Potential International Financing Sources for North Korea

Yoon-Shik Park
Professor of International Banking & Finance
George Washington University

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University of South Carolina
Center for Asian Studies of the Richard L. Walker Institute of International Studies

Introduction

In recent years there have been a number of encouraging signs and certain tentative developments indicating that North Korea may be seriously interested in broadening its relationship with the international community as part of the efforts to emerge out of its prolonged isolation. Many observers ascribe its motivation to the North Korean desire to develop its battered economy by emulating in part the Chinese model of adopting limited economic reforms while maintaining its Socialist political system. The desperate state of the North Korean economy has been well documented and widely reported.[1] In rebuilding its economy, the country faces perhaps one of the biggest challenges in securing a vast amount of needed investment capital, especially in the critical area of infrastructure development and modernization. For example, poor infrastructure accounts for the unusually high transport costs in North Korea, where the cost of transporting a 20-foot container from Inchon in South Korea to Nampo in North Korea is four times higher than the cost of shipping the same container to China. Any meaningful economic development of North Korea requires huge sums of investment capital, especially the external capital in convertible foreign currencies in order to procure essential capital equipment and modern technology.

[1] For example, Marcus Noland, *Avoiding the Apocalypse: The Future of the Two Koreas*, Institute for International Economics, Washington, 2000.

This paper discusses potential sources of foreign capital for North Korea that might be available for the country's economic development in the near and medium term into the future. There is a general agreement among experts that North Korea needs a large sum of investment capital to resurrect its battered economy. While the precise number is extremely difficult to project by its very nature, South Korean research institutes have come up with the estimates ranging anywhere from $40 billion to $2,240 billion as the potential total cost for the North-South unification, based upon the German unification experience where the new unified German government expended annually a sum equivalent to about 5-6 percent of the German GDP. Of course, the total unification cost is much higher than the amount needed for developing the economic infrastructure of North Korea to that comparable to South Korea's due to the extra costs involved in such areas as social and humanitarian assistance. Broadly, we can think of five potential sources of external capital: international financial institutions (IFIs), bilateral donor agencies, private international capital markets, international bank loans, and foreign direct investments (FDIs). These sources of funds can act singly or collaboratively in providing funds to a developing country such as North Korea. For example, both IFIs and bilateral donor sources can work together through international trust funds, as in the case of the Trust Fund for Gaza and West Bank to support Palestine, where the funds came from IFIs such as the World Bank as well as from other donor countries directly. Similar arrangements have been made for financial assistance to Kosovo, East Timor, and Bosnia.

International Financial Institutions

Since the end of World War II, a number of IFIs have been established for the express purpose of providing external finance and technical assistance to developing countries. The oldest and the most well known among them is the World Bank Group, which is composed of three operational agencies of the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA) and International Finance Corporation (IFC). Along with the World Bank, the other twin IFI born in the 1944 Bretton Woods Conference is the International Monetary Fund (IMF). IBRD loans have maturities of 15 to 20 years in general at an interest rate of 6 to 7 percent, calculated on the basis of annual weighted long-term borrowing costs of the World Bank's international bond issues plus a 0.5 percent margin. IDA credits have much

longer maturities of 35 to 40 years and carry no interest except for annual service charges of 0.5 to 1 percent, and they are available to poorer developing countries whose per capita GNP as of 1996 was below $925. According to an estimate by the Bank of Korea, per capita GNP of North Korea stood at $573 in 1998, thus making the country eligible for IDA assistance. The IFC is the private sector assistance arm of the World Bank Group. While IBRD and IDA loans are extended to governments and government agencies of developing countries, the IFC makes loans as well as equity investments exclusively for the private sector firms in developing countries without any government guarantees. Since private firms in North Korea are almost non-existent at present, IFC might be less relevant at this stage but it can play a useful role later when foreign direct investments lead to establishments of private business entities either as stand-alone companies or as joint venture firms in partnership with North Korean host organizations. The IMF has many lending facilities ranging from five-year credit tranche loans to 10-year extended fund facilities and others. The IMF equivalent to IDA credits is the Poverty Reduction and Growth Facility (PRGF) available only to poorest developing countries, with the same per capita GNP cap of $925 as of 1996 as in the case of IDA credits.

