

Daewoo collapse to have global consequences

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18 November 2000

The collapse of Daewoo Motor, South Korea's largest ever corporate failure, was the catalyst for a rally in the capital Seoul last week, involving 20,000 workers, protesting the impending mass layoffs.

Up to 100 workers were injured, as they clashed with police using riot shields to block the protesting workers in the centre of Seoul. The workers responded to the police violence using rocks, steel pipes and fireworks to break through the police barricades. Protesters chanted: "No Layoffs" and "Down with (president) Kim Dae Jung".

Daewoo Motor's bankruptcy and the closure of another 52 firms have seen a wave of protests in recent weeks. Union officials claim that up to 200,000 people could be made jobless on top of the 800,000 already laid off in the last two years.

Dan Byong- Ho, the leader of the Korean Confederation of Trade Unions (KCTU), speaking at the rally, called on the president to put an end to the economic restructuring crusade or face "an all out anti-government struggle".

"We oppose the government's unilateral restructuring drive, which forces only workers to make sacrifices," he said. According to press reports, Byong-Ho suggested a possible nationwide strike in December.

But such threats have been heard before and have come to nothing. Over the past period the leadership of both the KCTU and the Federation of Korean Trade Unions have worked to assist the government and big business in the destruction of jobs and the cutting of wages as demanded under the International Monetary Fund's program of "restructuring" of the South Korean economy and "flexibility" in labour relations.

The crucial issue in the decision to declare Daewoo Motor bankrupt and place it into court receivership was the refusal of the 13,000-member union at Daewoo Motors to accept the axing of 3,500 jobs and the closure of unprofitable plants.

A union spokesman told the *Reuters* newsagency: "We can't sign a restructuring plan that requires killing our colleagues with our own hands. Creditors are maintaining that only job cuts could turn around our company. But it doesn't make sense."

The Daewoo Motor collapse, which saw the company placed into court appointed receivership with \$10 billion in debts, will have international ramifications.

Daewoo has 12 plants in 11 countries and employs approximately 53,000 worldwide. It has five plants in South Korea alone employing 26,950 workers. Production at its biggest plant in South Korea halted last week as parts suppliers refused to deal with the company unless shipments were paid for immediately.

Daewoo's bus production facility at Pusan, was also in the

process of shutting production. "The factory looks like work could be suspended at any moment because fundamental parts are not in supply," a factory manager told the *Korea Times*.

The largest Daewoo overseas plants, situated in Poland, may also stop production due to a lack of components and funding. The Polish government has reportedly looked at the prospect of buying the plants or selling them off to foreign investors.

Reuters reported that the Polish government was coming under pressure from trade unions fearful for the future of about 25,000 jobs that depend on Daewoo, including 5,500 at its Warsaw plant. The collapse will also affect workers in Australia, Uzbekistan, India and Romania.

General Motors Holden Ltd, the Australian subsidiary of General Motors, reported last week that it was aiming to cut 300 jobs from its workforce of 2,000 after losing engine sales to Daewoo Motor, previously its biggest customer. GM Holden has decided to stop production for 10 days this month and then resume in December at a lower rate of 900 engines a day, down from 1,400 engines it was producing in October. GM Holden's exports to South Korea came to a standstill last week when Daewoo's receivers refused to honour letters of credit.

Daewoo has a joint venture in Uzbekistan, which now looks under threat. Daewoo is the biggest foreign investor in the Central Asian State with \$1.4 billion tied up in car manufacturing, textiles, telecommunications, construction and banking.

An Uzbeki government official told reporters: "I can say that we can carry on producing cars for the domestic market for a long time to come. But that's of little interest to us, we must produce for export to earn hard currency."

While workers fear for the future, the international financial press is welcoming the collapse. According to the *Economist* magazine, it highlighted the fact that restructuring as demanded by the IMF is beginning to take place.

"The feeling in South Korea is that if the foreign vultures or domestic rivals such as Hyundai were allowed to pick up some of the Korean factories and even the brand name, this would send a strong signal that the oft-heralded reform of the country's chaebol was genuinely going to happen."

The magazine looked forward to further such collapses and closures. "President Kim has said that the government is no longer afraid to let insolvent companies go bust. That was reflected in KDB's (Korea Development Bank) decision to pull the plug on Daewoo. It might be more difficult to do the same thing with Hyundai Engineering and Construction later this year, because of the effect on the country's financial-services industry. But if it can be allowed to fall like Daewoo Motor, this could be the beginning

of an overdue pruning of the deadwood of the country's economy.”

The London-based *Financial Times* took the same line and called for the government to press ahead.

