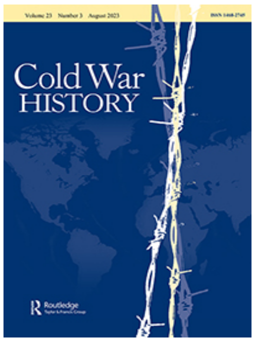

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A brief encounter: North Korea in the Eurocurrency market, 1973–80

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ABSTRACT
This article examines the engagement of North Korea in the Eurocurrency market in the 1970s. In the Cold War regime competition for economic prosperity, the communist regime turned to the City of London to raise capital for economic development. Despite the diplomatic efforts of South Korea against its rival, the judges were international banks. The failure to manage its indebtedness resulted in the retreat of the North in the Western financial market. Lost creditworthiness was hard to restore. The divergence in the access to foreign capital resulted in the different paths of economic growth of the two Koreas.

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Introduction

In December 2011, in the aftermath of the death of Kim Jong Il, the *Wall Street Journal* reported North Korea's 'only openly traded securities, a batch of bonds that haven't received a payment in almost three decades'.[1] In 1997, a French investment bank of BNP Paribas repackaged non-performing syndicated bank loans issued by North Korea in the 1970s. Betting on a high-profit opportunity from the reunification of the two Koreas, speculators sporadically traded the structured financial product at a large discount on the face value; from the case of Germany, they expected the takeover of the obligation by the South Korean government.[2] Against the images of smuggling, counterfeit notes and financial sanctions in recent years, the elusive bond indicates North Korea's short-lived engagement in the global financial market, as well as its indebtedness.

From the early 1970s, European banks in the City of London increased international lending business towards the Global South via the Eurocurrency market, an offshore

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[1]'North Korean Bonds? Now Could be the Time', *Wall Street Journal*, 23 December 2011. More recently, see, 'The Elusive North Korean Bonds that Few Know How to Find', *Bloomberg*, 14 June 2018.

[2]Drawing on contemporary periodicals and official statistics, scholars have examined North Korea's indebtedness to address the succession issue. For example, see, Y. D. Tak, 'A Study on the Management of North Korea's Foreign Debt Securities Bonds', *North Korean Studies Review* 22, no. 1 (2018): 29–56; and M. S. Han, 'A Study on the Succession of External Debt of North Korea after Korean Unification', *Kyung Hee Law Journal* 56, no. 3 (2021): 161–98.

Table 1. North Korea's foreign loans, June 1979 (in US$ million).

Type / Country	Government guarantee	Bank guarantee	
		Financial loan	Commercial loan
Sweden	176	-	-
West Germany	145	34.68	-
France	145	84.62	-
United Kingdom	15	95.37	-
Other European countries*	165	-	-
Asian countries (including Japan and Australia)	298	-	-
Total	2,239	214.67	490

* Includes Switzerland, Belgium, the Netherlands, Italy, Austria, Denmark, Finland

Country	Bank	Amount
United Kingdom	Morgan Grenfell	95.37
West Germany	Dresdner	34.68
France	Société Générale	15.26
	Banque de l'Union Européenne	69.36
Total	214.67	

Source: 'North Korea's foreign loans' (4 April 1980), CA0331360, NAK.

market of major Western currencies, including the US dollar.[3] Less-developed countries (LDCs) saw the opportunity to raise funds for their ambitious plans for industrialisation; in contrast to the existing means from international financial organisations and governments of advanced countries, there were no conditions attached to Euroloans, or obligations in various maturities. The resultant growing indebtedness of LDCs and the debt crisis of 1982 attracted scholarly attention to the role of international banks in financing the post-war economic development of the Global South.[4] More recently, drawing on archival documents, historians of finance have examined the cases of Latin America and the former Communist Bloc.[5]

This article examines the brief encounter of North Korea with the global finance of the 1970s. Under the new assumption of economic prosperity in the Cold War regime competition against South Korea, plus the tension with its traditional allies over the path to economic development, the Communist regime entered into the Eurocurrency market for foreign capital. Its initial success in the City, the main centre for the

[3]Carlo Edoardo Altamura, *European Banks and the Rise of International Finance: The Post-Bretton Woods Era* (London and New York: Routledge, 2017). On the origins of the Eurocurrency market, see Catherine R. Schenk, 'The Origins of the Eurodollar Market in London: 1955–1963', *Explorations in Economic History* 35, no. 2 (1998): 223–48; and Gary Burn, 'The State, the City and the Euromarkets', *Review of International Political Economy* 6, no. 2 (1999): 225–61.

[4]Early research includes Stephany Griffith-Jones, 'The Growth of Multinational Banking, The Eurocurrency Market and their Effects on Developing Countries', *Journal of Development Studies* 16, no. 2 (1980): 204–23; Barbara Stallings, 'Euromarkets, Third World Countries and the International Political Economy', in *The New International Economy*, ed. Harry Makler (Beverly Hills: Sage, 1982), 193–230; Philip A. Wellons, *Passing the Buck: Banks, Governments, and Third World Debt* (Cambridge, MA: Harvard Business School, 1987); Anne O. Krueger, 'Origins of the Developing Countries' Debt Crisis: 1970 to 1982', *Journal of Development Economics* 27, no. 1–2 (1987): 165–87; and Jeffry A. Frieden, *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965–1985* (Princeton: Princeton University Press, 1991).

[5]For example, see, Sebastian Alvarez, 'The Mexican Debt Crisis Redux: International Interbank Markets and Financial Crisis, 1977–1982', *Financial History Review* 22, no. 1 (2015): 79–105; Fritz Bartel, 'Fugutive Leverage: Commercial Banks, Sovereign Debt, and Cold War Crisis in Poland, 1980–1982', *Enterprise and Society* 18, no. 1 (2017): 72–107; Paul V. Kershaw, 'Averting a Global Financial Crisis: The US, the IMF, and the Mexican Debt Crisis of 1976', *International History Review* 40, no. 2 (2018): 292–314; Emmanuel Mourlon-Druol, 'The Role of Creditor in the Making of a Debt Crisis: The French Government's Financial Support for Poland, between Cold War Interests and Economic Constraints, 1958–1981', *Financial History Review* 27, no. 1 (2020): 73–94; Carlo Edoardo Altamura and Juan Flores Zendejas, 'Politics, International Banking, and the Debt Crisis of 1982', *Business History Review* 94, no. 4 (2020): 753–78; and Carlo Edoardo Altamura, 'Global Banks and Latin American Dictators, 1974–1982', *Business History Review* 95, no. 2 (2021): 301–32.

