AIRGRAM

DEPARTMENT OF STATE

4890606 (2)
PD-AAD-434-B1

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DATE REC'D. 55 W

TO - AID/W TOAID A- 1238 X

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DISTRIBUTION
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FROM - Seoul

SUBJECT - Industrial Development (PROP)

15p.

REFERENCE -

Attached is a non-capital project paper (PROP) covering Project 490-15-230-606 Industrial Development.

PORTER

OTHER AGENCY

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AID 5-28 (9-62)

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PRINTED 6-64

NONCAPITAL PROJECT PAPER (PROP)

Country: Korea Project No.: 489-15-230-606

Submission Date: Original: X Revision No.___

Project Title: Industrial Development

U.S. Obligation Span: FY 1964 through FY 1971

Physical Implementation Span: FY 1964 through FY 1972

Gross life-of-project financial requirements:

U.S. Dollars $3,015,000

Cooperating Country Cash Contribution ₩41,729,000

A. Summary Description

Korea's continued economic growth depends greatly upon the nation's further success in fostering industrial development. So far, Korea's private and public sectors have made great strides in this area, and have built a firm foundation for additional industrial growth and economic progress. However, problems still exist, especially concerning industrial management, marketing, export promotion, and quality control.

The U.S. has been assisting Korea in its efforts to develop more fully the important industrial sector of the economy by the provision of various capital loans and technical assistance projects. Under this particular project AID has supplied technical advice, training, and commodities to help the nation in its industrial development program. So far, much of this assistance has been supplied in the form of advice to the Republic of Korea Government (ROKG) regarding its industrial policies. More recently, however, most of the assistance provided under this project has been directed towards the private sector to help small and medium industries to increase production and productivity. By working with privately oriented business organization such as the Korean Productivity Center (KPC), the U.S. seeks to help institutionalize and make more viable the modern business practices already introduced and those to be introduced during the remaining life of the project. KPC

The objectives of this project continue to be:

a) to help the ROKG establish appropriate policies to further industrial development;

b) to help foster the growth of small and medium private industries by working closely with KPC and other private groups;

c) to introduce modern methods of business management and industrial operations; and

d) to help set up the techniques and create the preconditions necessary for the improvement of the quality of Korean goods so as to make them more competitive with foreign goods and thereby help promote exports.

To meet these project objectives, it is proposed that the U.S. continue to finance under this project direct-hire and contract advisory services as well as participant training. A summary of the overall financing for this project is attached hereto.

NON-CAPITAL PROJECT FUNDING (Obligations in $000)

Project Title: Industrial Development

PROP Date:

Original: X
Revision:

Project No.: 489-15-230-606

Fiscal Years	Technicians Direct-Hire	Technicians Contract	Commodities	Participants	Total
Prior thru FY 1969	780	1,092	218	499	2,598
Operational FY 1970	36	183	-	52	270
Budget FY 1971	40	40	-	67	147
TOTAL:	864	1,315	218	618	3,015

LOCAL CURRENCY FUNDING
(₩ 000)

Year	Amount
Prior thru CY 1969	₩20,862
CY 1970	11,967
CY 1971	8,900
	₩41,729

B. Setting/Environment

Industrial development in the Republic of Korea (ROK) is a relatively recent phenomenon. During the long years of Japanese occupation (1908-1945), the southern part of Korea had very few industries, with only a few medium-sized plants in operation. Management positions were staffed by the Japanese, and limited if any significant opportunities existed for Koreans to gain industrial management experience. Even after World War II, when Korean businessmen began to fill the vacuum created by the Japanese exodus, there was only a slow growth in industry and little awareness of the need for sound industrial management methods. Korean industry's primary need at that time was simply to produce more goods for a product-starved domestic market, and not to be greatly concerned about the quality of industrial production or about the effects of competition within the Korean economy or with foreign goods.

