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Abstract

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Keywords: authoritarian regime; Eurocurrency market; indebtedness; neoliberalism; South Korea; technocrats

JEL: N15, N25, F34, O20

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A virtuous debtor: South Korea in the Eurocurrency market, 1969-1984

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Abstract: This article examines the case of South Korea, in which the external private debt management leveraged the symbiosis of the authoritarian regime and the neoliberal policies in a less-developed country. In the pursuit of post-war growthamship, against the meddling of allies with official loans, the military government turned to the Eurocurrency market, an offshore market for major currencies to meet the triple goal of diversifying foreign reserve sources, financing the heavy-chemical industrialization, and underpinning the diplomatic struggle against North Korea. The dependence on the Euro-capital empowered technocrats at the Economic Planning Board to manage the sovereign borrower's external indebtedness. Against the neo-mercantilist policy, they introduced price stability measures and maintained low debt-service-ratio so as to appease international banks and international financial organizations. Their success enabled the military government to eschew the debt crisis of 1982 and bolstered the legitimacy of the military government. In return, the technocrats resorted to the authoritarian rule to implement market-oriented policies against the labor the neo-mercantilist interests. Drawing on multi-archival sources, this article engages to the burgeoning scholarship on the relations between international banks and authoritarian regimes by analyzing the external debt-driven neoliberal turn in the developing world. (193 words)

Keywords: authoritarian regime; Eurocurrency market; indebtedness; neoliberalism; South Korea; technocrats

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Introduction

The rise of global finance in the 1970s coincided with the indebted industrialization of less-developed countries (LDCs) (Frieden, 1981). In the aftermath of the first oil crisis, the recycling of petrodollars from the oil-producing countries in the Eurocurrency market, a global offshore market for major Western currencies, provided much-needed capital to finance ambitious plans for economic growth (e.g., Griffith-Jones, 1980; Altamura, 2016). The debt crisis of 1982, inflicted by the rise of interest rates and the recession in the developed world, attracted interdisciplinary research to analyze the origins of indebtedness of developing countries and its political economy in Latin America and Eastern Europe. (Kaufman, 1985; Kreuger 1987; Wellons 1987; Frieden, 1991). As Strange suggests, in 'the new world of debt', external debt management became 'one of the continuing but unresolved issues' in the governance of the world economy (Strange, 1998: 91; Strange, 1979).

The political economy of the indebtedness of LDCs has paid attention to the role of financial actors, private and international, in either constraining or expanding the space for economic policy of sovereign borrowers (Alami et al., 2022: 5; Roos, 2019; Reis and de Oliveira, 2021; Fourcade-Gourinchas and Babb, 2002; Babb, 2004; Bonizzi, 2013; Kentikelenis and Babb, 2019). Recently, historians have scrutinized the interactions of international banks, national governments, and international organizations, notably the International Monetary Fund (IMF) (e.g., Alvarez, 2015; Bartel, 2017; Altamura 2020; Altamura and Zendejas, 2020). These accounts assume that the failure of external debt management by sovereign borrowers and the resultant economic disaster underpinned the subordination of the domestic economy to the free-market ideology or a set of policy recommendations of the Washington Consensus (e.g., Klein, 2007).

Such narratives of shock doctrine, or the exploitation of crises, marginalize the case of South Korea. While it ranked one of the most interbedded LDCs in the Eurocurrency market, only behind Brazil and Mexico, but ahead of Argentina in 1979, the military government with the indebted industrialization strategy weathered the financial debacle in 1982 (Cumings, 2005: 322, 331).[1] The

[1] 'A new LDC debt crunch', *Newsweek* (26 May 1980), paper clipping, 3A143/1, Bank of England Archives

geopolitical approach attributes the success to the foreign guarantor of the US, particularly the Reagan administration, owing to the Cold War concerns in East Asia (Woo, 1993: 150-59, 184-88). Meanwhile, the macroeconomic analyses compare South Korea and Latin American countries to emphasize the export-oriented trade regime, from which the former secured a stable foreign currency income to service external debt. (Sachs, 1985; Dornbusch and Park, 1987: 394; Krueger, 1987; Park, 2017).

However, these sources were not enough to finance the heavy-chemical-industrialization (HCI), with which South Korea suffered perennial balance of payments deficit until 1985. The Eurocurrency market assumed strategic importance to satisfy the growing demand for capital, especially after the first oil crisis. In this liberal international financial market, it was imperative to win confidence from international banks against the fluctuations in the earnings of foreign trade and the tensions with the US administration and the IMF and World Bank throughout since the 1970s.

This article engages to the burgeoning scholarship on the relations between international banks and the developing world by analyzing South Korea's engagement in the Eurocurrency market and how external debt management leveraged the symbiosis of liberal creed and the authoritarian regime in South Korea. Owing to the unavoidable and mounting dependence on foreign capital, in 1979, President Park allowed the introduction of the market-oriented policies for price stabilization by technocrats at the Economic Planning Board (EPB) and the Ministry of Finance (MoF). Armed with neoclassical assumption, they implemented the recommended programs of price stability from the IMF and World Bank and maintain the low debt-service-ratio, a key criterion for Eurobanks in the evaluation of sovereign creditworthiness of sovereign borrowers. The promotion of technocrats in the new military government of President Chun Doo-hwan marked the triumph of economic liberalization (Park, 2018). Still, the acceleration of market-oriented policies of anti-inflation and deregulation to appease foreign creditors required the authoritarian rule to suppress the upward pressure of price and wage and pass the burden of adjustment to the working class. In return, the economic growth sustained by capital inflows bolstered the legitimacy of military government. Without a shock, therefore, the external indebtedness leveraged the introduction of liberal creed.

(hereafter BEA).

Drawing on multi-archival sources, this paper analyzes the history of South Korea's external debt management into three parts: 1) the entry into the Eurocurrency market; 2) the successful management of creditworthiness; and 3) the rise of technocrats and the neoliberal turn of South Korea. In doing so, the politics of indebtedness incorporates the Eurocurrency market in the relationship between neoliberalism and democracy in the Global South. It also sheds lights on the external economic relations to engage the literature on the nature of state-led developmentalism of South Korea (e.g. Amsden, 1989, 1990; Pirie, 2008; Thurbon, 2016; Kim, 2020; Kim 2021).

The reluctant allies and the entry into the Eurocurrency market, 1969-1974

In 1969, the South Korean government held a meeting for the International Economic Consultative Organization for Korea (IECOK) under the International Bank for Reconstruction and Development (IBRD). Established in 1966 to 'raise capital and guarantee an orderly inflow of capital into Korea', the inter-governmental organization between South Korea and foreign creditor countries reviewed the country's indebtedness to recommend policies to officials from the EPB and MoF.[2] However, the prospect to attract foreign capital was bleak as both of the International Monetary Fund (IMF) and the IBRD expressed concerns that 'the country was 'accepting overseas credit at a phenomenal rate.' The two revenues of foreign currency income from the Vietnam War and grants and loans in return for the restoration of diplomatic relations in the Treaty of Basic Relations of 1965 did not suffice to cover the deteriorating payments deficit from the Second Five-Year Economic Development Plans of 1967-72. The IBRD estimated that the debt-service-ratio, 'the foreign exchange needed to service overseas debt' would rise to a peak of 22-26 per cent, 'higher than the country could reasonably stand.'[3] The rampant inflation was prevalent despite the IMF's stabilization program since

[2] Daehangukjegyeongjehyeopeuiche gaemak (Opening of IECOK)', *Kyunghyang Shinmun* (13 December 1966).
[3] 'South Korea – Nuclear Power Station' (5 December 1968), FCO21/606, The National Archives (hereafter TNA).

1964.[4] Warning against the external payments difficulties, the international organization recommended 'import substitution programme' and '[R]estraint on excessive private borrowing abroad.'[5]

It is against the backdrop that foreign governments at the April 1969 IECOK to decline South Korea's request for capital. In the following years, the multilateral organization's reluctance continued to disagree with the recipient country's major projects – the Pohang integrated steel mill and the Seoul-Busan Expressway.[6] Such decisions resonated with the unwillingness of the US administration to endorse the military government's plan for heavy industrialization; instead, it opined that the light industry was desirable at the current stage of the economy (Park, 2001: 65). It also slashed the bilateral aid to South Korea as the EPB sought to bail out insolvent domestic firms, over-burdened with large commercial loans abroad (EBP, 1970: 116; Lee, 2000: 178-85). Drawing on the IBRD' s assessment, the Japanese government hesitated to provide additional loans to build 'Four Core Factories' for HCI (Bae, 2019: 52). The Japanese capital was merely placed 'in the low-wage, labor-intensive, low value-added manufacturing export sector' (McCormack, 1978: 266). The reliance on allies, therefore, was detrimental to the pursuit of independent economic development of President Park.

It should be noted, however, that the political risk had limited impact on the creditworthiness of South Korea. Despite the Pueblo Incident, the capture of the US Navy intelligence ship at the coast of North Korea in 1968, the British government assessed that the South 'was reasonably stable politically.' The country was 'not another Israel, surrounded and greatly outnumbered by hostile states' or South Vietnam suffering from the North's infiltration. It was added that '[N]either the Soviet Union, China, nor the United Sates have any wish to use Korea as a casus belli.' Turning to the domestic affairs, the 'illiberal and undemocratic' regime was endured by the threat from the North. In 1969, as a British diplomat in Seoul reckoned, '[F]ollowing the "economic miracle", President Park had 'too much to lose by over-reacting.'[7] The economic considerations such as 'qualms about the effectiveness of the South

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[4] 'South Korea' (7 February 1969), FCO21/607, TNA.
[5] 'IBRD Consultative Group for Korea' (9 April 1969), FCO21/605, TNA.
[6] 'It's not what you do, it's the way you don't do it' (22 September 1984), pp. 95-96, at p. 95.
[7] 'Export credit cover for South Korea – the political risk' (13 February 1969), ibid.