Eurocurrency business, leveraged the financial diplomacy of the South on Eurobanks; it perceived the flotation of Euroloans for its rival as a sign of international reputation. However, the judges of the regime competition were international banks, whose sole criterion was creditworthiness, not the ideology of borrowers. Hence, the ineptitude in the management of indebtedness lay in North Korea's retreat from the City; despite the prolonged rescheduling negotiations at the Paris Club, the Communist regime failed to honour its obligations to the Western creditors. Meanwhile, the South remained a virtuous debtor to raise more capital. The disparity in the access to foreign capital resulted in the divergence in the paths of the two Koreas' economic development. And the retreat of the troubled borrower coincided with scandals in illicit commerce. This article, drawing on original documents from national governments and international banks, offers the first archive-based account of the engagement of North Korea in the global finance of the 1970s and contributes to the growing scholarship on the relationship between global banks and the Global South in the context of the Cold War.[6]

Growthmanship, the Cold War and North Korea's turn to the Eurocurrency market

In the 1960s, as S. R. Hong suggests, the focal point of the Cold War shifted from military aggression to economic competition.[7] With the recognition of co-existence, both the United States and the Soviet Union assumed growthmanship was the key to success in the ideological race towards the Global South. For example, US foreign policy emphasised the promise of modernisation to lure developing countries. Under the transition, after the proxy war in the previous decade, the two Koreas also suspended their competition for prosperity; it was also important to secure the legitimacy of authoritarian rule.[8] The South successfully adjusted to the US strategy of the regional integration of East Asia; in return for entry into the United States-led Vietnam War and normalisation of diplomatic relations with Japan, despite the colonial experience, the military government of Park received a substantial amount of financial aid and grants for the pursuit of industrialisation. Meanwhile, to the contrary, the North deviated from the Communist Bloc to pursue an independent economic growth strategy under its official ideology of *Juche*, self-reliance. However, owing to changing relations with the traditional allies of the Soviet Union and Communist China, North Korea turned to the Eurocurrency market to finance plans for economic growth.

Throughout the 1950s, as S. R. Jo shows, the Democratic People's Republic of Korea (DPRK) launched full-scale industrialisation. Given the lack of domestic capital formation, the assistance of the Soviets was of critical importance. However, the determination of Kim Il-Sung to pursue rapid heavy industrialisation deviated from Moscow's guidance of light-industry oriented economic development. The tension over the economy's future direction resulted in the North's de-Sovietisation; it drove the country to turn to non-

[6]Literature on the economic history of North Korea in the 1970s has paid attention to the planning on a domestic level. It has relied on published materials, official accounts by the Workers' Party of Korea, and sources from Russian archives. For example, see, C. H. Lee, 'Review on the North Korean Style on Economy in 1970s', *Review of North Korean Studies* 17, no. 3 (2014): 129–75.

[7]S. R. Hong, 'Modern Korean History in the Context of the Cold War: Exceptionality and Regularity of the Cold War', *Critical Review of History* no. 110 (2015): 112–35 (120).

[8]Ibid., 121.

aligned countries to extend diplomatic and economic relations.[9] In the capitalist world, it resorted to private capital from Japan to finance foreign trade and plans for economic development.[10] By the mid-1960s, the bid to transform the North into an independent socialist industrial country seemed to have been successful. For example, after her visit to Pyongyang in 1964, Joan Robinson, a Cambridge economist, attributed the 'Korean miracle' of the North to 'national character' or '*jooche*' and pointed out 'the pernicious effect of foreign aid'.[11]

By the late 1960s, as B. H. Suh documents, in response to the changing international politics of the Cold War, the DPRK introduced an open policy towards Western Europe.[12] Détente and the Sino-Soviet split had led to the cessation of grant-type aid from the Communist Bloc since the mid-1960s, which forced the North to find alternative sources of capital in the West. The regime competition played a role as well; the aggressive reunification policy of the South coming out of rapid economic growth drove the North to exhibit economic power and its international reputation to 'non-hostile free countries' in Western Europe.[13] In his March 1969 thesis, *On the Several Theoretical Issues of the Socialist Economy*, Kim Il-Sung, the leader of North Korea, presented ways to achieve sustainable economic growth, including the importation of machinery and plant equipment to resolve the technical bottleneck. For this purpose, the country was determined to approach Japan and then Western Europe. For instance, during the Six-Year Plan of 1971–6, it opened representative offices in the Nordic countries, France and Italy to facilitate trade relations. It also sought to attract foreign capital to build industrial complexes such as the Allied Namheung Youth Chemical Corporation.[14]

Galvanised by the changing relationships with traditional Cold War allies, the pursuit of independent economic growth drove North Korea to search for sources of capital. The Eurocurrency market in the City of London was the logical choice. First of all, it allowed the discretionary and independent pursuit of economic planning for the two Koreas against the projected trajectory for development by the Cold War allies; the Euro-capital was not tied to specific projects. Owing to the deliberate efforts by the Bank of England, as Kim suggests, the new private international financial market facilitated the resumption of capital mobility against the Bretton Woods assumption of national controls.[15] Even the United States, whose currency took the lion's share of the market, exercised little leverage. As the Bank of Korea, South Korea's central bank, observed, the Eurodollar

[9]S. R. Jo, 'The Draft of the First Five-Year Plan (1957–1961) and the Beginning of De-Sovietization in North Korea', *Yoksa Hakbo* no. 249 (2021): 183–215.

[10]See Nicholas Eberstadt, 'Financial Transfers from Japan to North Korea: Estimating the Unreported Flows', *Asian Survey* 36, no. 5 (1996): 523–42.

[11]Joan Robinson, 'Korean Miracle', *Monthly Review* 16, no. 9 (1965): 541–9 (547).

[12]As Sanchez-Sibony shows, it should be noted that the Soviet Union during the Cold War period imagined and pursued a totally different economic system from the capitalist one. However, its ambitious attempts to create a socialist economic bloc such as the Council of Mutual Economic Assistance ended up with failure, which drove them into the capitalist system. See, Oscar Sanchez-Sibony, *Red Globalisation: The Political Economy of the Soviet Cold War from Stalin to Khrushchev* (New York: Cambridge University Press, 2014).

[13]B. H. Suh, 'The Rise of Western Diplomacy, its Development and Features', in *Ancient Future? Revisiting North Korea in the 1970s*, ed. B. H. Suh (Seoul: Sunin, 2015), 197–220 (216).

[14]C. H. Lee, 'Revisiting the North Korean Economy and its Implications – Kim Jungeun's Recall of the 1970s Economy', in *Ancient Future?*, ed. Suh, 111–40 (122).

[15]Seung Woo Kim, 'Knowledge, Contestation and Authority in the Eurodollar Market, 1959–64', in *Money and Markets: Essays in Honour of Martin Daunton*, ed. J. Hoppit (Woodbridge: Boydell Press, 2019), 145–60.

market was not subject to 'any rules and regulations of a country'.[16] Hence, the North was one of the developing countries, including the South, which flocked to the Eurocurrency market to avoid international financial organisations' financial diplomacy or Cold War allies that contested independent developmentalist policies with loans.

More importantly, there was no ideological bias against the North in this capitalist market; the Eurocurrency market was not new to the Communist Bloc. Contemporary practitioners and journalists understood well the role of Soviet-owned banks in London (the Moscow Narodny Bank) and Paris (the Banque Commerciale pour l'Europe du Nord) in the making of the Eurocurrency business; against the attempts by the US government to freeze the assets held by the Soviets, these two banks deposited the Soviet-owned dollar in the City of London.[17] They were also crucial pioneers in the Eurodollar business. With the expansion of the West-East trade, as George Bolton, a prominent City banker, observed, 'Eastern Europe appeared in the market primarily as lenders'.[18]

Furthermore, the increased presence of communist countries in the Western financial market did not bother the US administration. In 1966, it had already concluded that restrictions on financial transactions by communist countries in Western European financial markets (See, Table 1) were ineffective and 'vulnerable to criticisms' from allies, given the growing East-West trade. So, it lifted controls over North Korean assets; the US Treasury had frozen all assets owned by the communist belligerent in the United States and had continued the policy via the Office of Foreign Assets Control since the Korean War. Despite the dangers of countering the 'established position of not recognizing the legitimacy of the North Korean regime' and betraying the South, 'a loyal ally which has contributed far more to our common struggle than any of the members of the Alliance', the United States took 'a more liberal US position on assets controls' in North Korea.[19] No longer did Cold War diplomacy disturb the entry of the North into the Eurocurrency market.