The real problem, though, is that the normal financial assistance from the IMF and the World Bank Group is available only to their member countries. The same is true of other regional IFIs such as the Asian Development Bank, Inter-American Development Bank, African Development Bank, and the European Bank for Reconstruction and Development. Unfortunately, North Korea is not a member of any IFI. In April 1967, the country made its first formal attempt to join an IFI by officially applying for a membership in the Asian Development Bank (ADB). The ADB, headquartered in Manila, the Philippines, has the IDA credit equivalents known as the Asian Development Fund (ADF) credits. ADF credits have a maturity of 35 to 40 years and carry no interest rates except for annual service charge of 1 percent. Despite strong support for the North Korean membership application from China, South Korea and several other Asian developing countries, the two largest ADB shareholders, the United States and Japan, have been against admitting North Korea into ADB and their vetoes effectively have stalled the North Korean application. North Korea has continued to show its interest in the ADB membership, by writing a formal letter in the summer of 2000 reminding the ADB board of its 1997 application.

Admission of North Korea into such IFIs as ADB, World Bank and IMF is contingent in practical terms upon the agreement of both Japan and the United States. The U.S. government withholds its agreement primarily due to the fact that since 1988 North Korea has been on the U.S. government's list as one of the seven countries supporting international terrorism. The other six countries on the list are Cuba, Iran, Iraq, Libya, Sudan and Syria. Furthermore, North Korea is considered a violator of the missile technology control regime. U.S. government officials have hinted on various occasions that North Korea has to satisfy the United States in the terrorism issue, ballistic missile-related matters, and transparency in its nuclear program before they can support the North Korean membership into IFIs. Japan on the other hand wants a satisfactory conclusion of the case of alleged North Korean kidnapping of Japanese citizens before it can consider supporting North Korean membership. Any membership into the World Bank has to be preceded by North Korea being admitted into the IMF first. It is generally understood that a North Korean membership into the IMF would be similarly opposed by the United States and Japan, thus effectively precluding North Korea from becoming a member of both the IMF and the World Bank.

Since it will take some time for North Korea to be admitted into IFIs, North Korea might explore the avenue of international trust funds administered by IFIs even for their non-members. As mentioned previously, in 1993 the World Bank participated in establishing the Trust Fund for Gaza and West Bank for the express purpose of assisting Palestine that is still not a member of the World Bank. This trust fund raised over $400 million through June 2000, including almost $300 million from the World Bank out of its accumulated net profits and the rest from other donor countries, and these funds have been disbursed for various development projects in Palestine. In 1999, the World Bank and the Asian Development Bank collaborated to establish the Trust Fund for East Timor, which received funds from the World Bank Group as well as many individual donor countries such as Japan, Portugal and Australia. These funds have been used to finance many development projects in East Timor, which was not yet a member of the World Bank and the ADB. Similar trust funds were also established to assist Bosnia in 1996 and Kosovo in 1999, both of which were not members of any IFI at that time. North Korea should explore a similar approach until its formal membership into the ADB and the World Bank.

Some prominent experts in South Korea have recently proposed establishment of a new Northeast Asian Development Bank (NEADB) as a separate IFI with the implicit purpose of assisting North Korea. NEADB would be engaged in development financing in northeast China, Siberia and Mongolia along with North Korea. However, potential donor countries such as the United States and Japan are not likely to participate in such a bank since it would overlap similar functions already being performed by the World Bank and ADB, except for assistance to North Korea. Without the active support of these two major donor countries, the new bank is not likely to collect enough capital to become a viable IFI. Furthermore, all IFIs fund their operations mainly by issuing bonds in international capital markets and thus high credit ratings are essential for successful bond issues. Both ADB and the World Bank carry the highest credit ratings of triple-A's due to the strong financial backing from major industrialized member countries such as the United States, Japan, the United Kingdom and Germany. Without their active support, the new NEADB is not likely to receive a high credit rating and thus its ability to issue bonds successfully at reasonable interest rates in international capital markets would be severely handicapped.