Korean planning machinery' and the tendency to 'over-extend itself internationally for total foreign exchange liabilities' underpinned the 'reluctance to invest in Korea.'[8]

Against the parsimony of allies, the Eurocurrency market lured the capital-starved country. From the mid-1960s, it had already represented a genuinely private international financial market with a liquid pool of capital (Kim, 2019). The Bank of Korea examined that the new market, especially its US dollar sector, was 'not subject to rules or regulations of a country'. The central bank added that 'the Euro-dollar market will subsist in the absence of any alternative 'mechanism' to satisfy the increased demand for capital internationally' (Bank of Korea, 1970a: 4, 6). It also opined, notwithstanding the volatility of interest rates of the US currency in 1969 from the tightening of US monetary policy, 'the Eurodollar market itself would achieve a smooth development unless the confidence in the dollar breaks down' (Bank of Korea, 1970b: 17).

In this regard, the international private loans of Eurodollars were timely and an attractive alternative to satisfy the demand for capital. Already in 1969, the Korea Exchange Bank (KEB), a specialized bank for the government's foreign exchange business, hoped to 'raise $30m … by floating bonds on the Euro-dollar market.'[9] On 10 June 1970, the Korean Development Bank (KDB), a government-owned bank, following the recommendation of Japanese delegates at the Asian Development Bank, issued the very first Eurocredit, a mid-term Eurodollar loan, with a guarantee from KEB. Twenty British and American banks in the City of London, led by Kuhn, Loeb & Co, participated in the syndicate for the *de facto* sovereign loan.[10]

The pilot loan indicated 'a new epoch of a channel to raise foreign capital' to replace existing obligations with unfavorable terms and diversify the sources of foreign currency as well as the credibility of South Korea in the global financial market.[11] The tombstone, a written advertisement of a public offering, posted in *Euromoney,* a periodical for the City's international banking, had a sign of

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[8] 'Export Guarantee Committee' (4 March 1969), FCO21/607, TNA; 'South Korea' (January-February 1969), WES/1502, NatWest Banking Group Archives (hereafter NWBGA).
[9] Ibid.
[10] 'Yourodala eui sangryuk (The landing of Eurodollars)', *Maeil Gyeoungje* (10 June 1970).
[11] 'Yujeonhaneun segyetonghwa Yurodala (The Eurodollar: a roaming global currency)', *Maeil Gyeoungje* (13 June 1970).

Taegeuk, the logo for South Korea's national flag design.[12] The government dispatched a permanent action officer to the UK to push for more Eurodollar loans the Third Five-Year Economic Plan of 1972-76.[13] The new funds were expected to facilitate the efforts to control unnecessary short-term trade credits of the export-led economy, finance the balance of payments deficit, and maintain appropriate foreign reserves against the mounting foreign debt.[14] In the following year, when the US import surcharge and the Japanese yen revaluation deteriorated the trade balance, there was a pressing need for the Euro-capital; in November South Korea had foreign reserves 'equivalent to about four months' imports'.[15]

The sovereign borrower, however, had been side-lined by major borrowers of US multinationals and public institutions of Western Europe in the City of London. Instead, it briefly landed at a non-Western financial center of Singapore. In 1968, the newly independent city-state established a regional Eurodollar market; the Monetary Authority of Singapore offered attractive terms to lure expatriate US dollars in Southeast Asia, such as tax benefits and numbered accounts (Kim, 2020; Schenk, 2020). Because of its relatively better reputation in the region, South Korea could tap the Asian Dollar Market to raise capital with favorable conditions.[16] For instance, in 1972, the EPB approved an Asian dollar loan for a Korean chemical company from the First National City Bank of Singapore to replace the existing loan with higher interest rates.[17] However, the depth of ADM was too shallow to satisfy South Korea's ever-growing demand for capital.

The rise of global finance of 1973-4 facilitated South Korea's endeavor to raise Euro-capital in the City. With the demise of Bretton Woods, the US administration opted to phase out capital control programs, which encouraged American banks' overseas lending operations (Sargent, 2015: Ch. 4).

[12] *Euromoney* (August 1970), p. 9
[13] 'Leondonesangju jaemugwan Yorodoladoip chokjin (Action officer to London for the promotion of Eurodollar borrowing)', *Kyunghayng Shinmun* (31 July 1970); 'Yurodalahwalyong – dangimuyeoksinyongeokje (The use of Eurodollars – controls on unnecessary short-term trade credits)', *Maeil Gyeongje* (24 September 1970).
[14] 'Gukjesujieamyeong oihwabuchaeeui jeunggawa munjejeom (The shadow of the balance of payments: the growth of foreign debts and its problem)', *Maeil Gyeongje* (27 January 1971).
[15] 'Korea – request for standby arrangement' (6 January 1972), T354/326, TNA.
[16] 'Asian dollar' (11 March 1972), BA0889950, National Archives of Korea (hereafter NAK).
[17] 'Review of financial capacity re the application for the approval of loan contract' (20 April 1972), ibid.

Across the Atlantic, European central banks relinquished attempts to control the Eurocurrency market for its role of intermediating capital flows between surplus and deficit countries during the first oil crisis of 1973 (Spiro, 1999: 61-74; Altamura, 2016: 11). European bank's lending operations to LDCs in the year reached an estimated level of US$ 12 billion.[18] With petrodollars from oil-producing countries, developing countries facilitated 'the overall management of external indebtedness'.[19]

In January 1973, against the economic instabilities and the EPB's emphasis on 'the harmony of growth, stability, and balance' in the Third Five-Year Economic Development Plan, President Park launched HCI as a new impetus for the country's export-oriented growth, with which the military government hoped to 'rapidly expand Korea's defense capabilities' (Thurbon 2016: 69). After the victory in the April general election, the ruling party urged the government's action to attract foreign capital to underpin the latest development plan.[20] Action officers in London approached Eurobanks to organize a syndicate for the first Eurobond, a long-term Eurodollar issue.

The complications of the Eurobond issue alarmed the military government about the importance of managing its reputation. In July, eight Japanese banks withdrew from the syndicate, which rendered the negotiation complex. In the City, a rumor had it that the Japanese had failed to obtain consent from their government. It was speculated that the Japanese banks in the syndicate would impair the recent approach of Tokyo to establish diplomatic relations with communist China and North Korea, which also sought to float Eurocurrency loans; the successful flotation could have indicated the preference or at least recognition of the South. Tokyo denied the accusation and suggested that the interest rate might have caused the withdrawal. In September, Mitsui Trust left the syndicate. It was believed that the recent attempt to assassinate Kim Dae-Jung, the leader of the democratic movement and the future president of South Korea, by the Korean Central Intelligence Agency (KCIA), lay behind the decision.[21] Chase

[18] 'Consultation with private bankers on Euro-currency lending to developing countries', (7 December 1973), 6A123/9, BEA.
[19] 'Debt problems of developing countries' (4 November 1974), Box 64, ARR40/1803, United Nations Library and Archives Geneva.
[20] 'Gonghwa, gyeongjesichaek sujeonggeoneuikiro (The Republican Party recommends the revision of economic policy)', *Kyunghyang Shinmum* (4 April 1973).
[21] 'Negotiation of the bank loan in Europe' (13 September 1973), BA0881523, NAK.

Manhattan, a co-manager of the syndicate, managed to invite the Credit Commercial de France to succeed the Japanese. On 14 September, the first Eurobond for South Korea was finalized.[22]

Another impetus, the Cold War regime competition with North Korea, pushed the South further into the Eurocurrency market. In April 1973, the South Korean embassy in London received intelligence regarding the flotation of a Euroloan for the North. From the 1960s, the City had been open to the communist bloc (Sanchez-Sibony, 2014: 313-15). A British banker who visited Pyongyang opined that 'North Korea is emerging as a force in East Asia … its credit worthiness is good.'[23] In 1966, the US had already relaxed its policy to control 'third-party dollar transactions' by North Korea.[24] The news from the City sparked anxiety in the South; any successful flotation implied the recognition of the communist regime in the Western financial markets.

Therefore, the Eurocurrency market turned into an extended diplomatic; in the 6.23 Declaration of 1973, President Park announced an aggressive foreign policy towards the communist bloc to check the diplomatic expansion of North Korea in the era of détente. In the City, the South sought to dissuade Eurobanks away from the syndicate for the North in the summer of 1973. While the financial espionage was partially successful, the attractive terms of higher interest rates appealed international banks with ties to the South. On 31 July, North Korea agreed to float a Euroloan with twenty-four Eurobanks, including Union de Banques Suisses. A week later, *Financial Times* posted a tombstone for a Eurocurrency loan on behalf of the Foreign Trade Bank of the Democratic People's Republic of Korea (Kim, 2023: 7-8).

The KCIA improvised counter-policies to dissuade Eurobanks' participation in the syndicate for the North.[25] Unfortunately, its agents found not only the indifference to the ideology of sovereign borrowers, but also uneasiness in the City with the request to meddle in the freedom of action. Agaisnt the risk of losing sympathy, the KCIA instructed its diplomats in Europe a direct measure of

[22] 'UKW – 0674' (8 August 1973), ibid.