As part of the nation's later economic development efforts, the ROKG has identified the singular importance of increased industrial growth. However, with the advent of rapid industrialization in the early 1960's, the ROKG and private businessmen began to realize that Korean industry was faced with a number of serious handicaps, not the least of which is the lack of technical and managerial skills. There is a tendency among many observers, domestic and foreign, to believe that in view of the physical evidence of industrial progress - new plants, new office buildings, etc. - and because industrial production and exports have sharply risen, Korean industry has solved the deeply ingrained problems that have hampered its development for the last twenty years. With the exception of a few outstanding companies, however, modern management methods are still unknown to Korean industry. The result is a random production of relatively low quality, high-cost products which do not adequately meet the growing demands of a maturing domestic market and which retard Korean efforts to participate in the rapidly expanding international Asian market.

Within the context of Korea's development program, it has become increasingly evident that a prerequisite for the nation's continued industrial development and economic progress is an increase in the practical operating and management skills and the basic tools of day-to-day operations, without which no manufacturing unit can hope to survive in a competitive economy. These capabilities are inseparably identified with any effort to develop Korea's overall economy, to spur the growth of the small and medium private industries, and to achieve international acceptance of Korean-made products. This last consideration is becoming more

Purpose

important because Korea vitally needs to increase its exports and reduce the flow of imports, but, in so doing, can no longer count on the relative advantage afforded by cheap labor in making Korean goods ~~xxxxxxxxxxxx~~ less expensive and thus more attractive.

In recent years the Korean Government has made great efforts in sponsoring increased industrial development. Unfortunately, while its intent has been good, the ROKG assistance to industry often takes the form of over-zealous controls and more government-owned and operated industries. Because capital, credit, and management ability are scarce, the ROKG has had to provide much of the domestic capital and overall supervision. This large government role has led to an excessive ROKG influence in the industrial sector, beyond that normally required in a developing economy, and has, to a certain extent, actually stifled the growth of the important private segment of industry.

Korea's small and medium industry also needs help to adopt up-to-date management practices. Most of Korean industry does not need formalized time-and-motion studies or the more sophisticated management tools, such as operations research, statistical quality control, etc. Many, however, could use techniques such as operational analyses, cost control, more efficient materials handling, quality control, management training, plant engineering, purchasing, product development, and customer service, which are fundamental to the development of competive industries. In addition, technicians are needed in the field of ceramics, steel making, [illegible] machine shop operations, foundry methods, metal fabrication, chemical processing, wire drawing and a host of other technologies. In short, Korean industry requires basic technological and management know-how, rather than sophisticated techniques.

In view of the above-described need and environment, this AID project was initiated in Fiscal Year 1964 in response to a ROKG request to assist Korea's industrial sector. This continuing Industrial Development Project was set up to help develop a healthy industrial economy in Korea, and thereby help increase the country's exports. In past years, this U.S. assistance to industry channeled specialized industrial or technical knowledge effectively to the ROKG and to Korean industry, and helped to remove some of the barriers to efficient operating methods, such as static management, poor workmanship, and non-utilized capacity. In addition to the above, some of the particular fields receiving assistance under this project have included the following: a) a quality control engineer has ~~work~~ worked closely

with the National Industrial Research Institute (NIRI) to up-grade its performance and testing procedures, to especially as related to export goods; b) a small industry advisor has helped expand employment and markets by developing angora silk products; c) a four man marketing team from the International Marketing Institute (IMI) has helped improve the ROKG and the private sector's capabilities in agricultural, industrial, and export marketing; and d) equipment and technical assistance have been provided to the Provincial Laboratories at Taegu and Pusan making them modern and efficient facilities for more proficient quality control work.

Under this project U.S. direct hire and contract technicians have also responded to industry requests for assistance by visiting plants in Seoul and in provincial areas along with Korea Productivity Center (KPC) consultants and engineers to provide advice and guidance to industry management in solving its operating problems in the fields of marketing management, cost control and industrial engineering. The results of this aspect of the project are evident in the fact that KPC is now a more highly qualified organization with an improved reputation among private entrepreneurs. It is developing into a self-sustaining, financially independent organization with 72 percent of its income in 1968, over $380,000, being derived from supplying a range of technical services to private industry. Korean industrialists are recognizing that KPC can assist them in improving their operations and have demonstrated that they are willing to pay for these services. These services include, in addition to management and operations consultation, the sale of technical publications, conducting seminars, training, and research. KPC

With USAID assistance KPC is now reorganizing its management consultant activities into four specialized divisions of personnel and industrial management, managerial accounting and cost control, industrial engineering, and marketing in order to strengthen its efforts in these areas and to implement its expanding program. It has recently increased its staff to approximately 110 professionals, 85 in Seoul and about five in each provincial office. Because of the proven success of KPC's work and its effective working relationship with USAID technicians, the ROKG and KPC have asked for continuing AID technical assistance to KPC in these areas.