Private Foreign Direct Investments

If North Korea provides a favorable environment for foreign direct investments (FDIs) by enacting the necessary laws and regulations regarding the property rights, profit remittances, accounting and taxes, labor standards, etc., it could attract FDIs as in the cases of China and Vietnam. The country possesses potential attractions for certain projects with labor-intensive assembly and manufacturing components, given the low cost but highly adaptable labor forces there. North Korea has developed a special economic zone (SEZ) in the Rajin-Sonbong area, which has suffered so far from its remoteness to potential market places and poor infrastructure there. Fortunately, there are plans to develop other SEZs in places such as the Haeju District on the western coast just north of Inchon which is a major South Korean port and next to the main airport for the Seoul metropolitan area as well as in the Kaesong City just north of the demilitarized zone with an easy access from South Korea. It is reported that the Hyundai Group would develop the necessary infrastructure and then lease the sites to Korean and other foreign investors. Most initial FDIs would be export oriented, given the negligible local market in North

Korea. Furthermore, most FDIs might employ modern project finance methods that are not dependent upon the host entity's credit standing or balance sheet but rather upon the potential cash flows of the project itself. In such cases, some of the modern innovative project financing techniques such as build-operate-and-transfer (BOT) can be very useful in order to minimize the project risk on the part of foreign investors.

In recent years, many countries have been moving towards the use of limited-recourse financing techniques as a way to avoid the risks involved in major new project developments. The popularity of the techniques lies in the belief that they might prevent losses and reduce the danger of piling up large debts. The trend marks a definite move away from recourse deals financed mainly by conventional credits carrying full sovereign guarantees. Limited recourse financing techniques are part of off-balance-sheet project financing, which also includes various forms of lease as well as the take-or-pay contracts.

In an operating lease the lessor not only keeps the title but also carries out routine upkeeps such as maintenance and repairs of the leased property. In a financial lease, however, the lessee, who also pays the property tax and insurance premium to protect the leased property, performs these tasks. If the lessee has the right to purchase the leased property at the end of the lease period, such a financial lease is also called a hire purchase. However, some countries do not permit the lease of a hire purchase type. Another type of financial lease is project lease, in which the facility to be leased is financed by conventional bridge financing during its construction period. Only when the construction process is complete, the project lease comes into effect. Similar to the project lease is a sale-and-lease-back, under which a facility that has been in operation is sold to the lessor and leased back

The take-or-pay contract, typical in a large pipeline construction project, is signed for example between a pipeline company (the project entity) and a group of oil or gas companies that will actually utilize the pipeline. Under the contract, the users agree to pay the project entity a fixed sum per annum for an extended period of time regardless of whether the full pipeline capacity is utilized or not. The fixed payment is set at such a level as to be sufficient to service the long-term debt incurred to finance the pipeline construction as well as an adequate return on equity for the project sponsors. The debt financing is on a non-recourse basis, collateralized by the long-term take-or-pay contract.

The limited-recourse financing was first pioneered in the early 1970s for developing the North Sea oil fields. It took some elements of risk off the balance sheets of the oil companies and handed them to the creditor banks. For a number of smaller companies, without the assets to back conventional loans, financing off the back of the future proceeds of their oil was the only way of raising the necessary capital. The concept of limited recourse financing, which relies more on the project's future cash flows than on the creditworthiness of a project entity, has since been applied to other revenue-generating projects, including certain infrastructure projects. As the trend toward privatization has become more fashionable, limited-recourse infrastructure projects have also gained popularity. There are two main categories of limited recourse financing: build, operate and transfer (BOT) and build, own and operate (BOO).

In both BOT and BOO, the project is designed, built and then operated by a private entity. With BOT the project developer is provided a certain number of years of positive revenues to compensate for its investment, after which the project reverts to the government. An example is the Channel Tunnel, where Eurotunnel -- a private company created for the purpose -- has been granted a 55-year concession on Channel Tunnel traffic before the British and French governments take it over. In BOO, however, the title to the project does not revert to the government. BOT and BOO have been promoted as a way for LDCs to build infrastructure projects without having to pay out of the government expenditure budget. The World Bank is keen to promote some private-sector initiative and supported three BOO power plants in Pakistan, among others. Many private financial institutions that consider BOT and BOO as appropriate for many LDC projects also share the World Bank’s interest in limited-recourse techniques. Although the concept is not new -- many railways throughout the British Empire were built this way, as were the Suez Canal and Hong Kong’s Cross-Harbor Tunnel -- it has yet to gain wide acceptance outside Europe and the United States. The country, which has also shown interest in BOT, is Turkey. The first of what will be five thermal power stations has been awarded to a consortium led by Australia's Sea-Pac Control Services.