[23] 'North Korea' (17 September 1974), 80/6136, Barclays Banking Group Archives (hereafter BBGA).

[24] 'Re: East-West initiatives' (30 September 1966), Papers of Anthony M. Solomon, Box 3, Lyndon B. Johnson Presidential Library.

[25] 'Introduction of bank loan from Europe' (13 August 1973), BA0881523, NAK.

psychological warfare to create a negative image of the communist foe.[26] It also concluded to encourage more flotations of Euroloans by the government to build friendly business relations with Eurobanks, ahead of the North.[27] Therefore, the intelligence agency with substantial power in the military government directed South Korea's dive into the Eurocurrency market. As Kim shows, the regime competition abruptly ended in favor of the South when the North failed to honor obligations since the mid-1970s (Kim, 2023: 10-14). A lesson was learned from the regime competition in the City that diligent servicing was required to access the Eurocurrency market.

The entry into the Eurocurrency market, therefore, served the triple goal of diversifying the sources of foreign capital to mitigate the reliance on allies, boosting HCI, and reinforcing the diplomatic struggle against the North. In 1974, *Euromoney* posted three more Euroloan tombstones for South Korea.[28] One of them were floated in the aftermath of the failure of Herstatt Bank in June, which sterilized the Eurobond market.

In the year, the Bank of Korea anticipated a financing gap of $450 million when it had already exhausted a line of credits from foreign banks.[29] At first, it decided to request an extra-extension of the oil facility of the IMF, a special fund set up to help members' payments deficit from the explosion of oil prices. However, the international organization was reluctant for fear of breaching 'the principle of nondiscrimination in general.'[30] They also pointed out that the country was 'still better placed to borrow abroad than many countries.'[31] Instead, in a private meeting with the Governor of the Bank of Korea, a representative from the US Federal Reserve System recommended the Eurodollar market.[32] While the private debt would be denominated in the US currency, as the UNCTAD Secretariat observed, the

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[26] 'Opinion regarding ways to check the flotation of "Eurodollar" by North Korea' (30 August 1973), BA0881447, NAK.
[27] 'Check on the "Euro" dollar loan of North Korea' (4 September 1974), ibid.
[28] *Euromoney*, various issues in 1974.
[29] 'Staff meeting with Governor Kim of the Bank of Korea' (11 September 1974), Box 69, Korea – Oil Facility (23067), Asia and Pacific Department Records, IMF Archives (hereafter IMFA).
[30] 'IMF oil facility: Korea' (n.d.), T354/326, TNA.
[31] 'IMF: Korea – oil facility' (n.d.), ibid.
[32] 'Luncheon with Governor Kim of the Bank of Korea, September 16, 1974 (17 September 1974); 'Korea – access to oil facility' (October 1974), Box 69, Korea – Oil Facility (23067), Asia and Pacific Department Records, IMFA.

developing countries capitalized its advantage to void 'the disadvantages of various types of tying; with 'the advantage of providing freely disposable foreign exchange to the borrower'.[33] In return, the inevitable dependence on foreign capital rendered the managing the creditworthiness more important than ever.

Managing creditworthiness in the Eurocurrency market and the rise of technocrats, 1975-1979

It is undeniable that 'official blessing' of the US endorsed South Korea's borrowings in the Eurodollar market and international financial organizations.[34] Yet, when President Park's neo-mercantilist assumption of HCI collided with the IMF, the IBRD, and the US administration, South Korea accelerated its Euro-capital borrowing. Hence, the mounting level of debt indicated that the LDC successfully managed its creditworthiness, which, Eurobanks attributed to technocrats at the EBP and the MoF. By the end of the 1970s, the massive amount of external debt empowered the technocrats over the neo-mercantilist interests of military junta to introduce liberalization policies. And the year of 1975 marked the watershed in the shift.

In the annual conference of January, President Park stressed the financing of 'the international payments deficit by attracting high-quality capital abroad' (Lee, 2010: 268). As a European banker observed, his country's foreign reserve holding was 'never more than 5 months imports.'[35] In order to avoid 'intolerably restrictive domestic action', the military government turned to the IMF and IBRD for additional oil facility. However, they 'picked' up the neo-mercantilist policy; a US delegate 'deeply regretted the introduction of trade restrictions … particularly after the special treatment accorded Korea.' Another criticism was the excessive production. During a 'perfunctory' discussion, the Dutch recommended 'the policy of shifting investment from petroleu based industries' to agriculture.[36] At the IECOK meeting in the following month, Nam Duk Woo, the head of EPB, struggled to defend his

[33] 'Debt problems of developing countries' (4 November 1974).
[34] 'Banking in Asia '76', *Far Eastern Economic Review*, Vol. 72, No. 17 (23 April 1973), p. 43.
[35] 'Republic of Korea' (13 February 1976), F/1/BD/Far/8, Lloyds Banking Group Archives (hereafter LBGA).
[36] 'IMF: Korea – Article XVI Consultations and Oil Facility Purchase' (24 June 1975), FCO21/1464, TNA.

government's balance of payments policy and accepted the 'need to pursue conservative' measures, which were incompatible with the undertakings of HCI.[37]

In November, the tension with the US further pushed the country away from the traditional sources of external funding in Washington. *New York Times* reported growing concerns of US banks regarding South Korea's 'rapidly mounting external debt', which also questioned the country's ability 'to generate enough savings at home to pay for its economic ambitions.'[38] The Institute for International Economic Policy, 'a Washington-based liberal foreign policy organisation', drawing 'confidential estimates being circulated at the State and Treasury departments', doubted the country's 'debt-service capacity', in 'a widely-published report.' In response, the EPB hurriedly issued 'a rather frank pamphlet' to address the 'Wild East' financial image, saying that the report used 'selective culling of' non-Korean sources.[39]

Such a jaundiced view represented the antipathy between the military junta and the US administrations in the 1970s over human rights abuses under the military government (Woo, 1991: 183). Moreover, the scandal of 'Koreangate', under which the KCIA was accused of having lobbied US Congress members, tainted the image of President Park with allegations of corruption (US Congress, 1978). On the economic policy, Park 'showed little inclination to accept American tutelage' but veered into accelerating rapid economic growth of HCI (Brazinsky, 2007: 152). The friction with its most crucial ally would erode the legitimacy of President Park, who defended his authoritarian rule for the cause of economic modernization and protection of his country against the North. Hence, the gloomy prospect could be inimical to South Korea's attempt to raise Euro-capital.

In contrast to the antagonism in the official quarters, one could observe the positive attitude of international bankers on the sovereign borrower. In December 1974, delegates of Lloyds Bank International (LBI), a British merchant bank, assessed the geopolitics and domestic politics of South Korea to review their 'lending policy'. On the security risk, the military aggression was 'highly

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[37] 'IBRD Consultative Group on Korea' (4 July 1975), ibid.
[38] *New York Times* (21 November 1975).
[39] 'Korea counts on its bankers', *Euromoney* (February 1976), p. 84.

improbable', despite 'the usually strained relations.' It was reckoned that 'the interests of the great powers … would seem to be in favour of the preservation of the status quo in Korea.' On the authoritarian rule, it saw 'no alternative insight'; President Park had secured 'the necessary degree of support from the forces backing him.'[40] The grievance of liberals on the violation of constitutional rights seemed to be negligible.[41]

Such notions underpinned the increased lending operations of the military government in the Eurocurrency market, in which international financial organizations as well as the US wielded little clout. In the first quarter of 1975 alone, the Eurocredits of South Korea exploded to $245.2 million, more than the previous year's total.[42] The government guaranteed these loans via KDB or KEB, and then re-lent them to the domestic business. The country's borrowing pattern shifted from inter-governmental aid to commercial loans; the latter's proportion increased from 37.4 per cent in 1972 to 67.6 per cent in 1978 (Amsden,1987: 77). Another feature was the increased level of short-term loans; owing to the instabilities of international monetary system and the volatility of interest rates, Eurobanks preferred short-term debt instruments (Kim, 1983: 50).[43] By the end of the year, South Korea's short-term debt ballooned to US$ 2,167 million from US$ 612 million in 1973, whose ratio to the total debt reached to 25.6 per cent (Kim, 1983: 44).