In June 1970, the South landed in the Eurocurrency market before the North with a syndicated Euroloan of US$25 million.[20] After its initial success, the military government was determined to expand its Euroloans for the Third Five-Year Economic Plan of 1972–6.[21] The North, meanwhile, was learning capitalist norms and practices, as it developed trade relations with Western European countries, whose governments provided export credits. From the mid-1960s, France, the Netherlands and Austria had been willing to provide credit cover for their exporters to North Korea. Despite the potential tensions with allies of South Korea and United States, the UK's Export Credit Guarantee Department did the same 'against the background of the general European interest in trade with North Korea'.[22] In 1973, the Export Credit Guarantee Department (ECGD), a UK credit agency for exporters regarded that 'North Korea would follow the traditional communist doctrine of maintaining her creditworthiness by prudent management of her

[16]Bank of Korea, 'The Mechanism of Euro-Dollar Market and Its Implications', *Monthly Review* 24, no. 4 (1970): 4–25 (5).

[17]Paul Einzig, 'Some Recent Changes in the Euro-Dollar System', *Journal of Finance* 19, no. 3 (1964): 443–9 (447). Also, see, Oscar Sanchez-Sibony, 'Capitalism's Fellow Traveller: The Soviet Union, Bretton Woods, and the Cold War, 1944–1958', *Comparative Studies in Society and History* 56, no. 2 (2014): 290–319.

[18]International Money Markets – 1958/66, November 23, 1966, C160/58, Bank of England Archives, London, UK.

[19]Re: East-West Initiatives, September 30, 1966, Papers of Anthony M. Solomon, Box 3, Lyndon Baine Johnson Presidential Library.

[20]'Landing of the Eurodollar', *Maeil Business*, June 10, 1970.

[21]'The Use of Eurodollars – Controls on Unnecessary Short-Term Trade Credits', *Maeil Business*, September 24, 1970.

[22]ECGD cover for North Korea, 1 March 1965, PREM13/634, The National Archives, Kew, UK (hereafter TNA).

uptake of debt'.[23] On the supply side, as Altamura documents, Western European banks were to reach out to developing countries by re-cycling petrodollars from the oil-producing countries.[24] Out of the Cold War competition for prosperity, the two Koreas would soon encounter each other in the City.

A Cold War in the City: the regime competition of the two Koreas in the City, 1973–4

In the summer of 1973, for the government of South Korea, the Eurocurrency market turned into a field for regime competition against the North. It considered Euroloans a means to pursue its ambitious economic plan and facilitate the North's integration into the Western financial markets. Therefore, the City, the main centre of the Eurocurrency business, arose as a battleground for regime competition for recognition in the Western financial markets. The South made diplomatic efforts against the North, but there was no winner in the early stage of 1973–4; both Koreas successfully raised capital when Eurobanks evaluated their creditworthiness highly. At the same time, the North Korean factor was substantial enough to leverage the South's strategy in the Eurocurrency market.

On 26 April, a South Korean action officer in London was informed that the Foreign Trade Bank of North Korea (FTB) was arranging a 50 million Eurodollar loan in France with four French and one East German bank.[25] The bank had functioned as the country's central bank and was 'responsible for all Korea's international transactions' and allocated 'foreign exchange to the state trading corporations in accordance with the needs of the trading plans agreed by the Planning Committee'.[26] In the Eurocurrency market, the recent success of the International Investment Bank of COMECON (Council for Mutual Economic Assistance) to float a US$120 million Euroloan had already lowered the entry barrier for other communist countries.[27] The details of the North Korean loan were not yet known, except the maturity of five to seven years. After the continental Europeans, the North was approaching British banks.

The news was immediately given to the Ministry of Foreign Affairs of South Korea, which immediately instructed its embassies in London, Paris and Bonn to collect information and ask Eurobanks not to participate in the syndicate by leveraging the friendly relations the developing country had constructed.[28] In May, the Korean ambassador to the UK reported that 50 banks in London had already declined the invitation to consider business ties with South Korea.[29] Yet, small banks and other financial institutions without business relations were likely to participate in the syndicate owing to the proposed high interest rate of 1.75% above the London Inter-Bank Offered Interest Rates

[23]North Korea: ECGD Insured Debt Position, 3 September 1975, T362/160, TNA.

[24]See Altamura, *European Banks and the Rise of International Finance*.

[25]Letter from the UK Ambassador to the Minister, 27 April 1973, BA04881447, National Archives of Korea, Seongnam, South Korea (hereafter NAK).

[26]Visit to North Korea by J. Thresh and J. E. Bull, 26-31 July 1974, 18 September 1974, 80/6136, Barclays Banking Group Archives, Manchester, UK (hereafter BBGA).

[27]See, K. Wilen and L. Weltfort, 'The International Bank of Comecon', *Soviet and Eastern European Foreign Trade* 7, no. 1 (1971): 68–74; and David R. Stone, 'CMEA's International Investment Bank and the Crisis of Developed Socialism', *Journal of Cold War Studies* 10, no. 3 (2008): 48–77.

[28]Letter from the Ambassador to the UK, 27 April 1973, BA04881447, NAK.

[29]Letter from the Minister to the Ambassador to the UK, 12 May 1973, ibid.

(LIBOR), a key reference interest rate for the Eurocurrency market. It turned out to be two loans denominated in the Deutschemark and the Netherlands Guilder, which amounted to US$50 million and US$25 million respectively, with five to seven years of maturity. Lead banks were the Banque Commerciale pour l'Europe du Nord and Credit Lyonnais, a French national bank.

In June, the London Embassy was informed that the City understood the participation of Japanese banks to be a critical factor in the success of the North Korean loan.[30] Then the South approached the Japanese Ministry of Finance or headquarters of these banks for cooperation. In his visit to the director of international finance under the Ministry of Finance in Tokyo, a senior South Korean officer received a positive answer regarding the administrative instruction to Japanese banks in London.[31] The director added that Japanese banks had considered the loan, but they left North Korea demanding the lead managing banks exclude Soviet, Spanish and Japanese banks. With relief, the South turned to European banks to prevent the flotation of Euroloans for the North.

In response to the North's aggression in the Eurocurrency market, the South also sought an opportunity to create business ties with the Communist Bloc. Accordingly, it invited international banks from the Soviet Union, Poland and East Germany into the syndicate for a Euroloan of US$40 million, led by the British bank Singers and Friendlander. The Korean Central Intelligence Agency (KCIA), a powerhouse in the military government, which issued the invitation, opined that such a policy would show South Korea's goodwill to the Communist Bloc as well as its allies. The participation of communist banks was also expected to create momentum for Eastern Europeans to reconsider their attitudes towards South Korea.

Such a move was an extension of the June 23 Declaration of 1973 into financial diplomacy. The doctrine of 'open the door to socialist countries on a reciprocal basis' announced by President Park was a response to the 'adroit diplomatic offensive' by North Korea after the abortive North-South talks of 1972, which were designed to enhance its 'international standing while putting the South on the defensive diplomatically' and 'diversify its trading links in order to accelerate industrial development, expand commercial entrée to the West, and diminish dependence on Moscow and Peiking'.[32] As the strategy 'netted Pyongyang notable results', the South was desperate to check the increased presence of its enemy in the international scene.[33] In this regard, the Eurocurrency market was no exception when the Euroloan for the North implied entry into the Western financial markets. Yet, the KCIA reserved a more aggressive approach to dissuading their participation in the syndicate for the North; the Eurocurrency loan for the North had already reached an agreement with French banks. But, as it turned out later, the attempt would merely end up in failure; there was no way for the government agency to instruct international banks.

