

ing very slowly with this, to preserve social stability, the Korean style is the opposite—hot blooded, we have to just shut down the *chaebol*, and every Korean economist repeated together with the IMF: The *chaebol* are the cause of our problems.

But this was nonsense. Sure, the *chaebol* had problems, they had very high debt-to-equity ratios, they had corruption, but they were not the cause of the crisis. The cause of the crisis was the global panic, and the IMF took the excuse to demand *chaebol* restructuring, which, again, was none of their business. The *chaebol*'s biggest sin in the eyes of the IMF was that they were expanding production facilities very fast—take Hanbo steel: In the pre-crisis period, it got killed for the sin of building too big a steel-production capability.

**EIR:** I thought that for years, but everyone said the opposite, and I was beginning to think I was crazy; I am so glad you said that. Friedrich List said, there is good debt and bad debt; debt which goes to expand production of goods people need is good debt; you make a profit, you pay it back.

**Dr. Wang:** You are right: They are the crazy ones. Take a company like Daewoo, which did have a high debt structure, selling a lot of commercial paper in a lower-interest market; then you hit it with the IMF's 20% interest rates—it's the kiss of death. The kiss of death for a lot of Korean companies.

Hyundai is now getting hit because they refused to sell off parts to foreign investors. First the high IMF rates hit them, then there were rumors floated by foreign financiers in Hong Kong that Hyundai was going under, which caused foreign bank credit lines to dry up, which is critical for construction companies. Hyundai Construction is their core, and with the Korean market and all the LDCs [lesser developed countries] cancelling almost every construction project, they were hurt badly. Daewoo has been basically taken apart; we don't know yet exactly what will happen with Hyundai. Samsung, SG, and Lucky Goldstar were able to sell off parts of their conglomerates to foreign investors, and so they may have raised enough cash to survive.

But this was all very profitable for Western investors. Today, global foreign hot-money investment controls about 30% of the Korean stock market, whereas before the crisis it was only about 9%. Now the foreign investment firms are not only the market-makers in the global market, but they also have become the market-makers domestically here in the Seoul market.

**EIR:** You mean the big Wall Street firms, Goldman et al.?

**Dr. Wang:** Goldman, Salomon, the usual Wall Street giants—that's the key thing now: Who's going to control the Seoul capital market itself? Not to mention the other capital markets in Asia, unless we protect ourselves? So, as I said earlier, the banking crisis, the crisis is here. What comes next depends on Asian regional cooperation to protect ourselves. I believe we can do it.

## Billions at the Poker Table for UMTS

by Lothar Komp

It's just what millions of consumers have been waiting for: the ultimate in Internet surfing with mobile telephones. And this is not just a matter of transferring a few lines of text, like today's SMS technology. Consumers will be able to download videos and music clips wherever they happen to be. According to the "New Economy" experts, this will boost employee productivity, as well as enrich their recreational hours in previously unheard-of ways. The "third generation of mobile telephones," called UMTS, will be set to go in about three years—if everything works out.

Before UMTS gets under way, large telecommunications firms will have to cough up hundreds of billions in money. First, they have to bid for the limited number of licenses for available UMTS frequencies, which has already begun in Germany, accompanied by media fanfare. Similar auctions will take place in other European countries over the summer. According to estimates by the U.S. rating agency, Moody's, UMTS licenses alone could well dump some 300 billion deutschemarks (roughly \$195 billion) into European national treasuries. In addition, these firms will have to invest another DM 300 billion into needed infrastructure. Because UMTS will work over different frequencies from today's mobile telephones, all existing transmitter stations (40,000 in Germany alone) will have to be retrofitted or replaced.

That means that telecommunications firms will begin to make a profit in four to five years, at best, or maybe only in ten years. That's assuming, of course, that every European over the age of 12 buys a UMTS mobile phone, and runs up more than a four-digit bill in annual user charges. More than a few serious observers have cast some doubt on such calculations, and so, the stock prices of these firms have gone into a tailspin in the past few weeks. Deutsche Telekom dropped to 45 euros per share in early August, compared to 73 at the beginning of June and 105 at the beginning of March. That amounts to a collapse of 60% in five months. The competition, such as France Telecom, hardly did any better.

