

ing nine nations, including Australia and European nations, which have joined the consortium this year.

President Bill Clinton praised the event as “a major new milestone” which “will contribute significantly to the peace and stability of the Korean peninsula.”

“This historic undertaking will require much hard work,” Clinton said, in a statement read by Cleveland. “But with a cooperative spirit, we can together help overcome decades of tension and hostility on the peninsula.” The KEDO effort is “at the top of the United States’ foreign policy agenda,” he said.

The KEDO program could revitalize all of Korea’s economy, and bring thousands of South Korean engineers and workers into contact with their countrymen in the North. It is valued at \$4.5 to \$5 billion, and is mostly financed by South Korea and Japan.

Adding additional hope for maintaining peace and stability on the peninsula, was the announcement on Aug. 19 that China views North Korea’s Tumen River development zone as a major target for cooperative international industrialization projects, part of Beijing’s Eurasian Land-Bridge policy. The mouth of the Tumen River, where North Korea and Russia meet the Sea of Japan, and which is also close to China, could grow to a “metropolis along the lines of Hongkong,” Ye Shunzan, an official of the Chinese Academy of Sciences, told a meeting of the Northeast Asia Economic Forum in Ulan Bator, Mongolia.

In addition to China, North Korea, and Russia, Japan, Mongolia, and South Korea are also cooperating to build up the river mouth area, in a planned \$30 billion rail, port, and industrial project.

South Korean currency hit by new instability

South Korea’s currency, the won, collapsed to an all-time low of 901 to the dollar on Aug. 18, joining the Southeast Asian nations in currency free-fall. Traders said the won was hit with a “snowball” effect, after the mid-August crash of the Thai, Malaysian, Indonesian, and Filipino currencies. Dozens of Korean companies, fearing the won would be next, dumped the won in a desperate scramble to buy U.S. dollars. Major Korean banks, such as Korea First Bank, the nation’s largest, are also feared to be on the edge of bankruptcy.

South Korea’s postwar “economic miracle” has been destroyed over the last decade, by International Monetary Fund financial deregulation.

“Fears that the Korean won could fall under speculators’ attack have prompted domestic firms to sell won and buy dollars,” Steve Marvin, head of research at Ssangyong Investment Securities, said on Aug. 19. The won fell 8.2% against the dollar last year and has fallen a further 5.9% so far this year.

The won crash is an indicator of the bankruptcy of the Korean banking system, said one trader. “The won’s steep fall against the dollar has raised concerns about the nation’s whole financial market,” said Lee Young-won, at Daewoo Securities in Seoul. “Financial institutions and corporations are competitively securing dollars on expectations of further financial troubles at local companies and banks.”

The central bank was forced to intervene twice on Aug. 18, to buy up billions of won in an attempt at price support. “The Bank of Korea sent out a strong warning to speculators,” said one trader, who was desperate to try to prevent further depreciation of the won.

The banking crisis

The South Korean banking system is also facing the possibility of a run. The Seoul Finance Ministry on Aug. 18 was forced to issue a statement vowing to bail out the country’s illiquid banks, amid fears that South Korea’s top four banks are about to blow; they hold about \$20 billion in bad debt from industrial companies which have gone bust this year.

The Finance Ministry said that it is setting up a “bad loan bank,” similar to those created by the United States in the savings and loan debacle, and Japan in its banking crisis last year, to bail out the banks, if possible. A ministry statement said the state-run Korea Asset Management Corp. (KAMC) would extend aid by “buying some assets held by ailing financial institutions to help ease their credit restraints.”

The ministry statement said that the KAMC would now massively increase its borrowings on the public markets, from about \$1 billion to a much higher, undetermined amount, to raise the funds to bail out the banks. KAMC collects overdue loans, sells off real estate on behalf of financial institutions, and arranges auctions of bank property. The statement said the government needed to supply “minimum supports” to stop the banks from crashing.

Korea First Bank could be the first to beg for a bailout. Earlier this year, Korea First asked for over \$2 billion in special loans from the central bank. The Finance Ministry statement said the government and the central bank had agreed in principle, that Korea First would be the first financial institution to receive money from the KAMC. Korea First Bank was hit by a chain of corporate defaults including the collapse of Hanbo Steel and Sammi Steel. It is now facing another big blow because of the collapse of the Kia Group, which was put under Chapter 11 bankruptcy in July. — *Kathy Wolfe*