On 31 July, North Korea finalised the agreement with 24 banks from 10 countries to form a syndicate for the Eurodollar loan of US$40 million.[34] Following the agreed

[30]Letter from the Ambassador to the UK to the Minister, 26 June 1973, ibid.

[31]Letter from the Ambassador to Japan to the Minister,28 June 1973, ibid.

[32]Contacts and Communications with North Korea, 28 February 1977, Box 43, Zbigniew Brezinski's Country Files, 1977–1981, Jimmy Carter Presidential Library, Atlanta, GA, USA (hereafter JCPL).

[33]On the regime competition in the international diplomacy, see, D. M. Kim, 'A Study on the Diplomacy of South and North Korea towards "Neutral Countries" from 1948 to 1968' (PhD diss., Seoul National University, 2020).

[34]UKW – 0674, 8 August 1973, BA04881447, NAK.

schedule, the syndicate posted a tombstone, a written advertisement of a public offering, on behalf of FTB. The lead managing bank was the Banque de l'Union Européenne and the syndicate included well-known Soviet-owned Eurobanks – the Banque Commerciale pour l'Europe du Nord and the Moscow Norodny Bank. Also, three banks had maintained relations with South Korea: the Union de Banques Arabes et Françaises joined the syndicate for the South with a US$1 million loan commitment; the Italian International Bank was linked to the Korean Exchange Bank (KEB), a government-owned bank for foreign exchange business; and the Union de Banques Suisses was a correspondent bank for KEB with a credit line of US$3 million with the London branch of the KEB.[35]

The position of the South Korean government was mixed. It decided not to ask the Kuwait bank to refrain from the syndicate for the North as the Arabic bank also agreed to arrange a loan for the South, from which the KCIA understood the Arabs' positive perception of South Korea.[36] Another consideration was that Arab banks represented an untapped source of capital: the vast amount of foreign currency reserves in oil-producing countries. It was too risky to challenge the freedom of action in the Western capital market. Therefore, the KCIA was determined not to embarrass the Kuwait bank. By the end of August, the KCIA formulated policies regarding 'the aggression to persuade allies not to respond to the flotation of the "Eurodollar" by North Korea'. It was certain that without a pro quid quo, international banks in Europe would not even listen to the request from the South Korean government; rather, such a political demand could have been perceived as the infringement of economic activities of 'Euro-capital'.[37] In the Eurocurrency business, international banks had the well-established principle of evaluating a borrower in their decision to lend capital – the records of servicing debts . Indeed, ideology was less significant.

Accordingly, to avoid the danger of undermining the pro-South Korean attitude, the KCIA instructed its diplomats throughout Europe to use indirect measures to provide relevant information, which 'proves the injection of capital into North Korea is "risky"'. The psychological warfare aimed at creating a biased perception regarding cooperation with the Communist regime. When the favour was not returned, the intelligence agency also sought to exploit European banks as a '"source" to collect industrial information of North Korea'.[38] Then it asked South Korean embassies in Europe and Saudi Arabia:

> [A]s we are formulating a countermeasure to prevent transactions with North Korea by actively securing more Euromarket business, bear in mind measures to strengthen such as the expansion of local branches of Korean banks and 'correspondent' network to European banks by Korean banks and continued expansion of 'Eurodollar' loans.[39]

As a result, throughout 1974, there were three tombstones for South Korea's Eurobond issues in *Euromoney*.[40] Later, it was also reported that the country's publicised Eurocredit, mid-term Euroloans, amounted to US$222 million that year.[41]

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[35]UKW – 0186, 10 August 1973, BA0881523, NAK.
[36]Introduction of Bank Loan from Europe, 13 August 1973, ibid.
[37]Opinion regarding Ways to Check the Flotation of 'Eurodollar' by North Korea, 30 August 1973, BA0881447, NAK.
[38]Ibid.
[39]Check on the 'Euro' Dollar Loan of North Korea, 4 September 1973, ibid.
[40]*Euromoney*, various issues in 1974.
[41]'The Features of the Euromarkets in 1975 and 1976', *Euromoney*, March 1976, 35–41 (41).

Meanwhile, early in 1974, Morgan Grenfell, a British merchant bank, managed another loan denominated in Deutschemarks on behalf of North Korea.[42] Galvanised by its success in the City, the North made a bold move towards Western banks. In late 1974, during the visit to Pyongyang by Morgan Grenfell, FTB proposed a plan to establish a consortium bank in London to facilitate 'the expansion and development of the economic trade relations of the Democratic People's Republic of Korea', as it saw 'some prestige to involvement in the City'.[43] The move was seen as 'surprising', given the short period of the presence of the North in London; it was merely about to open a trade representative office. With the most 'personal contact' with FTB, the British bank responded with favour. It added, 'whoever partners FTB will be well entrenched with the North Koreans'. Then it invited Barclays Bank to join. Notwithstanding the risks involved – not only the North's lack of experience with 'Western ways and business practices', but also the danger of 'jeopardis[ing] any relations' with South Korea – Barclays expressed interest in the proposal. To the disappointment of the South, the business opportunities from the trade between the UK and North Korea looked promising.[44] While the UK and North Korea had no diplomatic ties, the Bank of England gave 'the greenlight' to the venture; the case would surely cement the standing of the City as the international financial centre.[45]

This favourable attitude, which vindicated the reputation of the North, stemmed from the experience and assessment of the country by international bankers. For instance, in July 1974, Barclays sent its staff to Pyongyang to visit FTB. In the eyes of foreign bankers, the capital of North Korea came 'as a shock'; 'women wear nylon stockings, high heel shoes and make-up and have their hair done'. They shared and confirmed the view of Robinson, a left-wing economist, about a decade ago. It was observed that the country, 'with the exception of Japan … created one of the highest standards of living in South East Asia'. With abundant metals and minerals, large coal deposits and the capacity for hydro-electric power, the country was less dependent upon oil imports; therefore, 'the recent increase in oil prices has had no effects'. The foreign visitors could quickly identify business opportunities from North Korea. The country's Planning Committee understood the role of the West in providing technical assistance, equipment and credit. They concluded that 'North Korea is emerging as a force in Eastern Asia and [as] such its needs for finance and assistance merit serious attention'; 'any criticism in the past' was 'due to the language barrier and lack of knowledge'. The competition to entrench into the North was expected to be fierce; 'the Austrians, Finns, French, Germans, Scandinavians and the Swiss are actively laying ground work in [North] Korea'.[46] And there was no way for the South to intervene.

In the Cold War race towards prosperity, the two Koreas converged in the Eurocurrency market, which was ideology-neutral. In the West's capital reservoir, both sovereign borrowers successfully raised funds to finance ambitious economic development and lessened their dependency on their traditional allies. However, neither side

[42]North Korea – Foreign Trade Bank of DPRK, 11 September 1974, 80/6136, BBGA.

[43]North Korea, 20 December 1974, 80/6136, BBGA; Foreign Trade Bank of North Korea; North Korea – Foreign Trade Bank of DPRK; North Korea, 2 December 1974, 80/6136, BBGA.

[44]North Korea – Foreign Trade Bank of DPRK, 11 September 1974; Foreign Trade Bank of North Korea, September 18, 1974, ibid.