The growing indebtedness indicated South Korea's reputation of an outstanding sovereign borrower in the circle of Eurobanks. A staff of LBI, after his visit to Seoul, attributed the country's capital shortage and higher cost of borrowing abroad to a 'considerable degree of ignorance' on the country.[44] In his recommendation to 'increase our Korea Country Limit', he added, '[Y]ou really have

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40 'Visit to the Republic of Korea' (February 1975), F/1/BD/Far/1.6, LBGA.
41 Untitled document (20 November 1974), ibid.
42 *Euromoney* (October 1975), p. 6.
43 The US administration observed that South Korea had 'difficulty in obtaining medium to long-term loans from the private banking community' and paid 'high-interest rates.' 'Policy Review Committee meeting on PRM-13 (Korea)' (16 March 1977), Box 6, Subject Files of the Deputy Assistant Secretary for Developing Nations (SFDASDN), Office of the Assistant Secretary for International Affairs (OASIA), RG5, National Archives and Records Administration (hereafter NARA).
44 'Republic of Korea' (13 February 1976). The country suffered relatively harsher terms than the Philippines and Iran.

to see this country to believe it.' [45] In December 1976, despite the escalation of the military tension after the Axe Murder Incident in the demilitarized zone, Barclays Bank International (BBI), another British merchant bank, praised South Korea's dedication to 'the struggle against communism', whose aspects might appear 'somewhat oppressive to western eyes'. It concluded that the society supported by 'a very efficient army' was ready to follow 'the same basic line', even if President Park would be 'removed from the political scene.'[46]

Now, European banks assumed 'the rapidly growing role' to register 'a dramatic increase in commercial loans to Korea in 1976'.[47] The South Korean government welcomed it 'to balance the preponderance of Japanese and American banks'.[48] It also resonated with the EPB's realization that 'it was "cheaper to buy the technology and borrow the money"' than attract foreign private enterprise capital.[49] Until 1980, commercial loans from Western Europe, mainly the UK, exceeded those of the US and Japan (EPB, 1982: 95). The Export Credit Guarantee Department of the UK, in its confidential country grading table of 1976, with which Barclays calculated its country exposure, placed South Korea in Grade C alongside high income developing countries such as Brazil, Turkey, and Yugoslavia.[50] The approval of two large commercial loans in 1977 for South Korea dismissed the concerns of the possible withdrawal of US troops, with which the Carter administration of the US checked the rule of President Park.[51]

Figure 1. Long-term foreign commercial loans by country (in US$ million)

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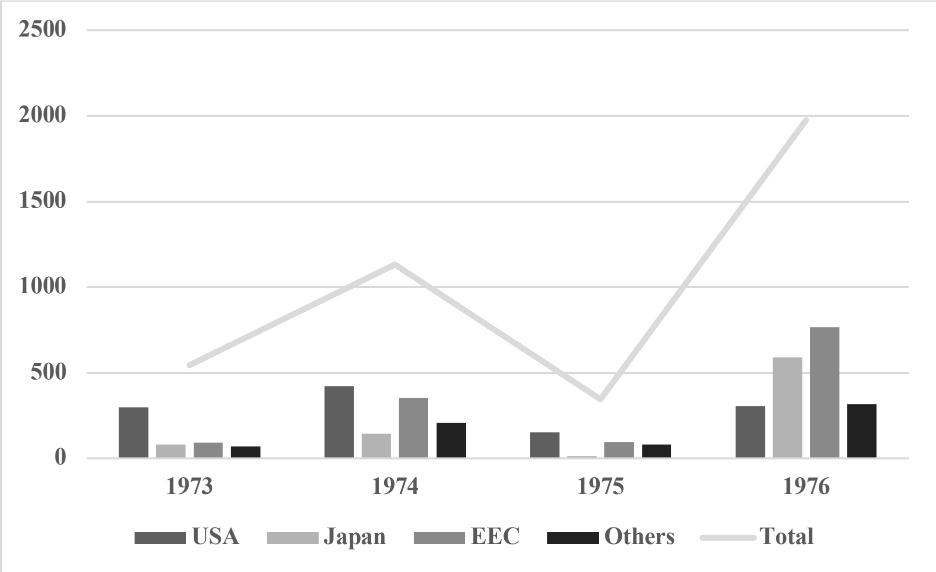
[45] 'Korea travel report' (13 September 1976), 80/5893, Barclays Banking Group Archives (hereafter BBGA).
[46] Untitled document (10 December 1976), 80/3433; 'Korea travel report' (13 September 1976), 80/5893, BBGA.
[47] 'Outlook for Korea's external debt and debt service' (24 August 1977), Box 460, Council of Economic Advisors, Jimmy Carter Presidential Library.
[48] 'South Korea' (22 September 1976), 80/6219, BBGA.
[49] 'South Korea: Inward foreign investment future attitudes and past performance' (March 1978), 80/179, BBGA. Officially, the Japanese government preferred lending for infra-structure projects than private investments.
[50] 'ECGD country gradings' (27 August 1976), 80/6196, BBGA.
[51] Untitled letter (23 August 1977), Box 6, SFDASDN, OASIA, RG56, NARA.



Source: Outlook for Korea's external debt and debt service (24 August 1977), Box 460, Council of Economic Advisors, Jimmy Carter Presidential Library.

On the emergence of South Korea into a virtuous debtor, Eurobanks accredited the EBP's successful external debt management. Established after the military coup of 1962, the board assumed responsibility to supervise the series of Five-Year Economic Development Plans and coordinate various development policies from ministries. (Choi, 1987: 5; Ki, 2008; Koo, 2020; Frank, et al., 1975: 122). In the cabinet, the EPB presided over the sound management of external debt. Its Foreign Capital Inducement Deliberation Committee reviewed proposals from ministries for foreign loans. When it gave 'the green light', then the consent from President Park, the KEB offered guarantees to foreign creditors against the low level of confidence on South Korea.[52]

With the distinctive professional identity out of similar elite educational background and the recruitment process of a fiercely competitive civil service examination, technocrats at the board were 'insulated from social and partisan groups', but internationally oriented (Kim, 1992: 211).[53] The United States Operation Mission (USOM), an agency for foreign assistance, funded their postgraduate programs in economics at major US universities. Throughout the 1970s, as a result, the EPB

[52] 'Export credit cover for South Korea' (13 February 1969), FCO21/607, TNA.

[53] The origin of the technocrats is in contestation. Kim shows that EPB was a culmination of the resource mobilization and allocation policies of Manchukuo, a puppet state of Japan in Manchuria, which was introduced to Korea during the 'total war system' of 1937. After the independence, the US military government and Rhee government succeeded the attachment to the planning (Kim, 2008). Meanwhile, a more qualitative study questions the validity of the colonial connection (Lee, 2012).

‘experienced an influx of American-trained economists’ with a strong orientation towards monetarism (Thurbon, 2016: 66; Park, 2018: 85). Some of them took positions at the Korean Development Institute (KDI). Established in 1971 with financial support from USOM, the think-tank for EPB disseminated the ‘liberal view’ in Korean academia (Park, 2018: 86-7). The Third Five Year Development Plan of 1972-76 vindicated the osmosis of stability and balance, ‘the hallmark of the EPB’, which emphasized the prudent management of external debts and balance of payments (Choi, 1987: 10).

However, the technocrats often found themselves on the margin of the government. For example, on 3rd August 1972, President Park issued the Urgent Order for the Stability and Growth of Economy to freeze private loans, which intended to assist insolvent enterprises with burdens of high interest rates and induce capital in the curb market to financial institutions. The EBP did not welcome the deliberate anti-market government action. In an oral history interview, Nam recalls the meeting with IMF, which protested that the measure ‘completely defied the agreement of the fiscal stabilization plan’ of his government.[54]

The evolution of EPB into a self-willing authority with market-oriented assumption collided with President Park’s neo-mercantilist growth model. The shift into the heavy and chemical industries in 1973 implied the effective purge of the EPB from the national economic planning; the board had advocated the import-substitution and labor-intensive industries from the assumption of comparative advantage (Thurbon, 2016: 69-70). In the circle of military juntas, the agency was seen as the ‘conduit for influence’ of ‘American advisers and multilateral institutions’ (Cumings, 2005: 322). Yet, the expertise of technocrats was indispensable to raise foreign capital for the export platform economy. For instance, in the negotiation for the roll-over or renewal of loans, it was imperative for the government to exhibit sound numbers for international banks to judge a sovereign borrower’s creditworthiness. Without the rescheduling, South Korea’s debt-service-ratio would have exceeded 30 per cent throughout the decade (Kim, 1983: 60).

[54] ‘Nam Duk Woo’, Oral History Archives of Contemporary History of Korea, https://mkoha.aks.ac.kr/oralRecord/OralRecordSelect.do?oralRecSeq=154 (accessed on 10 November 2023).

Eurobanks acknowledged the 'remarkable efficiency displayed by the Korean authorities in the administration of their foreign debt and their strict compliance with external obligations', which pre-emptively prevented excessive indebtedness. '[N]o borrowing is allowed until it has been cleared … in respect of margin, fees and maturity schedule' to maintain 'a very tight control over debt maturities'.[55] It was accompanied by the EPB's own crop of economic statistics 'which continue to look astonishingly impressive to Western eyes.'[56] Foreign bankers had experiences of South Korean officials who often had 'a conservative bias [on statistics] as a cushion in the event of unforeseen setbacks.'[57] One added, 'the Korean government has maintained excellent debt statistics throughout the period' (Collins and Park, 1988: 13).

By now, foreign creditors in Seoul bestowed accolades on the technocrats at the EPB. The IMF joined to express 'a very high regard for the level of technocratic ability in the ROK [Republic of Korea].' For example, Nam Duk Woo, the Minister of EPB, had been considered 'one of the four most capable finance experts in Asia.'[58] In his January 1975 article in *Asian Affairs,* an international journal for learned readership, Nam emphasized his government's pledge to curb inflationary pressures with a conservative monetary stance. In particular, he assured that 'wage levels' would have 'only a limited and tolerable effect on price levels' (Nam, 1975: 157). Foreign bankers in Seoul regarded the targeted det-service-ratio of the EBP in the Fourth Five Year Plan for 1976-80, reported by Nam at the 1976 IECOK meeting 'reasonable'; in September, it was known that the MoF's estimates of the country's trade balance and balance of payments deficit were already lower than the original ones.[59] In various informal meetings with international banks, technocrats presented the progress of the Korean economy, policies to control inflation and short-term overseas borrowing, and even their inclination towards the

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[55] 'Republic of Korea' (13 February 1976).

[56] 'Visit to the Far East - JPGW/GAOT-OCT/NOV 1977' (21 Nov 1977), 80/3437, BBGA.

