, the ROK government renewed the IMF's stranglehold on the Korean economy until 2003 without the occurence of any form of public debate or discussion. The dismantling and fracturing of South Korean capitalism was carefully outlined, to occur over a three year period, from 2000 to 2003. (12)

But the IMF mission had something else up its sleeve. In liaison with the US Embassy, the IMF mission briefed Finance Minister Lee Hun-jai, who was in charge of the Pyongyang Summit's economic cooperation agenda. Lee was a faithful crony of the IMF. Prior to assuming the position of Finance Minister, he was in charge of the infamous Financial Supervisory Commission (FSC), the powerful IMF sponsored Watch Dog, responsible for triggering the bankruptcy of the chaebols. Carefully briefed before his departure for Pyongyang, Finance Minister Lee was to uphold American business interests under the disguise of inter-Korean economic cooperation. Washington's hidden agenda under the reunification process is the eventual recolonization of the entire Korean peninsula.

Colonizing North Korea

Under the inter-Korean economic cooperation program signed in Pyongyang, the Seoul government committed itself to investing in the North Korea. Hyundai, Korea's largest conglomerate, was to invest and build factories in the North.

But the Korean chaebols, including Hyundai, are rapidly being taken over by American companies. In other words, inter-Korean economic cooperation may turn out to be a disguised form of foreign investment and a new window of opportunity for Wall Street. The new American owners of the chaebols in consultation with the US State Department will ultimately be calling the shots on inter-Korean economic cooperation including major investments in North Korea:

> Kim Dae Jung's strategy is to help Pyongyang with aid and development, tap its cheap labor and build goodwill and infrastructure that are also in South Korea's interest Everyone has to keep up the pretense that nothing will happen to the North Korean regime, that you can open up and keep your power and we'll help you make deals with the International Monetary Fund and World Bank… But ultimately, we hope it does undermine them. It's the Trojan horse. (13)

The government of Nobel Peace Laureate President Kim Dae jung had set the stage on behalf of Washington. With US military might in the background, the promise of reunification, to which all Koreans aspire, could lead to the imposition of so-called free market reforms on Communist North Korea, a process which would result in the recolonization and impoverishment of the entire Korean peninsula under the dominion of American capital.

Notes

1.Agence France Presse , 19 November 1997.

2. Willis Witter, Economic Chief sacked in South Korean Debt Crisis; Emergency measures are introduced, Washington Times, 20 November 1997. See also International Monetary Fund, Korea: Request for IMF Standby, includes Letter of Intent and Memorandum on the Economic Programme, see para. 32, p. 44. The text can be consulted at http://www.chosun.com/feature/imfreport.html. Also quoted in Michael Hudson, Draft for Our World, Our World, Kyoto, 23 December 1997.

3. National Public Radio, 19 December 1997.

4. John Burton, Korea bonds reduced to junk status, Financial Times, London, 23 December 1997. P. 3.

5. Financial Times, 27-28 December 1997, p. 3.

6. Agence France Presse, Paris, 26 December 1997.

7. Autoparts makers step up resistance to Foreign Control of Daewoo Motor, Korea Herald, 28, June 2000.

8. See Michael Zielenziger, A rebounding but unreformed South Korea making investors, officials nervous, Knight Ridder Tribune News Service, 11 June 1999

9. More Tax Money for KFB, Korea Herald, Seoul, 17 August 2000, p. 1

10 Ibid

11. Struggle to survive will intensify amid M&As, Business Korea, Vol 17, No 2, February 2000, p. 30-36.

12. Text of Memorandum of Economic and Financial Policies and Letter of Intent, June 14, Ministry of Finance, Seoul, 2000, published in the Republic of Korea Economic Bulletin, June 2000 at http://epic.kdi.re.kr/home/ecobul/indexlist.htm. Also published by the International Monetary Fund (IMF) at http://www.imf.org/external/NP/LOI/2000/kor/01/INDEX.HTM. The Memorandum grants management rights to Deutsche Bank over KFB.

13 Los Angeles Times, June 16, 2000

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