[45]North Korea, 2 December 1974, 80/6136, BBGA.

[46]Visit to North Korea by J. Thresh and J.E. Bull 26-31 July 1974.

could dictate it; the campaign by the South against Euroloans for the North was in vain. The judges were international banks who prioritised business opportunities with these newcomers. Instead of the diplomatic offensive against the rivalry, the creditworthiness of North Korea in the eyes of Western bankers determined access to the Eurocurrency market; hence, the outcome of regime competition.

Managing indebtedness: troubled North and virtuous South

The regime competition in the City was short-lived. Whereas the South further swelled its Euroloans to become one of the most indebted developing countries, there had been none for the North since 1975. Given European bankers' high regard for its economy, such an abrupt retreat by North Korea was unexpected. In February 1976, *Euromoney* reported that the Communist regime was 'on the brink of bankruptcy'.[47] On the contrary, next month, the magazine posted a tombstone for a Eurodollar medium-term loan of US $35 million for the Economic Planning Board of South Korea.[48] The contrasting competence of the two Koreas in managing indebtedness lay in such a divergence; the failure of the North in honouring obligations shifted the standing of the Cold War rivals in the Eurocurrency market, hence the availability of foreign capital. As a result, the two Koreas took different paths towards economic development.

The watershed of the shift in North Korea's creditworthiness in the Eurocurrency market was the protracted negotiations for the joint venture; European bankers began to question the credibility of the communist newcomer as a business partner. By the end of 1974, Morgan Grenfell and Barclays found it 'impossible to persuade the Koreans' of the standard practices in the City. The North was 'not prepared to consider' the gold backing, the responsibility to 'maintain a stock of gold with the consortium bank in London' at all times.[49] The reluctance to comply with basic norms was detrimental to the reputation of North Korean bankers. Then the news of the North's payment difficulties in trade bills, granted by Western European governments, sparked European anxieties. At first, for FTB had 'meticulously' honoured its Euroloans, Western creditors merely considered the trouble as coming out of 'administrative difficulties and/or a temporary shortage of foreign exchange ... rather than anything more fundamental'.[50] But the overdue bills turned out to be substantial; Banque de la Société Financière Europèenne reported the delayed reimbursement of up to 5,551,470 Swiss francs, including the two loans for the financing of corn exports to North Korea it had already extended. Now, European banks, including the communist-owned banks such as the Moscow Narodny Bank, kept 'a close eye on the loans granted to North Korea'.[51] In his visit to London, Pak Kyng Ho, the director of FTB, explained the shortage of foreign currency as being due to the temporary suspension of non-ferrous metal exports: 'the price is not right' in the global market and the rise in oil prices had increased shipping costs.[52] In Pyongyang, Kim Eung Chul, vice-

[47]'The Three Countries on the Edge of Default', *Euromoney*, February 1976.
[48]*Euromoney*, March 1976, 27.
[49]North Korea, 24 December 1974, 80/6136, BBGA. Other terms include the limit in the lending for North Korea, no moral commitment for Western shareholders to participate in syndicates for North Korea' and the management of 'day to day operations' by 'qualified British bankers'. North Korea, 16 December 1974, ibid.
[50]North Korea, 24 December 1974, ibid.; North Korea: ECGD Insured Debt Position, 3 September 1975, T362/160, TNA.
[51]Foreign Trade Bank of the Democratic People's Republic of Korea, 24 December 1974, 80/6136, BBGA.
[52]North Korea – Foreign Trade Bank of the DPRK, 11 December 1974, ibid.

president of FTB, 'firmly assured' a European bank that 'in future all payments under Euro-commitments will be effected in time'.[53]

In January 1975, however, the North's difficulties 'in fact, ha[d] deteriorated'. British banks estimated what was overdue as being up to 150 million Deutschemarks, in addition to 'substantial amounts' held by 'other communistic bloc banks'.[54] Not only creditor banks found themselves disappointed by the position of the debtor. As one observed, 'Pak might have had difficulty persuading his own superior in the Foreign Trade Bank of the urgency of the problem'. The more doctrinaire officials in Pyongyang also seemed to be 'lacking knowledge of the West'. In the end, Morgan Grenfell and Barclays concluded that the project for a consortium bank 'should be postponed for the time being'.[55] FTB's mission, in its trip to London to raise a 'substantial medium term loan', found the consensus in the City that 'until the overdue bills problem was settled there was no prospect of [North] Korea obtaining further credit from Western banks'.[56]

By mid-1975, galvanised by 'critical articles and reports' on its economic situation and financial position in the international press, European bankers were more anxious about the credibility of North Korea, which was then verified by the resumption of delayed payments.[57] Dresdner Bank in Singapore, which had led a syndicated-Euroloan for North Korea, identified 'the reasons for the present difficulties' of the troubled debtor in honouring the obligations to Eurobanks. First, the oil crisis substantially slackened the development of the economy. The Soviet Union and China, 'the major suppliers', demanded higher prices, which, in turn, 'forced North Korea to ship additional export items to the two countries that would otherwise have been sold in the West'. Second, the subsequent rampant inflation raised the price of imports from the West, while the prices of natural resources, the Norths key export items, plunged due to the worldwide recession. Lastly, the domestic politics of short-termism haunted external economic relations. 'The commitment of the North Korean Government to achieve the goals set for September 1976, in the fourth "Six-Year-Plan" one year earlier to coincide with the 30th anniversary of the establishment of the Korean Workers' Party' added burden to 'the currency shortage'.[58]

The North responded with two ways of negotiating outstanding debts and securing foreign currency to remain a credible borrower in the Western financial markets. In Pyongyang, North Korean officials proposed Western delegations 'detailed timetables for servicing debts'.[59] It was understood that Ost-West Handelbank, Frankfurt, reached a rescheduling with extra interest rates of LIBOR plus 5%.[60] It was followed by the resumption of punctual interest payments by FTB to 'correctly fulfil its commitments'.[61] In June, a delegation from FTB signed a rescheduling of Eurocurrency trade bills with a UK negotiating team led by the Australian and New Zealand Banking Group. Then it travelled to Paris to approach the French for another rescheduling. However, FTB failed to make a payment to London banks scheduled on 15 July. It coincided with

[53]Re: Syndicate Loan of DM 60 Million to the Foreign Trade Bank of the Democratic People's Republic of Korea, 14 July 1975, 80/4066, BBGA.

[54]North Korea – Trade Debts, 24 January 1975, ibid.

[55]DPRK – European Consortium Bank Project, 10 February 1975, ibid.

[56]North Korea – Trade Debts.

[57]'North Korea Hint on Trade Debts', *Financial Times*, 17 July 1975.

[58]Re: Syndicate Loan of DM60 Million to the Foreign Trade Bank of the Democratic People's Republic of Korea.

[59]Ibid.

[60]North Korea – Trade Debts.