[57] 'South Korea: financial performance: 1976' (22 September 1976), 80/5893, BBGA; 'Outlook for Korea's external debt and debt service' (24 August 1977). For example, '[U]nlike the World Bank, the MOF used to 'include 'all foreign debt in the ['calculation including IMF credits and local-currency loans from foreign-bank branches'. 'Seoul lowers its profile', *Far Eastern Economic Review* (5 November 1982), p. 60.

[58] Untitled document (10 December 1974), F/1/BD/Far/1.6, LBGA.

[59] 'South Korea: financial performance: 1976'.

'liberalisation of banking and financial regulations'[60] Far from the tainted image of President Park, they represented the market-oriented economic policy of South Korea.

A quantitative criterion in the evaluation of South Korea's creditworthiness was its debt-service-ratio; Eurobanks considered it 'so reassuringly quantifiable' standard and 'an indication of the strain that new loans are likely to impose.' Throughout the 1970s, as 'a general rule of thumb, a ratio of 10% is regarded quite healthy by current standards in developing countries; 15% is acceptable; and 20% is a sign of potential danger.' The country's debt-service-ratio in the 1970s exhibited a steady decline from twenty to eleven per cent.[61] The ratio of 13.3 per cent invalidated the 1975 conjecture of Washington. In addition, South Korea's technocrats, at various meetings of international financial institutions, publicly vowed to avoid 'too heavy' debt service burden by 'limiting the rate of contracting of external borrowing.'[62]

South Korea's improving exports since the mid-1970s, against recessional trends in the world economy, assisted the EBP's efforts to strengthening the country's creditworthiness. In 1976, the LDC's export exceeded the MoF's estimate close to US$ 1 billion; with the control of local demand, the deficit in the trade and balance of payments decreased.[63] In the following year, the MoF surpassed the target for foreign currency reserve thanks to the export boom.[64] Furthermore, inflows of petrodollar income from construction contracts in the Middle East looked promising.[65] The government also launched a campaign to encourage domestic savings, which, combined with a tight monetary policy to dampen consumption in the domestic market, aimed to channel funds to export industries of *Chaebols*.

Figure 2. South Korea's total debt service ratio, 1970-83

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[60] 'Mr. G.A.O Thomson's visit to Australia, New Zealand, China, Hong Kong and South Korea' (n.d.), 80/3436, BBGA. Regarding the financial liberalization from the 1980s, see, Park, et al., 2021.

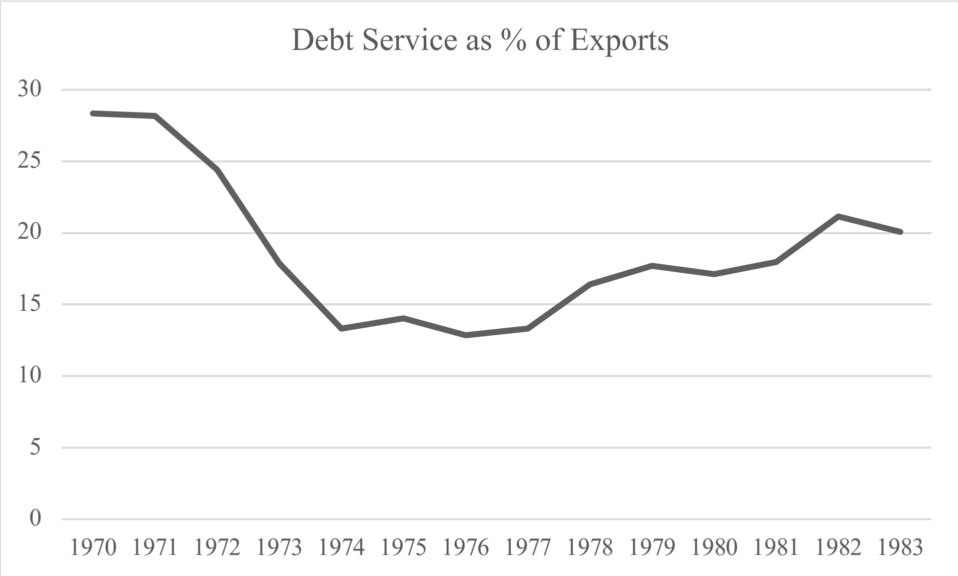
[61] 'Outlook for Korea's external debt and debt service' (24 August 1977).

[62] 'Memorandum' (4 January 1972), T354/326, TNA.

[63] 'South Korea: financial performance: 1976' (22 September 1976).

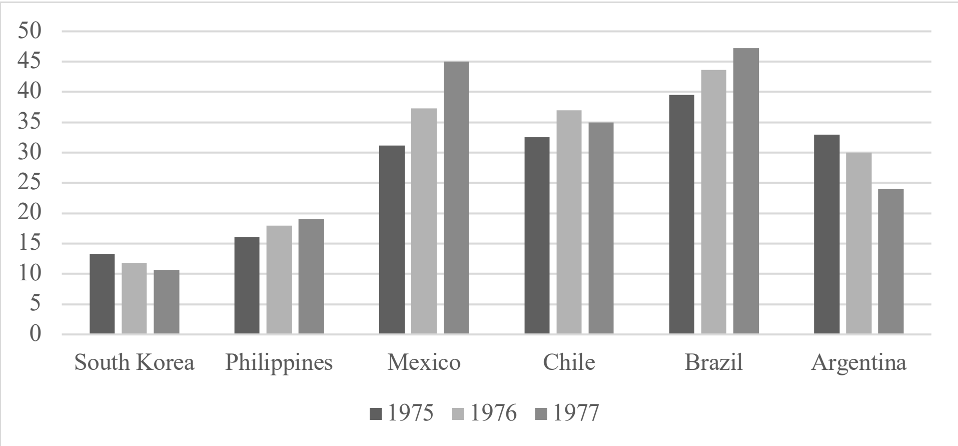
[64] 'Visit to the Far East - JPGW/GAOT-OCT/NOV 1977' (21 Nov 1977).

[65] 'Visit to Korea – Feb. 1977 – JPGW' (n.d.), 1417/1, BBGA.



Source: A. H. Amsden, *Republic of Korea* (Helsinki: World Institute for Development Economics Research, 1987), p. 59.

Figure 3. Debt-service-ratio of selected LDC borrowers, 1975-77



Source: P. Nagy, 'The richer developing country may be the poorer risk', *Euromoney* (October 1978), pp. 144-49, at p. 145.

The renewed credit image rewarded South Korea. In 1976, the government sought to 'capitalize on' favorable economic situation 'by lengthening the maturity of its overall external debt', including new loans, to reduce the debt service costs. It succeeded in securing better terms and conditions of foreign loans with 'a general lowering of interest rates.' For example, Deutschebank AG offered a seven-year US$ 100 million syndicated loan for KEB at an interest rate of 1.75 per cent above LIBOR.[66] In March 1977, at the ninth meeting of IECOK, Nam assured that 'the debt-service ratio will decline

[66] 'Outlook for Korea's external debt and debt service' (24 August 1977).

steadily' thanks to the rise of foreign exchange earnings 'at a pace faster than debt.' He also announced the scheme to increase the outstanding debt with 'a maturity of one year or more' (Nam, 1977).

In 1978, at the *Euromoney Conference* in London, South Korea presented a more aggressive stance. I. Y. Chung, formerly a financial attaché in the London embassy from 1971 to 74, in charge of procurement of foreign capital from the MoF, announced the plan to raise loans of US$2 billion 'totally' from 'private sources' as 'those loans from concessional currencies will be phased out in the foreseeable future.' 'One fact is clear', he added, that the fast-growing economy 'must continue to depend on the syndicated market, particularly in the Eurocredit market.' Then he assured international investors that his government was 'prepared to pay whatever the market requires.' Against the concerns of the possible defaults on external loans by developing countries, he said:

> As far as any loans guaranteed or borrowed by our banks are concerned, we cannot afford a penny's worth of default, past, present or future. Let me put this way. There is an Indian God, Siva, which has one trunk and many heads and arms. The Korean banks are each an arm or a head of the same body, Korea. We cannot afford any default. Korea cannot afford to lose either an arm or a head.[67]

Eurobanks welcomed the courtship; in 1978, as Table 1 shows, South Korea enjoyed significantly improved terms of spread, the cost of borrowing, and maturity.

Given the imperative task to manage external indebtedness, it was increasingly impossible for the military government to dismiss the voices of EPB. In 1979, the country's short-term external debt to supplement its large current account deficit ballooned to US$4,651 million from US$2,593 in the previous year (EPB, 1982: 79). Its net private capital inflow was by far the largest in Asia.[68] It had relied 'heavily on euromarket borrowing' with outstanding debt of relatively expensive and shorter term.[69] When the second oil crisis increased the import bill and put pressure on wages, combined by the high-interest rates of the US and the increased protectionism in abroad, the Park had no other choice but to admit policy recommendations of the EPB to relieve inflationary pressure in the domestic

[67] 'Dilemmas in the Eurocredit market', *Euromoney* (September 1978), pp. 56-113, at pp. 74-5.
[68] *Far Eastern Economic Review* (24 April 1981), p. 86.
[69] 'Country assessment- South Korea' (9 September 1980), 80/4945, BBGA.

economy; his rule hinged on the promise of economic prosperity, which already looked fragile (Sampson, 1981:178). The Economic Stabilization Policy of April, which introduced import liberalization, marked the success of the market-oriented policy package that technocrats had long argued for (Choi, 1987: 12; Park, 2018: 95).