The immense expenditures for an uncertain UMTS come at a time of ruthless acquisition battles on the international telecommunications market, and these battles are just heating up. In July, Deutsche Telekom bought up the American

Voice-Stream (i.e., its customer base), for DM 106 billion, which is DM 44,000 for each new customer added to Deutsche Telekom.

### Acquisition Mania and Mountains of Debt

Other branches of industry are going the same way. In the first half of 2000, mergers and acquisitions (M&As) in Germany reached the highest level ever, with a total of 847 transactions and a turnover of DM 507 billion in the first six months of the year, almost ten times the level of 1999 (DM 53 billion). The lion's share (about DM 415 billion) was related to Vodafone's acquisition of Mannesmann. But the other DM 92 billion still topped the value of M&As for the previous year by 52%. Had the merger of Deutsche Bank and Dresdner Bank not fallen apart at the last moment, DM 55 billion would have to be added to this amount. Thousands of acquisitions among medium-sized German firms are not even accounted for in these official statistics. On the global scale, DM 3.7 trillion went for M&As in the first half of the year. That is about equal to the value of German economic output for a year.

The flip-side of this development is the accumulation of a gigantic mountain of debt. In the first half of 2000, debt incurred on the international stock and bond markets reached an all-time high. According to Thomson Financial Services

Data, DM 2.8 trillion of new liabilities were incurred over this period, 40% more than a year earlier; DM 1.5 trillion was in Europe alone. The largest share of these new debts are incurred in the telecommunications sector.

Had the firms making the acquisitions relied on earned profits or bank credits, the whole process would have fallen apart long ago for lack of liquidity. The explosive growth of mergers and acquisitions relies on the ever more frequent use of so-called "acquisition currency" stocks. The shareholders of the acquired company receive no cash, and instead get shares in the acquiring firm. Since the market value of the shares of a technology company is nowadays 50 or 100 times the annual profit, the firms can dip into a volume of liquidity for their global adventures which could never be scraped together out of profits from their business operations.

### Corporate Bonds

Corporate bonds are also playing a growing role in the financing of global firms. In the past in Germany, large banks almost exclusively went to the international bond markets to obtain the liquidity they lacked on the base of new customers' deposits. Now the large energy and telecommunications firms are moving into the bond markets in a big way. At the end of June, Deutsche Telekom issued the largest volume of bonds of all time: \$14.6 billion. Traditional government bonds, on the other hand, are receding on account of stagnating expenditures, gains from privatization of formerly state-sector firms, and now the sudden blessing of auctioning the UMTS licenses.

A privatization of the bond markets is under way at breathtaking tempo. The risks are increasing in tandem. Large volumes of bonds with state guarantees and moderate profit margins are being exchanged for insecure bond issuances by the private sector, including "junk bonds," which are now reappearing in grand style.

A sharp increase in failed payments on corporate bonds is noticeable in the United States. In the first half of 2000, the so-called "default rate" reached the highest level since 1991, when the United States was struggling with the collapsed junk-bond bubble. According to Moody's estimates, the "default rate" in the first half of this year was 5.4% and will probably rise to 8% in the next half year. That means that one out of 12 firms will be unable to pay the interest on its bonds, and the nominal value of bonds will go up in smoke in some cases.

London analyst Stephen Lewis recently remarked to the Swiss financial daily, *Neue Zürcher Zeitung*, that the next international financial crisis will probably not have a regional trigger. The center of the next crisis should be looked for where investors provided funds to a certain group of debtors indiscriminately, and where the financing activities are most intense. Whoever is looking for systemic risks can find them most easily in the telecommunications sector.

## LAROCHE ON THE NEW BRETTON WOODS

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