[61]'North Korea Hint on Trade Debts'.

a precautionary measure of the ECGD to reduce 'the availability of cover'; it added, 'we are now off cover for N Korea'.[62] The North also 'considerably increased its exports to Western countries' to earn foreign currency. It also negotiated a credit of US$200 million from Iran in return for 'stell and cement deliveries'. There was 'unconfirmed speculation' regarding the cancellation of North Korea's debt to China during Kim Il-Sung's visit to Beijing. However, it was added that the Soviets refused to do the same.[63] Later, it turned out that neither of them was 'very generous in furnishing hard currency loans'.[64] The North was also reluctant; the deal with Moscow 'might restrict her efforts to develop relations with the West'.[65]

Against the de facto default, Western creditors sought to coordinate collective action.[66] In official quarters, upon the request from the North, the French Ministry of Finance convened informal meetings of the Paris Club, which had covered debt negotiations regarding 'commercial debts guaranteed by the appropriate agencies or governments, and loans by governments or government agencies'.[67] North Korea was 'virtually the first communist country' at this informal group, which had 'hitherto dealt only with Latin American debt'.[68] On 8 September, delegates estimated that the total indebtedness of the North to non-communist countries was between US$550 to US$2000 million, which indicated that 'the situation was much more serious than previously anticipated'. Yet, they disagreed with the French proposal to defer the North Korean debt. First, some countries expressed 'the diplomatic and political difficulties' owing to 'their non-recognition of North Korea'.[69] For this reason, the UK attended the Club as an observer, for it was 'not possible ... to hold formal negotiations with North Korean officials or to their behalf'.[70] Second, West Germany was reluctant about the French idea, for it saw 'a concerted approach to agree terms very difficult'. It called for 'a firm line' to demand due payments first. At a meeting with a British official, its delegate added that 'without the debtor setting out a recovery programme, and without some system of control' the French proposal would 'create a dangerous precedent for other countries'.[71] Owing to the reluctance, the Paris Club remained a venue 'to exchange information and discuss the co-ordination of bilateral tactics'.[72] In February 1976, 10 creditor countries decided to extend the maturity for the North more than two years; still, each member engaged the North on an individual basis.[73] Even so, negotiations for bilateral rescheduling were not

[62]North Korea: ECGD Insured Debt Position.
[63]North Korean Debts, 18 September 1975, T362/160, TNA.
[64]Contacts and Communications with North Korea.
[65]North Korea – Trade Debts, 24 January 1975.
[66]The Bank of England approached other European central banks to stress 'the desirability of the commercial banks adopting a common negotiating position ... to prevent the Koreans from playing off one bank (or group) against another'. North Korea's Debts to UK Banks, 19 August 1975, T362/160, TNA.
[67]North Korea: Commercial Debt, 30 July 1975, ibid.
[68]North Korea – Debt Rescheduling Points for Consideration, n.d.; North Korea: Commercial Debt, July 30, 1975, ibid.
[69]North Korea Debts: Paris Club Meeting, 10 September 1975, ibid. For this reason, the UK, Japan and Sweden attended the meeting as observers. The United States, with which North Korea had no debts, did not respond to the invitation for fear of the political implications of its participation.
[70]North Korean Debt, 26 September 1975, ibid.
[71]North Korean Debt, 25 September 1975, ibid. In this regard, there was a speculation that the Soviet Union and China were 'putting forward North Korea as a test case to see whether other Iron or Bamboo curtain countries could get away with defaults'. Yet, the British saw it as unlikely for the massive amount of North Korean debt to these allies. North Korean Debt, 19 September 1975, ibid.
[72]North Korea: Commercial Debt, 6 August 1975, ibid.
[73]Untitled Document, 13 March 1977, ibid.

satisfactory, as the payment delays persisted.[74] Western European governments, as a result, closed access to export credit for the troubled borrower. In March, a Japanese periodical reported unfounded news that France, West Germany and the UK officially suspended trade with North Korea to recognise the payment delays as insurance accidents.[75] South Korean diplomats confirmed that West Germany had ceased to provide export insurance.[76]

South Korea, on the contrary, arose to be a virtuous debtor in the Eurocurrency market. For example, Barclays praised the government's leadership in their rapid recovery 'from the problems of 1973 and 1974' and tight monetary policy to control inflation. The construction contracts with countries in the Middle East were seen to be of 'particular value on a national basis as payments are made in cash'.[77] In particular, Eurobanks accredited the outstanding financial performance to the Ministry of Finance, which closely controlled foreign loans. As Lloyds Bank International observed, '[N]o borrowing is allowed until it has been cleared by the MOF in respect of margin, fees and maturity schedule'.[78] It was believed that South Korean authorities were 'alert to the need for careful control of the external debt, particularly to the desirability of keeping within careful limits the contracting of new foreign loans'.[79] Meanwhile, the security risk was still seen as marginal. Despite 'the tragic axe murder of two US officers in Panmunjom' in September, Barclays bankers in Seoul saw 'absolutely no sign of panic' and 'business went on as usual'. From the assessment, delegates to Seoul from LBI and Barclays both recommended increasing the 'Korea Country Limit'.[80] Such a favourable attitude led to the 'dramatic increase' in the volume of commercial loans from the European Economic Community, mainly the UK, which spiked up to US$764.3 million in 1976 from US$97.5 million the previous year.[81]

Given the high level of creditworthiness, it is not surprising that Eurobanks sought business opportunities with South Korea. By late 1976, Lloyds was given a licence to join the ranks of foreign banks with a branch representation in Seoul.[82] There was a rumour that Deutsche Bank, National Westminster and Midland would follow suit. In September 1976, Lazard Brothers established the Korean Merchant Banking Corporation with Korean partners, including Hyundai Motors and Daewoo.[83] Barclays, with the belief that 'this admirable trend' of economic development in South Korea would 'continue', was not only determined to open a branch, but also considered purchasing some shares in Korea's first merchant bank; two years previously, it had declined the offer to participate.[84] UK's ECGD confirmed the positive reputation of the

[74]For example, in February, the French declined the request for an extension of payment for three years. Untitled Document, n.d., DA0098377, NAK.
[75]Untitled Document, 30 March 1976, DA0098377, NAK.
[76]Untitled document, n.d., DA0098377, NAK.
[77]Korea Travel Report, 13 September 1976, 80/5893, BBGA.
[78]Republic of Korea, 13 February 1976, F/1/BD/Far/8, Lloyds Banking Group Archives, London, UK (hereafter LGBA).
[79]The Republic of Korea – A Political and Economic Assessment, February 1976, ibid.
[80]Korea Travel Report; Republic of Korea.
[81]Outlook for Korea's External Debt and Debt Service, 24 August 1977, Box 460, Council of Economic Advisors, International Finance and Economic Developments Country Files, JCPL.
[82]As Altamura shows, the British bank also judged that the risk of North Korea's aggression was 'unlikely' and that President Park's leadership was capable of maintaining the domestic political stability. Altamura, *European Banks and the Rise of International Finance*: 145–6.
[83]Korea, 20 December 1976, 80/5893, BBGA.
[84]Untitled Document, 10 December 1976, 80/3433, ibid.

South in Western Europe. The country was in group C along with middle-income developing countries, whereas the North was classed 'Grade D' – the lowest category of creditworthiness, to be careful 'about increasing our exposure'.[85] Such diverged developments vindicated the changed standing of the two Koreas.

Back in the City, against the stalemate at the Paris Club, Eurobanks pursued a joint strategy to address the indebtedness of North Korea.[86] Upon their invitation, in December 1976, the FTB mission initiated the negotiation for rescheduling. Once again, however, it failed to convince creditors. President Bang Ki Yong of FTB could not sign the agreed terms in London without Pyongyang's approval and then left for East Germany.[87] His mission returned to the UK with proposals: the provision of loans by creditors to redeem existing debts, as in the recent rescheduling for Zaire, or a moratorium of more than one year without further loans.[88] In March 1977, new terms were reached in Paris. Four European banks would take over North Korea's debt with Morgan Grenfell as the designated party for future negotiation, and creditors' banks would provide a new commercial loan of 350 million Deutschemarks (US$140 million). However, it was stipulated that the loan be used to repay existing debts in return.[89] Therefore, there was no new capital for the troubled debtor in the Western financial markets.