Figure 4. Loan spread of key LDCs

	1976 (average maturity)	1977	1978
South Korea	1.898 (5 1/2)	1.859 (6 1/2)	1.492 (8)
Argentina	n/a	1.737 (4 1/2)	1.943 (7 1/2)
Brazil	1.927 (5 1/2)	1.880 (5 1/2)	1.943 (7 1/2)
Mexico	1.597 (4 1/2)	1.730 (5 1/2)	1.441 (7)
The Philippines	1.747 (5)	1.730 (5 1/2)	1.320 (8)

Source: 'How our new rating system works', *Euromoney* (October 1978), pp. 129-36, at pp. 130-31.

In the year, fifty-nine Eurobanks joined the syndicate for the US$6 billion Euroloan for KDB but charged the narrowest spread of 0.625-0.75 per cent plus LIBOR. The country's ability to repay was intact; Eurobanks estimated the debt-service-ratio between 10-13 per cent in the coming years. In contrast to the shrinking window of capital for LDCs, European-owned dollars found KDB, ultimately the government behind it, a preferred borrower. *Far Eastern Economic Review*, a Hong Kong-based economic weekly, noted that 'the days when the US banks could move and dominate the market are over.'[70] The sovereign borrower also 'learned to play the game of international finance with brilliance.'[71] In October, *Euromoney* ranked South Korea in the eighteenth place in 'the world's first league table of country risk' with a five-star grade; its spread was lower than the major LDC borrowers.[72] The efforts to enhance creditworthiness handsomely paid off to provide the country with wider access to foreign capital.

Technocrats at the commanding heights and the liberalization of South Korean economy, 1979-84

70 'South Korea is doubly popular', *Far Eastern Economic Review* (20 July 1979), p. 60.
71 'The uncontrollable 'stateless money'', *Far Eastern Economic Review* (21 September 1979), p. 43.
72 'The country risk league table', *Euromoney* (October 1979), pp. 130-40.

The assassination of President Park in October 1979 and another coup two months later stirred up political strife of South Korea. Foreign bankers were reluctant to commit new funds but adopted 'a wait-and-see attitude in their lending'.[73] Technocrats' 'rational economic development policies with almost textbook precision' backed such a judgement. Hence the government's turn to the IMF credits in early 1980 was not a sign of crisis, but 'a means of demonstrating the soundness of its economy' to relieve foreign lenders without 'offices in Seoul'.[74] The spread of 0.75 per cent over the LIBOR in the US$ 500 million loan for KEB in March exhibited Eurobanks' view on the country's socio-political traumas. In June, at the 11th IECOK meeting in Paris, South Korean delegates representing the new military government publicly reiterated the pledge to stabilization and liberalization (Park, 2018: 105). A Hong Kong banker saw 'no reason to believe that the country's strong status in international capital market should change in the longer term.'[75]

The new president, as his predecessor did, prioritised economic growth to bolster the legitimacy of his authoritarian rule. Without experience or expertise in the national economy, particularly against rampant inflation, he assigned the economic management to technocrats. In the cabinet reshuffle of September, President Chun delegated substantial discretion to the 'Chicago Boys' of South Korea (Park, 2018: 108). Nam took the office of Prime Minister 'to seek stabilised growth' and 'persuaded Chun to retain Finance Minister Lee Seung Yun', who was in charge of raising foreign loans loans during the second oil crisis. The appointment of Shin Byong Hyon, another technocrat with an American PhD in economics and a former director of the IBRD, as the Deputy Prime Minister demonstrated the monetarist turn.[76] In this period, BBI opined that the country's debt-service-ratio remained 'within the 'manageable limits'' and reported that 'creditor nations agreed that the substantial borrowing [by South Korea] over the next two years should not pose any servicing problems.'[77]

In the Presidential Office, Kim Jae-ik, a PhD in economics from Stanford and an 'unflinching

[73] 'The bankers' view: uncertainty', *Far Eastern Economic Review* (13 June 1980), p. 91.
[74] 'The IMF's guiding hand', *Far Eastern Economic Review* (8 February 1980), p. 74.
[75] 'The bankers' view', p. 91.
[76] 'Chun sets his priorities,' *Far Eastern Economic Review* (12 September 1980), p. 13.
[77] 'Country assessment – South Korea'.

believer in the free market', from the EPB was promoted to the secretary for economic affairs (Thurbon, 2016: 76; Kim, 1991). During his tenure at the EPB, he circulated copies of *The anti-capitalist mentality* by Ludwig von Mises to convince his colleagues of the danger of inflation (Park, 2018: 93-4; Park, 2005: 147). His 'unswerving commitment to free enterprise' along with fluent English and quiet manner garnered him 'the confidence of the foreign banking community in Seoul'. Until his sudden death from the Rangoon bombing of 1983, he was 'the mainstay of the government's policy of economic liberalisation', including 'banking denationalisation and the reform of the financial market.'[78] (Ko and Lee, 2013: 187).

The rise of technocrats as the commanding heights manifested the shift of assumption in the management of national economy. Out of the coalition with the new military government, technocrats aggressively implemented austerity policies assisted by the jawbone policy of military government to suppress the upward demand for price and wage increases by the domestic industry and labour leaders. They referred the lessons of the post-World War I Germany to convince the president of the importance of controlling inflation (Thurbon, 2016: 77). In the course of 1980, as the IMF observed, they prioritized to restore 'price stability and external competitiveness and adjust to 'the deterioration in the terms of trade caused by the oil price increases' and 'pursued stringent financial policies'.[79] The devaluation of won, South Korea's currency, bore 'the marks of IMF thinking on how to restore export competitiveness and bring internal costs in line with external costs.'[80] The success of stabilization measures with 'real growth rates back to "miracle economy"' enabled the EPB to push the liberalization of the financial sector, one of policy packages to be termed the Washington Consensus that the IMF and the US had long argued for (Graham, 2003: 56). Under the policy orientation, the board continued to maintain the liberal policy of prudent external debt management.

In 1980, owing to the domestic political instability and the significant decline of medium- and long-term foreign borrowing, South Korea had to increased short-term borrowing with higher interest

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[78] 'Counting the cost', *Far Eastern Economic Review* (20 October 1983), p. 17.
[79] 'Korea – review of Stand-by Arrangement' (16 July 1981), T439/174, TNA.
[80] 'Seoul swallows its pride and accepts advice and liberalisation', *Far Eastern Economic Review* (22 May 1981), p. 48.

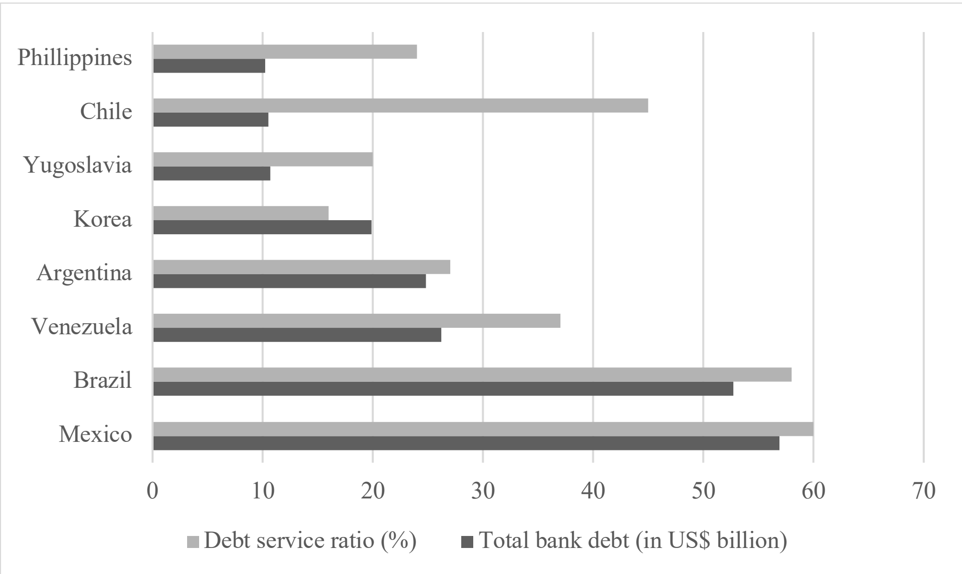
rates. The debt-service-ratio continued 'its rising trend' and reached seventeen per cent. In the following year, against the doldrum of the international capital market, the new military government decided to apply for the Stand-by Arrangement of the IMF for deficit financing. Now, international financial organizations in Washington warmly welcomed the country. An IMF staff supported the Korean request 'because the authorities had undertaken significant adjustment measures and had met the performance requirements.' He also referred the staff paper that 'Korea has had relatively easy access to international capital markets' owing to the improved creditworthiness in private markets.[81] In return, the technocrats decided to accept the conditions for the stand-by credit to limit the 'new external loans with maturities between 1 to 12 years to US$ 6.0 billion; of this amount, new loan contracts with maturities of 1 to 5 years should not exceed US$ 1 billion.' For the implementation, they were determined to introduce 'a structural readjustment program' in heavy industries.[82] The World Bank, meanwhile, approved a structural-adjustment loan totalling US$250 million to assist the government's bid to restructure and liberalise the industry.[83] For example, the government announced 'The auto-industry rationalization measures' in February 1981 to merge domestic automakers based on comparative advantage Chung (2015: 297). Now, liberalization became 'a byword' in Seoul's technocrats, as a foreign correspondent observed, to give 'the private sector more initiative and enlarge the operation of the market mechanism.'[84]

In 1981, amid the growing alarmist concerns about the default of major LDCs, plus the upsurge in the interest rates and oil prices, South Korea was the only one with debt-service-ratio under 20 per cent, as Figure 4 shows. In the annual report, the EPB proudly reported that the ratio was 'quite manageable in comparison with the ratio of other developing economies', despite the mounting foreign debt of US$ 4.9 billion over a year. It added that the ratio would be dropped to '11 per cent by 1986 as a result of increases in Korea's ability to repay her foreign debt' (EPB, 1982: 95, 96). When the export picture was rather bleak, the MoF joined the efforts by 'two strategies for restructuring' to discourage

[81] 'EBM/81/22/2/13/81' (n.d.), ibid.
[82] 'Korea – review of Stand-by Arrangement' (16 July 1981).
[83] 'It's not what you do, it's the way you don't do it' (27 September 1984), pp. 94-95, at p. 94.
[84] 'Changing rules, not heart's', *Far Eastern Economic Review* (22 May 1981), p. 50.