Since the world debt crisis of the 1980s, many developing countries have found it increasingly difficult to arrange conventional long-term credits for project financing. Thus, it is important to isolate the project as much as possible from the country risks. If adequately structured for certain viable projects, both BOT and BOO schemes can provide a viable

alternative for project financing. Why are contractors willing to take on the additional risks that limited-recourse financing in general, and BOT in particular, bring with them? These techniques have several advantages. For many engineering companies, running a project can be a useful diversification away from just construction and engineering work. In what is a cyclical business it enables them to keep on permanently a higher proportion of their skilled staff, when the construction market is in a down cycle. At the same time it diversifies their income stream. BOT has emerged as developing countries have sought to obtain a longer-term commitment from contractors by imposing equity requirements and technical or operating support on potential projects. Given the competitive environment, putting in equity in the company set up to build and operate a project is becoming increasingly accepted as part of the cost of a project deal.

In both BOT and BOO, the private sector company has the technical expertise to operate the plant, such as a power plant BOT organized by an electric utilities company. If the private investors do not have such technical expertise to operate the plant, as in the case of a power plant BOT invested by a trading company or a bank, the private company may lease the plant for a fixed number of years to the government utilities agency that will operate the plant to generate electricity. After the investment costs as well as the required returns on investments are recovered through the lease receipts by the private investors, the plant ownership will be transferred to the public utilities agency. Such an arrangement is known as the build, lease and transfer (BLT) contract.

International Capital Markets

North Korea might some day be able to tap the vast international capital markets by issuing different types of bonds, initially guaranteed by IFIs as in the case of the first Hungarian Eurobond issue guaranteed by the World Bank. Before tapping the international capital markets, however, North Korea has to resolve its international debt arrears. According to a recent estimate, North Korea owes a total of $12 billion to foreign creditors. A significant portion of these debts is owed to Western creditors such as banks, while the rest is owed mainly to China and the old Soviet Union. These debts are practically in default and the resolution of these foreign debts should first be accomplished through the Paris Club for debts owed to foreign governments and their agencies and the London Club for debts owed to private bank creditors.

Most developing countries have resolved their foreign debt problems through such forums and North Korea would not be unique in resorting to these well-known international debt-restructuring mechanisms.

Once North Korea resolves its foreign debt problem and if the country is admitted into such IFIs as the World Bank and ADB, with the support of their financial guarantee programs it might be able to tap international capital markets by issuing international bonds such as Eurobonds and other types of bonds. There are a variety of debt financing sources available for project financing. Some of these instruments have equity features such as convertible bonds and bonds with warrants. Others are purely debt financing instruments. For example, Euronotes are short-term Euro commercial paper (ECP) backed by long-term Euronote guarantee facilities such as NIF (note issuance facility), RUF (revolving underwriting facility), etc. Suppose North Korea wants to borrow $50 million at a floating interest rate for 7 years to build a cement plant. The country usually has two alternatives: 7-year Eurocredit from an international syndicate of banks at, say, 6-month LIBOR plus a spread of 3%; and 7-year floating-rate notes (FRNs) at 6-month LIBOR plus a spread of 2-15/16%. FRNs are likely to cost slightly less (in this example, 1/16%) due to the liquidity of FRNs as compared to generally illiquid Eurocredit. However, the borrower has a third alternative: issuing 6-month Euronotes at 6-month LIBOR plus a spread of only 2% backed by 7-year NIF. The spread over LIBOR in this case is 2% because Euronotes are short-term with only a 6-month maturity. Since the borrower needs the money for 7 years, not six months, the 7-year NIF takes care of the maturity mismatch.

In this case, NIF is a guarantee provided by a group of banks to the borrower that, if the borrower cannot sell $50 million 6-month Euronotes at the maximum rate of LIBOR plus 2% during any of the fourteen times that Euronotes are issued, the guarantee banks would purchase any unsold portion of the Euronotes. In this sense, NIF or RUF is a purchase guarantee or back-up credit availability guarantee provided by a group of banks to the borrower. Therefore, even though the Euronotes are short term in a strict legal sense, in fact they are equivalent to long-term borrowings. Unlike a normal revolving credit line, a short-term Euronote issue backed by a long-term guarantee facility should be considered a long-term borrowing due to the iron-clad guarantee facilities such as NIF or RUF. Any saving in the spread over LIBOR due to a positive yield curve between short-term and long-term rates, in the above example the difference between

2% and 3%, would be divided between the borrower and the guarantor banks, which are compensated for their backup guarantee facilities in the form of management fee, facility fee, utilization fee, etc.