By 1977, South Korea was undoubtedly winning in the Eurocurrency market. It became the second-largest borrower in Asia and enjoyed better terms in the flotation of Euroloans. As LBI noted, on the contrary, 'North Korea's Eurocurrency financing is notorious and since the original US$54 million was arranged in 1974, non-existent'.[90] Yet, the success did not involve any deliberate espionage by the South in the diplomatic arena to deter the engagement of its communist rival in the world of finance. The measure of evaluating creditworthiness in the Eurocurrency market was not politics, but proven records of honouring indebtedness. In particular, the competence in managing indebtedness lay in a divergence between the two Koreas. So did their paths in the Cold War race towards prosperity. The strategy of the South 'to finance its economic miracle by borrowing' was 'a sensible thing to do'.[91] On the contrary, as the US administration observed, the North 'fell on hard times'; its indebtedness 'compromised efforts to accelerate industrialization and expand commercial ties with western countries'. As it added, '[T]hese developments must have been all the more discouraging to the North in view of South Korea's phenomenal economic performance'.[92]

Politicising the failure and the aborted return to the City

North Korea never withdrew itself from the Eurocurrency market; the reservoir of capital was too valuable to abandon. Hence it sought to return to the City by restoring the confidence of Eurobanks. So did the financial diplomacy to deter the re-entry of the

[85]E.C.G.D. Country Gradings, 27 August 1976, 80/6196, BBGA. Other countries included in Grade D were Argentina, Egypt, Indonesia, Sudan and Zaire.
[86]Untitled Document, 27 November 1976, DA0098377, NAK.
[87]Untitled Document, n.d., DA0098377, NAK.
[88]Untitled Document, 27 January 1977; Untitled Document, February 28, 1977, DA0098377, NAK.
[89]North Korea's Foreign Loans, 4 April 1980, CA0331360; Untitled Document, March 30, 1977, DA0098377, NAK.
[90]Merchant Banking in the Far East, December 1977, F/1/BD/Far/6, LBGA.
[91]'The State of Country Credit', *Euromoney* (October 1977): 63–111 (101).
[92]Contacts and Communications with North Korea.

troubled debtor by South Korea, which also politicised the failure. Yet, as ever, the result was pre-determined; the judges of the Eurobanks would not admit the North until it discharged the principal responsibility to honour debts; once it lost, creditworthiness was difficult to restore. Therefore, the divergence of the two Koreas would persist.

At first, against its de facto banishment from the City, North Korea turned to alternative sources of foreign capital in the non-Western world. In the early months of 1977, FTB approached the oil-producing countries of Kuwait and Libya to acquire new loans via either inter-government lines or Arab banks. It also tapped Singapore for the opportunities of new commercial loans up to US$3.6 billion.[93] The city-state, by the mid-1970s, emerged to be an international financial centre with the establishment of the Asian Dollar Market, a regional Eurodollar market in Asia. As in London, there was no ideological bias.[94] However, the available funds were not enough to satisfy the capital-starved country.

Moreover, negative news further deteriorated the already-impaired reputation of the troubled borrower. In April, a Finnish newspaper reported the purchase of 'Swiss' gold watches by North Korean officials. It was speculated that the luxurious items would be handed to trusted party officers to cement support for the succession of power from Kim Il-Sung to his son, Jung-Il. It was also added, regardless of the predicament of indebtedness and rescheduling negotiation in Paris, that North Korea had already made an advance payment to the watchmaker.[95]

South Korea politicised the financial predicament of the North under the assumption of Cold War regime competition. The domestic press depicted the hardship, in a series of reports on the rescheduling negotiations, as being attributable to the reckless attitude of the North. By incorporating the economic success of the South, the narrative alleged that the North ended up with excessive and imprudent spending to 'emulate the growth' of Seoul. Quoting 'foreign diplomats', it added that the problem of self-destruction started with the South-North talks in 1973: the delegation from the North was surprised by 'the wealth of [South] Korea from factories, paved roads and goods in shops'.[96]

As much as it sneered at its rival's failure, the South was anxious about any development deemed favourable to the North, even unsubstantiated rumours. For example, an article from a Japanese newspaper on 16 May 1977, entitled 'The New Development of the US-North Korea Diplomacy', reported that the US banks had reimbursed a part of the North's outstanding debt. It was understood that two US banks in Switzerland provided funds after David Rockefeller, chairman of Chase Manhattan, negotiated the endorsement of the status quo on the Korean peninsula with Communist China during his visit to Beijing in February. In consideration of Rockefeller's political connection with the Carter administration, the newspaper interpreted that such a move was relevant to the US foreign policy orientation to encircle the Soviets, exemplified by the relaxation of the economic blockade against Cuba, support for the entry of Vietnam into the United Nations, and lifting travel restrictions to North Korea.[97]

[93]Status of North Korea's Bid to Introduce New Loans in the West, n.d., DA0098377, NAK.

[94]On the Asian Dollar Market, see, Seung Woo Kim, 'The Asian Dollar Market', in *Handbook of the History of Money and Currency*, ed. S. Battilossi (Singapore: Springer, 2020), 315–33.

[95]Untitled Document, 9 April 1977, DA0098377, NAK.

[96]Newspaper clippings, ibid.

[97]Untitled Document, 16 May 1977, DA0098377, NAK.

Annoyed by the financial diplomacy of its most important Cold War ally, the South Korean government dispatched a councillor to verify the rumour, which turned out to be unfounded; the US official confirmed no financial transaction between US banks and North Korea.[98] The State Department also responded that 'any discussions with North Korea include representatives of the government of the Republic of Korea'.[99] Yet the South had a good reason to suspect its most important Cold War ally. In late 1975, for instance, a *New York Times* article published 'a widely-publicise report' by a 'Washington-based liberal foreign policy organization' had shaken US banks' confidence in South Korea's ability to service indebtedness.[100] The bleak prospect could have increased the cost of borrowing in the Eurocurrency market. While the Economic Planning Board promptly addressed foreigners' doubts by issuing a counter-pamphlet, the government of South Korea understood the political aspects of the study. And the South was plagued by the latest geopolitical developments of the Korean peninsula from late 1976: the improvement of relations between North Korea and the United States and the discussion of the withdrawal of US troops.[101]

In late 1977, Kim Il-Sung 'reshuffled his cabinet and party posts to elevate those with a working knowledge of international trade and economics' and stressed 'a need for trained' specialists and economists. At a meeting of financial and banking officials in December 1978, he emphasised the modernisation of banking units with a five-point guideline: 'proper operation of the independent profit system; reinforcement of financial discipline; strengthening of the drive against extravagance; more effective running of provincial budget system; and an increased role for bankers'.[102] Such a policy line to reinstate his country in the Eurocurrency market culminated in 'the credit-first policy' of 1979, which included the establishment of two international settlement banks and the reinforcement of foreign exchange business.[103]

Accordingly, the North resumed contact with Eurobanks. In June, South Korean embassies in Western Europe reported that FTB invited non-communist banks to Pyongyang for its 20th anniversary on 27 September to restore the confidence of Europeans and re-extend the maturity for loans. In doing so, South Korea's Ministry of Foreign Affairs understood, the North attempted to open a branch or an office for the business in 'London and Eurobond'.[104] Owing to the continued failure to service the debt, however, Europeans did not express interest. Only some of them accepted the invitation, for they had been in business relations with the North and wished to conduct an on-site examination of the economic situation, as well as the possibility of reimbursement.[105] As a result, there was little prospect for additional loans. In September, 52 international bankers from Europe, China and the Soviet Union visited North Korea to inspect industrial complexes, yet there was no discussion about loans.