‘higher-priced short-term borrowing in favour of longer-term instruments’ and hitherto neglected means ‘such as the bond and commercial paper’.[85] When Eurobanks exercised ‘greater prudence in their operations’ in commercial lending decisions at the dawn of the international debt crisis of August 1982, it was observed that South Korea was one of the prime borrowers, which ‘can still command fine spreads.’[86] The US Treasury conceded that South Korea’s ‘credit rating remains among highest.’[87] The ‘Korea incorporated’ with ‘well trained and experienced’ technocrats had ‘a great deal going for it.’[88] In Washington, the World Bank referred South Korea ‘an example of adjustment and ability to adapt to a changed international environment.’[89] The government pushed inflation down to one-digit in 1982. The ‘big Tokyo aid package’ of US$ 4 billion in January 1983, therefore, had ‘a largely symbolic value’.[90]

Figure 5. Total bank debt and debt service ratio of major LDC borrowers in 1981



Source: ‘How the cash flow crisis floored the LDCs’, *Euromoney* (August 1982), pp. 23-31, at p. 31.

85 ‘Seoul lowers its profile’, p. 60.

86 ‘Individual country exposure and the international banking system issue’ (13 August 1982), Box 2, Files relating to developing nations finance 1982-1984, RG56, NARA.

87 ‘Korea’ (16 August 1982), Box 2, Files relating to developing nations finance 1982-1984, RG56, NARA.

88 ‘South East Asia / Far East tour report, October – November 1982’ (n.d.), NWB/554/3/31, NWBGA.

89 ‘So far so good for Seoul’, *Far Eastern Economic Review* (24 March 1983), pp. 74-75, at p. 75.

90 ‘Nakasone and Chun meet in Seoul to discuss big Tokyo aid package’, *New York Times* (12 January 1983).

In January 1983, the EPB announced a plan to reduce foreign loans based on the assumption of comparative advantage in calibrating economic growth. It was determined to introduce a more rigid assessment of investments for capital-intensive enterprises based on the 'economic feasibility' and induced investment into sections of 'high productivity', a clear sign against the over-investment by the *chaebols* with heavy external debt.[91] The EPB further argued for the elimination car industry, on 'comparative disadvantage', a key business of Hyundai (Thurbon, 2016: 78; KDI, 1980). A KDI report on the debt problems of developing countries celebrated South Korea's 'various policy initiatives being undertaken to intelligently and skillfully manage Korea's external debt' (Kim, 1984:2).[92]

In December 1983, officials of the IBRD discussed the potential lending to South Korea in the coming years with Japanese and American bankers. In contrast to the recent difficulties in Latin America and the Philippines, most Japanese bankers in Tokyo 'held out the prospect of modest upward adjustments in the [lending] ceilings' to South Korea owing to the high standard of economic management and the impressive growth and export performance in 1983. Despite the relatively lower risk rating than advanced countries, the developing country was 'not seriously handicapped in its ability to borrow on the Japanese market', they concluded. Americans concurred; they expressed 'a highly positive attitude' to the military government with minor concerns about its debt structure.[93] KEB's syndicated loan of US$650 million in the year, with favorable terms in comparison with a similar loan, confirmed '[M]arket confidence in South Korea'.[94]

At the Thirteenth meeting of IECOK in Seoul, on 16 July 1984, Deputy Prime Minister Shin reported 'the surpassing the original estimates' of the government's Fifth Five-Year Economic Development Plan, including inflation and current account deficit. It also announced the plan for increased national savings, the minimum growth of foreign debt, and the reduction of international

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[91] 'Report of EPB's key tasks for 1983' (January 1983), BA0852170, NAK.

[92] The Rangoon Bombing incident in October 1983, the failed attempted by North Korean terrorists to assassinate President Chun, took lives of key technocrats, including Kim Jae-ik. In the reshuffling of the cabinet, new appointees vowed to carry on a policy of economic stabilisation. They were either close to Kim Jae-ik or protégé of Nam Duk Woo. 'After the massacre', pp. 14-15 *Far Eastern Economic Review* (20 October 1983), p. 14.

[93] 'Back-to-office report: discussions with Japanese and American bankers regarding future lending to Korea' (27 December 1983), 1159376, World Bank Group Archives (hereafter WBGA).

[94] 'External debt monitoring' (17 May 1984), T534/49, TNA.

payments deficit. The World Bank added that the debt-service-ratio, including interest on short-term debt, would decline to 17.4 per cent by 1986. A technocrat proudly explained the implementation of liberalization policies, against 'much resistance' from Korean businessmen 'who are reluctant to do business in accordance with the rules of free competition.' After the presentation, the World Bank and the IMF 'fully' endorsed 'the government's strategy and future objectives' and foreign delegates welcomed the liberalization regimes to agree that 'Korea deserved the continuing support of capital.' One observed that the country 'moved ahead to the stage when its own savings could finance the bulk of investment', in addition to 'diverse sources of external finance' to strengthen its debt profile. Celebrating such an evolution, members of the Group unequivocally agreed the proposal of the Korean government 'that the 13th meeting of the Group should be last.'[95]

With the neoliberal policy of EPB, President Chun eschewed the financial trouble out of external debt; as much as his predecessor did, his legitimacy depended on economic growth to quell popular discontent. At the same time, the agency relied on the authoritarian rule for the stability of price, wages, and external debt management. As an international banker had already observed in 1974, 'the availability of relatively cheap and skilled labour' had been 'the basis of Republic of Korea's economic development'[96] The wage level was 'exceptionally low by international standards' to provide 'continuing scope for trade success' and the work hours had been much longer. Yet, 'labor unrest and union activity' had not been 'major issues in Korea', which was attributable to the military government's strong control over the labor. There was 'little room for organized labor and even less for union militancy' (Dornbusch and Park, 1987: 398, 399). The labor policy, therefore, strengthened the export drive to earn foreign currency and maintain the low level of debt-service-ratio. In this way, a virtuous circle of the authoritarian regime and liberal creed, at the expense of labor and human rights, underpinned South Korea's economic growth, despite its high level of indebtedness. The community of multilateral economic agencies remained silent on the authoritarian rule of the country; the World bank did not respond to the request from the Amnesty International, an international non-governmental

[95] 'World Bank Consultative Group for Korea' (30 July 1984), FCO21/2888, TNA.
[96] Untitled document (20 November 1974), F/1/BD/Far/1.6, LBGA.

organization for human rights, to consider the abuses on political prisoners and 'make use of the ethical opportunities'. It wished that the international organization could leverage the economic assistance to South Korea 'in securing human rights that cannot be ignored.'[97] As one commented, 'South Korea had borrowed the West's money and technology', not a democracy (Sampson, 1981: 179). Under the symbiosis, economic prosperity and political freedom were not yet compatible.

Conclusion

In the path towards post-war economic growth, South Korea heavily relied upon foreign capital. Increased tensions with key allies over the trajectory of HCI in the 1970s drove the military government to enter the Eurocurrency market. While it saw benefits of Euro-capital, the sovereign borrower with a tainted image of war and poverty was crowded out in the competition. Only did its plunge into the new world of finance come in 1974 by exploiting the globalization of finance – the expansion of the Eurocurrency business into the Global South. It was a valuable source of liquid capital without the political intervention of the US and conditionality of international financial organizations. In the absence of any authority, however, the availability of Euro-capital hinged upon the creditworthiness of a sovereign borrower. The low debt-service-ratio, which Eurobanks highly appreciated, enabled South Korea to increase its indebtedness for the pursuit of economic development.

The case of South Korea unveils the political economy of indebtedness. The inevitable dependence on foreign capital for export-led industrialization empowered technocrats at the EPB, which ushered the neoclassical assumptions in the country's economic planning. Despite the resistance of the mercantilist assumption of military juntas and *chaebols* against the stability and balance-oriented-growth model, the price stability and prudent management of external debt to appease Eurobanks was inescapable. The Price Stabilization of 1979 and the promotion of technocrats in the new military government consolidated the EPB as the commanding heights. The orderly implementation of market-oriented policies rewarded the country with continued access to external capital at both international

[97] 'Human rights in the Republic of Korea and the World Bank's role' (12 May 1981), 1159376, WBGA.

financial organizations and the Eurocurrency market to weather the turbulent moments of international debt crisis. Without a shock, South Korea was in the transition towards the neoliberal order.