NIF or RUF is different from a revolving credit line in that the latter involves actual credit extension by a bank to its client, on a revolving basis, while the former involves only a provision of contingent credit facility in case the beneficiary of NIF or RUF cannot re-sell or re-issue its short-term Euronotes at a pre-specified rate. In this sense, the banks providing NIF or RUF facility act only as the back-up credit sources, while the primary credit sources are the investors who purchase the short-term Euronotes. Originally, Euronotes were issued with the RUF guarantee, under which the guarantee banks provided the back-up purchase facility, while an investment bank would handle the marketing of Euronotes to potential investors every six months. However, many guarantee banks gradually demanded to be given the role of market makers as well, which is known as NIF. There are other Euronote guarantee facilities, such as multiple options facility (MOF), global note facility (GNF), transferable RUF (TRUF), etc. Under MOF, the borrower is allowed to get financing for the six-month period, when the issuer cannot sell the Euronotes successfully, through any of the many possible ways such as a six-month bank loan, banker's acceptance facility, etc. GNF allows the borrower to switch back and forth between the U.S. and Euro commercial paper market, whichever is more advantageous to the borrower at the time of each issue. Under TRUF, each guarantor bank has the ability, usually subject to the prior approval of the borrower, to transfer all rights and obligations under its underwriting commitment to another bank at any time during the life of the facility.

Since their emergence in mid-1980s, Euro medium-term notes (EMTNs) have now become the predominant way of issuing international debt. The EMTN market has become bigger than its parent, the U.S. MTN market. Originally, the MTN market was established in the early 1970s in the United States as an alternative to short-term financing in the commercial paper market and long-term borrowing in the traditional bond market; thus the name "medium term." In the 1980s, the U.S. MTN market evolved from a relatively obscure niche market dominated by the automobile finance companies into a major source of debt financing for several hundred large corporations. By mid-1980s, the EMTN market also appeared to compete with the U.S. MTN market.

Most MTNs are non-callable, unsecured, senior debt securities with fixed coupon rates. They have generally differed from traditional bonds in their primary distribution process. MTNs have traditionally been sold on a best-effort basis by investment banks and other broker-dealers acting as agents. Hence, EMTNs normally do not have a feature equivalent to a commitment amount. Unlike traditional bond issues, there was no underwriting syndicate for typical MTN issues. Also, unlike corporate bonds, which are typically sold in large, discrete offerings, MTNs are usually sold in relatively small amounts either on a continuous basis or on an intermittent basis. Borrowers with MTN programs have great flexibility in the types of securities they may issue. As the market for MTNs has evolved, issuers have taken advantage of this flexibility by issuing MTNs with less conventional features. Many MTNs are now issued with floating interest rates or with rates that are computed according to unusual formulas tied to equity or commodity prices. Also, many include calls, puts, and other options. Furthermore, maturities are not necessarily "medium term"--they have ranged from nine months to thirty years and longer. Moreover, like corporate bonds, MTNs are now often sold on an underwritten basis, and offering amounts are as large as those of bonds. Indeed, rather than denoting a narrow security with an intermediate maturity, an MTN is more accurately defined as a highly flexible debt instrument that can easily be designed to respond to market opportunities and investor preferences.

A convertible bond is a fixed rate bond, which may, at the option of the bondholder, be converted into the equity of the borrower or its parent. The price at which the bond is convertible into shares, known as the conversion price, is set at the time of issue and will be at a premium to the market price of the equity at the time of issue. The conversion option on the bond may be exercised at one specified future date or within a range of dates, known as the window period. The conversion right cannot be separated from the debt. The instrument allows an investor to participate in the appreciation of the underlying share value while limiting the entire equity holder risk. A convertible bond will generally pay a coupon rate higher than the dividend rate of the underlying equity at the time of issue but lower than the rate of a comparable bond without a conversion option.