[98]Untitled Document, 27 May 1977, DA0097669, NAK.

[99]Ibid.

[100]'Korea Counts on Its Bankers', *Euromoney*, February 1976, 84.

[101]In December 1976, North Korea attempted to contact the United States and President Carter via President Bongo of Gabon. In a meeting with Carter and the US secretary of state, the minister of foreign affairs expressed the country's strong opposition to the direct contact between the North and the United States, which would sever the US relationship with the South. Stopping the Attempts of the North to Directly Contact the US, n.d., DA0097669, NAK.

[102]'North Korea Starts to Put its House in Order', *Far East Economic Review*, 17 August 1979, 42–4.

[103]The Trend of North Korean Bankers' Contact with the United Kingdom, February 1980, CA0331338, NAK.

[104]Untitled Document, n.d., DA0745935, NAK.

[105]Untitled Document, 29 June 1979, ibid.

Instead, international bankers believed FTB intended to 'show off' friendly relations with foreigners.[106] The government of South Korea and its intelligence agency were relieved about the additional report that all applications by the North for funding had been declined.[107]

Once again, capitalising on the latest developments in the dialogue between the two Koreas and the entry of China into the Eurocurrency market, the North made another effort to reconnect itself to the City.[108] In February 1980, the FTB mission led by President Bang visited London, which coincided with the UK government's approval of a six-month work permit for four staff of the North Korean bank, who would take a training course at the Moscow Narodny Bank. The South understood that the visits were a part of 'preparatory steps' to establish 'a permanent foothold' for financial activity in London, 'the international financial centre'.[109] It was also speculated that the North might mobilise its sympathisers in the Labour Party to bring up the issue of diplomatic ties. South Korean agents and diplomats in Europe were instructed to conduct espionage campaigns against the North to stress that the financial collaboration was conducive to the military build-up.[110]

In March, the South Korean ambassador to the UK visited the Foreign Office to convey concerns regarding the provision of new loans and the establishment of North Korean bank offices. The undersecretary responded with favour; the UK government's disapproval of the North was solid, and there was little prospect of a change in the policy 'in the foreseeable future'.[111] Regarding the Moscow Narodny Bank, a British registered company, it concluded that the North Korean trainees were professional agents, which meant it had no reason to control their visas. Instead, it expressed concerns regarding KCIA activities in London. Owing to the sensitivity about foreign espionage on its soil, the growing presence of foreign agents would disadvantage the South by disturbing traditionally conservative institutions such as the Bank of England. In another meeting, an official from the Foreign Office confirmed the substantial distaste of international banks and the Bank of England for providing new loans to the North and noted the slight chances for a bank branch for the time being. The Bank also expressed its firm opposition 'from their concern for the good name of the City, which could be prejudiced by the presence of a North Korean bank while North Korea remains in default on its international debt obligations'.[112] Once again, creditworthiness was the barometer for determining the victor in the City. And the South was also amused by an incident in the news of a theft at Harrods by a North Korean trainee at the Moscow Narodny Bank.[113]

After the disappointment in the bid to return to the City, the depletion of foreign capital drove the North to turn insular. As Lee documents, it adhered to self-sufficiency

[106]Untitled Document, 13 November 1979, ibid.

[107]Untitled Document, n.d., CA0331360, NAK; 'Rock-Bottom Terms are a Must for Foreigners', *Far Eastern Economic Review*, 21 September 1979, 61–3.

[108]North Korean Mission's Visit to the United Kingdom, 8 February 1980, CA0331338, NAK.

[109]North Korean Bankers' Visit to the United Kingdom, 15 February 1980, ibid.

[110]The Trend of North Korean Bankers' Contact with the United Kingdom.

[111]North Korean Activities in the Host Country, 14 March 1980, CA0331338, NAK. The countermeasure of the North was to emphasise the latest political developments of the South such as the Gwangju uprising. 'Acquisition of North Korea's Propaganda Materials', 11 July 1980, ibid.

[112]Untitled Letter, 18 April 1979, FCO21/1775, TNA.

[113]Untitled Document, 4 June 1980, CA0331338, NAK.

under which the government sought to overcome its economic predicament by expanding fiscal spending and restoring economic ties with the Soviets.[114] It also turned to hitherto unexplored means; the late 1970s coincided with scandals related to the smuggling of illicit items by the 'foreign currency raiders', which further 'impaired' the country's international reputation.[115] Meanwhile, the South remained a virtuous debtor, raising more capital than ever. One observed, 'South Korea ... have learned to play the game of international finance with brilliance'.[116] The sudden assassination of President Park and the political turmoil had a marginal impact on its creditworthiness. In June 1980, the Korea Exchange Bank floated a US$500 million syndicated Euroloan.[117] The significance of such a divergence of the two Koreas in raising foreign capital resulted in the different paths of economic development, as one observed in late 1979: '[W]hile the South has encouraged massive foreign investment to spur its economic miracle, the North has relied firmly on a state-controlled economy.'[118]

Conclusion

The 1970s was a pivotal decade in the regime competition of the two Koreas. Under the post-war growthmanship, the Cold War rivalries entered a new phase of economic growth, away from military aggression. Throughout the 1960s, the divided countries launched ambitious plans for industrialisation with substantial success. In the race towards prosperity, owing to the lack of domestic capital formation, they recognised the role of foreign capital. However, the tension with traditional allies drove them to search for alternative funding sources.

The two Koreas converged in the Eurocurrency market in the City, which satisfied their demand for foreign capital. The vanguard in the re-emergence of global finance provided a liquid pool of capital and relieved the developing countries from international politics: there was no ideological preference. In the first half of the 1970s, they saw both Koreas as credible borrowers. The successful flotation of Euroloans by the North, for all its political implications, leveraged the financial diplomacy of the South. Nonetheless, Eurobanks' evaluation of the creditworthiness of the two Koreas determined the extended Cold War competition in Western financial markets. Servicing obligations were the prime gauge in the City. Therefore, the ineptitude of the North and the technocratic capacity of the South in the management of indebtedness damaged not only the availability of much-needed foreign capital, but also paths towards economic development.

In his speeches around 2013, Kim Jong-un, the latest leader of North Korea, referred to the 1970s as the economic heyday of his country, whose features included an industrialisation strategy with economic ties with foreign countries.[119] Such a characterisation implied a new policy orientation, against insular planning and towards the acceleration of economic opening. However, as the account on the brief encounter

[114] Lee, 'Review on the North Korean Style of Economy in 1970s', 151–7.
[115] Untitled Document, 4 June 1980; Contacts and Communications with North Korea.
[116] 'The Uncontrollable "Stateless Money"', *Far Eastern Economic Review*, 21 September 1979: 43–48 (43).
[117] 'The Bankers' View: Uncertainty', *Far Eastern Economic Review*, 13 June 1980: 90–1 (91).
[118] 'North Korea Starts to Put its House in Order', *Far East Economic Review*, 17 August 1979, 42.
[119] Lee, 'Review on the North Korean Style on Economy in 1970s', 162.

between the Communist regime and Eurobanks suggests, restoring creditworthiness is a prerequisite for it to recover the status of a normal country. The elusive bond represents how the City still remembers North Korea: as a bankrupt borrower.

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