As commanding heights, technocrats resorted to authoritarian rule to uphold the international commitment to creditworthiness. Repression of wages and prices was vital in the export platform of South Korea to curb inflationary pressure and maintain the low debt-service-ratio. As a contemporary critic observed, the 'spectacular economic progress' was a pro quid quo for 'the grudging acceptance' of the authoritarian rule of the military governments (McCormack, 1978: 264). As in cases of Latin America and China after the market reform, the economic growth and the authoritarian regime, not democracy, entered a virtuous circle (e.g., O'Donnell, 1973, 1988; Weber, 2021; Im, 1987).

Yet, South Korea showcases how indebtedness wielded authority in the shift of economic policy. The dependence on foreign capital bolstered the standing of technocrats at EPB with the expertise of the world of finance in the military government. As a conduit for market-oriented assumption in the planning of the national economy, they took a substantial role in making South Korea's economic miracle. The miracle of the Han River was neither insular nor solely achieved by the military government; it was a byproduct of interactions of national governments, international organizations, and international banks. It was also a case for an authoritarian regime pushed through measures of liberalization (Biebricher, 2105: 255). Before the shock from the Asian Financial Crisis of 1997, therefore, neoliberal ideas had already been rooted in the policy-making process. The case of South Korea as a virtuous sovereign borrower, therefore, sheds light on the role of Eurobanks in the economic development of a developing country and how the indebtedness underpinned the developmental state – the symbiosis of liberal creed and the authoritarian regime.

(9,983 words)

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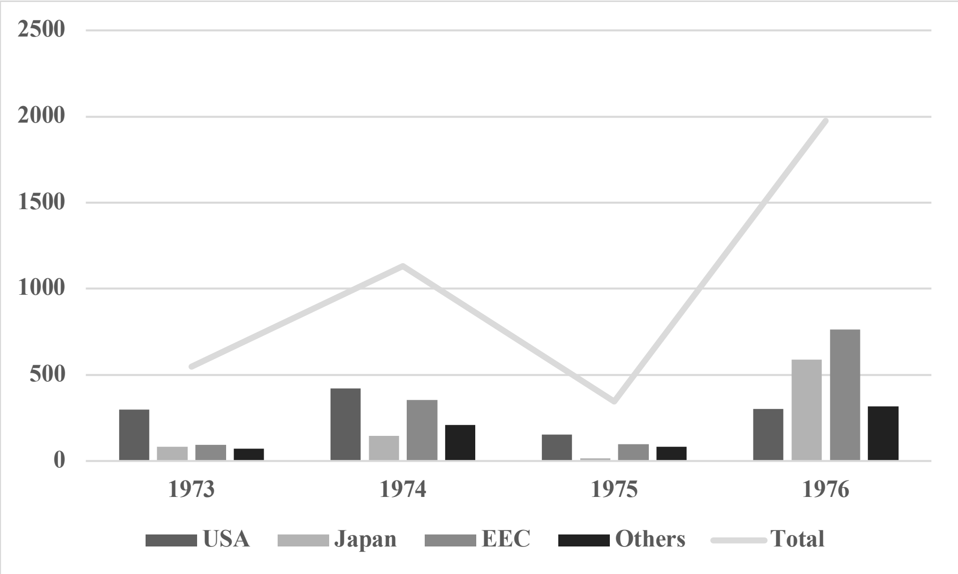
Figures

Figure 1. Long-term foreign commercial loans by country (in US$ million)



	1973	1974	1975	1976
USA	299	420.8	152	304
Japan	82.2	145.9	152	304
EEC	93.6	354.9	97.5	764.3
Others	71	208.5	81.5	316.7
Total	545.8	1130.1	345.3	1974.9

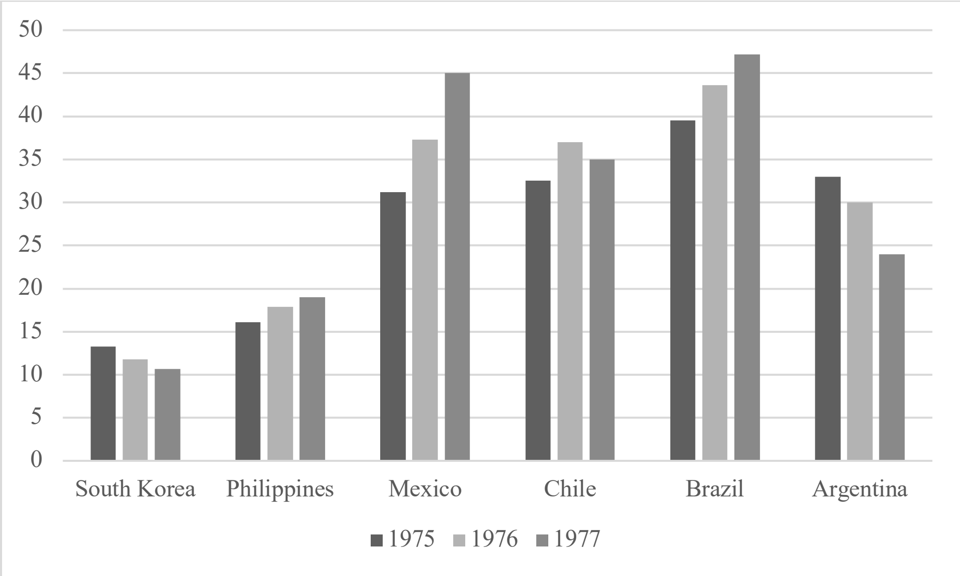
Source: Outlook for Korea's external debt and debt service (24 August 1977), Box 460, Council of Economic Advisors, Jimmy Carter Presidential Library.

Figure 2. South Korea's total debt service ratio, 1970-83

Year	Total Foreign Debt	Debt Service as % of Exports
1970	2,245	28.34
1971	2,922	28.16
1972	3,589	24.4
1973	4,260	17.87
1974	5,937	13.33
1975	8,456	14.01
1976	10,533	12.85
1977	12,648	13.33
1978	14,871	16.38
1979	20,500	17.68
1980	27,365	17.13
1981	32,490	17.98
1982	37,295	21.15
1983	40,094	20.07

Source: A. H. Amsden, *Republic of Korea* (Helsinki: World Institute for Development Economics Research, 1987), p. 59.

Figure 3. Debt-service-ratio of selected LDC borrowers, 1975-77



	1975	1976	1977
South Korea	13.3	11.8	10.7
Philippines	16.1	17.9	19
Mexico	31.2	37.3	45
Chile	32.5	37	35
Brazil	39.5	43.6	47.2
Argentina	33	30	24

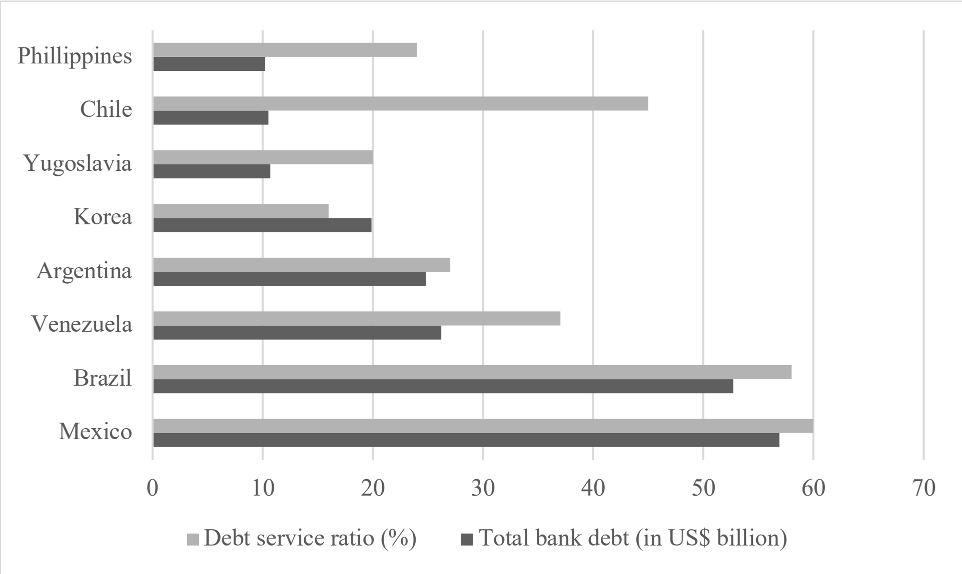
Source: P. Nagy, 'The richer developing country may be the poorer risk', *Euromoney* (October 1978), pp. 144-49, at p. 145.

Figure 4. Loan spread of key LDCs

	1976 (average maturity)	1977	1978
South Korea	1.898 (5 1/2)	1.859 (6 1/2)	1.492 (8)
Argentina	n/a	1.737 (4 1/2)	1.943 (7 1/2)
Brazil	1.927 (5 1/2)	1.880 (5 1/2)	1.943 (7 1/2)
Mexico	1.597 (4 1/2)	1.730 (5 1/2)	1.441 (7)
The Philippines	1.747 (5)	1.730 (5 1/2)	1.320 (8)

Source: 'How our new rating system works', *Euromoney* (October 1978), pp. 129-36, at pp. 130-31.

Figure 5. Total bank debt and debt service ratio of major LDC borrowers in 1981



	Total bank debt (in US$ billion)	Debt service ratio (%)
Mexico	56.9	60
Brazil	52.7	58
Venezuela	26.2	37
Argentina	24.8	27
Korea	19.9	16
Yugoslavia	10.7	20
Chile	10.5	45
Philippines	10.2	24

Source: ‘How the cash flow crisis floored the LDCs’, *Euromoney* (August 1982), pp. 23-31, at p. 31.