An exchangeable bond is similar to a convertible bond, except that the bond will be convertible into the shares of not the issuer but a third party. Such bonds are often issued by a government agency, which cannot sell their own shares but can promise to exchange the bonds

for some of the shares of a state-owned enterprise held by the government agency. Exchangeable bonds are used as part of privatization of state-owned enterprises. For example, early this year the Government of Pakistan floated a large dollar-denominated Eurobond issue, whose bonds are exchangeable into the government-held shares of a state-owned enterprise that Pakistan wants to privatize any way. The issue was hugely successful, leading Pakistan to raise the amount of the Eurobond issue.

Equity warrant bonds are debt securities which incorporate warrants that give the holder the option to purchase equity in the issuer, its parent company or another company during a pre-determined period or on one particular date. The warrants are detachable and may be traded separately from the debt security. The exercise of the equity warrant will normally increase the total capital funds of the issuer because the debt is not replaced by equity but remains outstanding until the date of its redemption. The warrant on the bond has a fixed strike price. The issue of equity warrant bonds reduces the funding costs for borrowers because the investor will generally accept a lower yield in anticipation of the future profit to be gained from exercising the warrant.

The international capital markets have been a fertile ground for financial innovations during the past couple of decades. In addition to the market instruments described in the previous sections, there are standard, more traditional debt instruments utilized by the borrowers around the world. **Eurobonds** were first issued in 1963, perhaps the oldest and first international bonds created in the post World War period. They are different from foreign bonds in that they are issued without being subject to any country's securities laws or regulations, and generally underwritten by international syndicates of banks without being registered with any national securities regulators. However, in order to attract institutional investors which may be limited to investing in only listed securities, they are often listed on London or Luxembourg stock exchanges, even though secondary market trading takes place over the counter. In contrast, **foreign bonds** are issued in a domestic capital market by non-resident issuers and they are subject to the market country's securities regulations and registration requirements. There are many types of Eurobonds: convertible, zero-coupon, indexed, dual-currency, and step-up put Eurobonds, etc. The last one includes a put option given to the investors who can exercise the

options at the end of the first period; otherwise, the bonds become due at the end of the second maturity period at a higher coupon rate.

Global bonds are a combination of foreign bonds and Eurobonds, launched simultaneously in the United States, European and Asian markets. Trading takes place in and between all three markets, and transactions can be settled through both domestic and international clearing systems. Global bonds are an attractive financing source for issuers wishing to access a wide investor base. The first global bonds were issued mostly by multinational corporations from developed countries and supranational issuers. In recent years, however, a number of sovereign issuers from developing countries such as Argentina, Mexico and China have utilized them. Global bonds may be issued in any currency but, since the first global bond issue in 1989, they have been denominated in only five currencies: U.S. dollar, Japanese yen, Canadian dollar, German mark, and Australian dollar. Investors have been predominantly institutional investors rather than retail investors, with a minimum trading size of $1 million and up.

Brady bonds, named after the former U.S. Treasury secretary, are issued in exchange for commercial bank loans (and in some cases, unpaid interest) of developing countries in order to reduce their debt service burden. First issued by Mexico in early 1990, Brady bonds provide a mechanism by which debtor countries could repackage their existing commercial bank loans into marketable bonds in a debt-for-bond swap. They are dollar-denominated and issued in the Euromarkets in exchange for bank loans. The principal of the bond is usually (but not always) collateralized by specially issued U.S. 30-year zero-coupon Treasury bonds purchased by the debtor country with funds provided from the IMF and World Bank loans and their own foreign exchange reserves. Interest payments on Brady bonds, in some cases, are partially guaranteed by securities of high credit quality held with the Federal Reserve Bank of New York to cover interest payments of about one to two years. There are several different types of Brady bonds. Par bonds are issued to the same value as the original bank loan but the coupon on the par bonds is below market rate. Discount bonds are issued to the discount to the original bank loan but the coupon is at market rate. Debt conversion bonds are issued to the same value as the original loan but on the condition that "new" money is provided in the form of new money bonds. Front loaded interest reduction bonds are issued with low initial low fixed-rate coupons, which step up

after the first few years. Other Brady bonds are past due interest bonds, interest due and unpaid bonds, and interest arrears bonds, etc.