“The move to place Daewoo Motor in court receivership could be a turning point for the Seoul stockmarket. Its 50 percent slide this year may have finally persuaded the government and nationalised banks to stop throwing good money after bad by propping up ailing businesses.

“But the next step needs to happen quickly: liquidation and a sale to General Motors. That should now be easier, with court control allowing more transparency on the size of Daewoo's debts, and the unions—whose refusal to accept job cuts triggered the receivership move—forced to accept the court appointed manager's decision. The danger is that Daewoo is instead allowed to hobble under administration, supported by working capital injections from the banks. For a government facing thousands of job losses among Daewoo's 9,300 contractors, that temptation will be strong.”

The government, it declared, had to hold its nerve and show a similar toughness with Hyundai Engineering and Construction, whose loans have been rolled over until the end of the year.

The company, which is also facing bankruptcy, was given a temporary reprieve by the government and creditor banks that feared the impact of a second major collapse in such a short period.

Press reports have stated that the company must restructure and raise \$818 million in new funds to cut its debt by the end of the year otherwise, government-controlled banks will declare the firm bankrupt and take it over through debt-for equity swapping.

The root of the Daewoo financial problems lies in falling sales and overcapacity throughout the auto industry. The total annual capacity of the company was 2.15 million units, made up of 1,266,000 units produced at home and 887,600 overseas. However, plants were running at only 60 percent capacity with sales of Daewoo products from January to October totaling 753,527 units, down 4.5 percent on same period last year.

Commenting on the collapse, the *Economist* noted: “For a time all seemed to go well. Daewoo Motor grabbed a quarter of the home market, and won footholds in Europe, Australia and India. But this mad rush to expand South Korea's car industry to a capacity of 5 million, in a country where home demand was barely 2 million, was always likely to end badly, in a world awash with cars.”

One auto industry analyst has predicted that by the year 2002, due to overcapacity in the global auto industry, there will be 80 more assembly plants worldwide than the market demands.

General Motors and Fiat, which had been looking to purchase Daewoo Motor, conditional on restructuring and credit lending being set in place, are expected to move in. They had been vying with Ford to buy the car maker. But Ford abandoned its \$6.9 billion bid, claiming the company was far too debt laden.

According to some auto industry analysts, although Daewoo is heavily indebted, its purchase can provide an easy way for foreign automakers such as General Motors to gain access to South Korea's car market. It could also be used as a stepping stone into China, considered as one of the fastest growing car markets in Asia.

The collapse of Daewoo Motor and the continuing bankruptcies elsewhere have raised fears that South Korea could experience economic contraction. According to an editorial in the *Korea Herald*: “Economic analysts are talking about the possibility of the nation falling into a prolonged recession. Given a number of unfavorable business indicators, they have ample reason to issue a gloomy forecast for the Korean economy. Regrettably, however, this observation does not seem to be gaining due attention from the economic policymakers of the government.”

The editorial pointed to falling consumer sentiment and surveys indicating poor sales performance in department stores and markets around the country.

“If consumption levels drop drastically,” the editorial warned, “it will reduce the vitality of the national economy. Shrinking consumer spending will weaken the economy and the weakening economy will result in smaller paychecks, reduced wages will further shrink consumption, eventually leading to economic stagnation.”

Unemployment levels are set to rise, following what analysts term “the 2nd phase of corporate restructuring”. The Ministry of Finance and Economics this week announced that unemployment will rise from the official figure of 800,000 to 900,000, that is, from 3.6 percent to 4.1 percent. Some 50,000 jobs are predicted to be axed, mainly in the construction industry with the approach of winter, and another 50,000 will be lost as a result of the Daewoo bankruptcy and the insolvency of 52 other non-viable companies.

A recent editorial in the *Korea Times* painted a picture of the mounting social crisis. While supporting the government's measures it expressed a nervousness about their consequences. A particular worrisome fact was that there is no social security net to cushion the impact of unemployment.

“Hundreds of trillions of won in public funds have been poured into helping insolvent companies and banks, with no substantial results. But, the government has no proper measures to assist those who lose their jobs except piecemeal assistance, citing the lack of budget.

“The scene of tearful workers, shown on TV on the day of the liquidation announcement, epitomised the grim reality of those about to be unemployed. To some of them, the impending unemployment could mean the breakup of their families.”

It was quite natural, the editorial concluded, that companies would go bankrupt if they could not pay their debts. “In that sense, we support the government's decision... But what matters now is those who will be driven out into the street. The government is asked to undertake plausible measures to help those in peril, keeping in mind the fact that the growing number of the unemployed, if left unchecked, can cause social unrest.”



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