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Approved For Release 2004/10/28 : CIA-RDP86T00608R000600050021-9

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CIA/OER/S-08004-75

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June 1975

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MEMORANDUM FOR: [Redacted]

SUBJECT : North Korean Payments Problem with the West

The attached article is forwarded in response to your request of 30 May for information on North Korea's debt situation. Any comments and questions may be directed to

[Redacted]

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Attachment: (as stated)

[Redacted]

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Distribution: S.08004

- Orig & 1 - [Redacted]
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OER/C/CH: [Redacted]
(3 June 75)

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North Korea: Payments Problem in the West

Over the past five years North Korea has directed an increasing share of its foreign trade to the non-Communist countries. Since early 1970, the North Koreans have signed contracts with firms in Japan and Western Europe for nearly \$600 million worth of industrial plants and related equipment. Credit financing for these capital imports, as well as for record grain imports from France, Canada, and Argentina, permitted North Korea to run a trade deficit with the non-Communist countries of \$165 million in 1973.

In 1974 an estimated \$545 million trade deficit with the West led to severe payment difficulties for P'yongyang. A surge of deliveries of equipment under previous contracts and high world prices pushed up North Korea's import costs while repayments on credits from earlier years were falling due. On the export side, recession in the West weakened demand for North Korean goods. P'yongyang withheld sales of nonferrous metals, a major export earner, when prices were at peak levels in early 1974 only to see prices tumble later in the year. The North Koreans have also claimed that their port expansion program disrupted export deliveries as well as adding to their costs.

In the second half of 1974 P'yongyang began defaulting on a large number of Western letters of credit and loans. By early 1975 the situation had become critical. The amount that North Korea is in arrears is difficult to pin down but at present it probably totals \$200-300 million. Banks and firms in Japan, France and the United Kingdom are the major creditors. (One interesting note is that Soviet-owned banks in Western Europe probably hold a sizable portion of these debts.)

North Korea is the first case of default by a Communist country in the West and its credit rating is at a low ebb. A Swiss bank recently ranked North Korea as only a somewhat better credit risk than Chile or Upper Volta. France, West Germany, Japan and Austria have suspended government guarantees for further credits. Purchases of helicopters and a radar complex from French firms have been held up by

the credit suspension. Even more serious, several firms have stopped production of equipment under existing North Korean contracts and have halted further deliveries until the payments problem is resolved.

The loss of access to Japan Export-Import Bank financing announced in late May, was a major blow to P'yongyang since application for plant credits totalling \$50 million were pending. Japan was North Korea's largest trading partner in 1974. North Korean trade organizations in Japan had lobbied hard to prevent banks and firms from officially notifying the Japanese government of the defaults and precipitating the credit cut off. At the same time, many small Japanese firms faced bankruptcy due to failure to receive payment for goods sold to North Korea. Seoul was also pressuring Tokyo to deny EX-IM credits to North Korea.

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its lagging export earnings. Western banks and firms, once burned, will remain cautious in extending credit. As a result, P'yongyang will find it harder to pursue its ambitious goals for rapid industrialization through the acquisition of Western technology.

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North Korea: Foreign Trade, 1973 and 1974 ^{1/}

(Million US \$)

| | 1973 | | | 1974 ^{2/} | | |
|--------------------------|----------------|----------------|----------------|--------------------|----------------|----------------|
| | <u>Exports</u> | <u>Imports</u> | <u>Balance</u> | <u>Exports</u> | <u>Imports</u> | <u>Balance</u> |
| Total | 490 | 805 | -315 | 545 | 1,195 | -650 |
| Non-Communist | 120 | 285 | -165 | 190 | 735 | -545 |
| Developed | 110 | 250 | -140 | 170 | 695 | -525 |
| Western Europe | 35 | 135 | -100 | 60 | 335 | -275 |
| Japan | 70 | 105 | - 35 | 105 | 265 | -160 |
| Canada | Negl. | 10 | - 10 | Negl. | 55 | - 55 |
| Australia | | Negl. | ... | Negl. | 40 | - 40 |
| Hong Kong | 5 | Negl. | 5 | 5 | Negl. | 5 |
| Less Developed Countries | 10 | 35 | -25 | 20 | 40 | - 20 |
| Communist | 370 | 520 | -150 | 355 | 460 | -105 |
| USSR | 180 | 300 | -120 | 140 | 195 | - 55 |
| China | 115 | 135 | - 20 | 125 | 160 | - 35 |
| Eastern Europe | 55 | 65 | - 10 | 65 | 80 | - 15 |
| Other | 20 | 20 | ... | 25 | 25 | ... |

1. Data have been rounded to the nearest \$5 million and have been adjusted to show North Korean exports f.o.b. and imports c.i.f.

2. Preliminary

5-08004

| | | |
|---|----------|-------------|
| TRANSMITTAL SLIP | | DATE |
| | | 4 June 1975 |
| TO: CRS via St/P | | |
| ROOM NO. | BUILDING | |
| | Hqs. | |
| REMARKS: | | |
| Enclosed is a corrected copy of the foreign trade table for S.08004, North Korean Payments Problem with the West. | | |
| FROM: | | OER/C/CH |
| ROOM NO. | BUILDING | |
| 3G25 | Hqs. | |

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FORM NO. 241
1 FEB 53

REPLACES FORM 36-B
WHICH MAY BE USED.

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North Korea: Foreign Trade, 1973 and 1974 ^{1/}

(Million US \$)

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|--------------------------|---------|---------|---------|--------------------|---------|---------|
| | Exports | Imports | Balance | Exports | Imports | Balance |
| Total | 490 | 805 | -315 | 590 | 1,255 | -665 |
| Non-Communist | 120 | 285 | -165 | 190 | 735 | -545 |
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| Western Europe | 35 | 135 | -100 | 60 | 335 | -275 |
| Japan | 70 | 105 | - 35 | 105 | 265 | -160 |
| Canada | Negl. | 10 | - 10 | Negl. | 55 | - 55 |
| Australia | | Negl. | ... | Negl. | 40 | - 40 |
| Hong Kong | 5 | Negl. | 5 | 5 | Negl. | 5 |
| Less Developed Countries | 10 | 35 | -25 | 20 | 40 | - 20 |
| Communist | 370 | 520 | -150 | 400 | 520 | -120 |
| USSR | 180 | 300 | -120 | 185 | 255 | - 70 |
| China | 115 | 135 | - 20 | 125 | 160 | - 35 |
| Eastern Europe | 55 | 65 | - 10 | 65 | 80 | - 15 |
| Other | 20 | 20 | ... | 25 | 25 | ... |

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