International Bank Loans

North Korea might in the future access the international banking community the way it did in the 1960s and early 1970s until it started to default on foreign bank loans from the mid 1970s. Of course, it has to resolve the outstanding foreign bank debt arrears through the London Club as mentioned earlier. These days, the most prevalent way for developing countries to tap the international banking market is through the syndicated bank loans at floating interest rates, known as Eurocredits. Many of these syndicated loans could be coupled with project financing in which a credible foreign company acts as the project sponsor. Syndicated loans are generally medium to long term in maturity and they can raise a large sum relatively quickly because many international banks join together in the loan syndicate, thus spreading each bank's credit risk to a manageable level.

International banks can be helpful not only in medium to long term syndicated loans but also in providing short-term working capital loans for new FDI projects in North Korea, especially for those projects which would generate streams of foreign currency cash flows through exports of their products. Imports of needed capital goods or raw materials into North Korea can be arranged through traditional trade financing methods utilizing letters of credits and banker's acceptances for short term financing, and long-term trade financing can be accomplished through forfaiting, a technique originally developed in the 1960s to finance international trade between Western European exporters and Eastern European importers.

Conclusion

There are a number of potential international financing sources for North Korea's economic development. They range from various lending instruments available from IFIs to international trust funds, innovative project financing techniques for promising FDIs, a number of fixed income securities that can be issued in international capital markets, and international bank loans. Access to all these financing sources requires a careful strategy on the part of North Korea in terms of proper sequencing and preparation. Such international financing skills are

woefully inadequate or almost non-existent in the country. Perhaps one of the first technical assistance programs that the IMF and the World Bank can embark upon could be to provide such expertise to the relevant North Korean authorities so that they can develop a systemic approach to accessing international funding sources for their infrastructure projects.

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Marketization in North Korea: Scenarios for economic, political. and social change â€”. Ulv Hanssen & Ji-Won Song. Published by the swedish institute of international affairs | UI.se. Abstract. This paper explores the spread of markets in North Korea and analyzes the potential for marketization to bring about change in the authoritarian state. Having evaluated four future scenarios, we conclude that a scenario of moderate change is the most likely future course for North Korea as it constitutes the least risky option for the state at a time when its means of social control are being eroded. Mode... The major data sources on North Korea exist in the South. The Bank of Korea is the main source for macro-economic indicators, the Ministry of Unification for intra-Korean trade and cooperation, and Korea Trade Promotion Agency (KOTRA) for North Koreaâ€™s trade. Although we use statistics from these and other sources in the following discussion, their data are not accurate for obvious reasons, and should be considered at best as â€œguesstimates.â€ Given North Korea's lack of access to conventional channels of international finance, the question naturally then arises: how has it financed the chronic trade deficits? One possibility is arms exports.Â Counterfeiting is a third potential illicit source of revenue. Given the considerable expertise of North Korean counterfeiters, the move to new U.S. currency designs were reportedly undertaken in part to discourage their activities. High profile counterfeiting busts have occurred in Macau, Cambodia, and Russia. How North Korea Accesses the International Financial System. Although international sanctions have significantly isolated North Korean banks, the North Korean government continues to use state-owned entities and banks, as well as bulk-cash smuggling and trade, to access the international financial system.Â FinCEN has observed North Korean-related financing involving correspondent account transactions conducted by, or on behalf of, Liaoning-based banks, including, but not limited to, institutions located in the cities of Dalian, Dandong, Jinzhou, and Shenyang. For example, FinCEN finalized its Section 311 rulemaking against Bank of Dandong, which is located in Liaoning province.Â Other potential related indicators include North Koreaâ€™s international transactions have grown since the 1990s famine period. Illicit transactions appear to. account for a declining share of trade. Direct investment is rising, but the county remains signiï¬cantly dependent. on aid to ï¬nance imports. Interdependence with South Korea and China is rising, but the nature of integration. with these two partners is very diï¬€erent: Chinaâ€™s interaction with North Korea appears to be increasingly on.Â tobacco industry puts potential gross revenues from counterfeiting on the order of $520â€“720 million. annually based on the prices of counterfeit cigarettes in Asian ports (Coalition of Tobacco Companies, 2005). However, this estimate is for the value of the cigarettes once they have been sold to criminal gangs.