Another facet of this project has been the AID-KPC sponsored participant training program which involves sending to the U.S. highly selective teams of top management people from industry, universities, banks and government. This activity enables leaders of Korean business and industry to witness and discuss U.S. business methods and operations with their U.S. counterparts. These impact teams have returned from their observation tours in the U.S. with fresh perspectives and ideas regarding industrial development and improved management practices in business in Korea. This project has also financed the provision of books, business journals, and industrial publications for the KPC library.

While it is difficult to show precisely the overall economic results so far of such a broad technical assistance program, one can gain some idea of the project's impact from the economic statistics which indicate the rapid growth in industrial production. There is no doubt that improved industrial management techniques, directly resulting from and stimulated by this project, have played a significant role in augmenting the steady annual industrial production growth outlined in the following economic statistics:

Calendar Year	Total Industrial Production Growth Index	Manufacturing Growth Index	Crude Steel Production 1,000 MT	Exports ($1 Million)
1965	100.0	100.0	184.5	175.1
1966	122.3	124.4	224.3	250.4
1967	155.7	161.3	301.1	320.2
1968	202.5	217.0	371.5	455.4

Source: Columns 1, 2 and 3 - Korea Development Bank
Column 4 - Ministry of Finance

C. Startegy

The U.S. strategy is to assist the development of the Korean economy by fostering the growth of industry and an increase in exports. The U.S. concentrates much of its efforts in the industrial sector because this has been so far the key to Korea's overall economic development. As such, this project is closely coordinated with other U.S. supported projects or activities assisting the industrial sector, including the Korea Institute of Science and Technology, Private Investment Promotion, Economic Planning, and some Development Loans. AID's Development Loans have been especially helpful in this regard by providing the services of U.S. engineering or other industrial firms in order to introduce improved industrial management concepts and techniques into the operations of Korean industries. Together these assistance activities constitute a major portion of the ROKG and U.S. program for the industrialization of the nation's economy.

Another important element in the U.S. approach is to encourage private industry to develop and make a major contribution to Korea's economic development and trade expansion. The U.S. seeks to promote small and medium industries, to spread the benefits of Korea's economic growth, and to counter the pervasive effect of government control of the Korean industry. By shifting emphasis to the private sector, Korea will be able to benefit from more of the long-range social and political developments that can accompany economic development. At the same time, an economy not controlled by the government is more attractive to private foreign investment, including U.S. investment. This concern becomes more important as the U.S. Government assistance program is reduced.

Still another part of the U.S. strategy assisted in part by this project is to help introduce modern business ideas and practices in the industrial sector. Since Korea has already received substantial capital assistance and training, it is now important that Koreans develop further the necessary ability to properly utilize these other newly acquired resources by improved management techniques. In addition, as Korea enters the modern business era, it must have up-to-date skills and concepts in order to cope successfully with new and complex problems of business and industry.

Korea's success in meeting its export goals, which is so vital to its economic development, could well hinge upon better management and industrial engineering; for without the ability to produce quality merchandise at competitive prices, Korea cannot hope to sustain a substantial volume of exports. The U.S. strategy in this project is to provide the necessary advisory assistance to Korea's industrial management in order to bolster the nation's overall efforts in the important field of export promotion by improving the quality of Korean goods vis-a-vis foreign goods.

Other assistance to Korean industry has also been effective in promoting a substantially improved industrial technology and management. The International Executive Service Corps (IESC), the U.N. Organizations, and third country donors have all enabled selected areas of Korean industry to achieve technical advances that would otherwise have been considerably delayed. IESC

It is, nevertheless, obvious that changes in the operating methods within the industrial sector are intrinsically a slow process, regardless of the method or amount of technical assistance input. Management attitudes require time for modification. Korea is not yet productivity-minded. But, progress has been made, for certainly there is a new receptivity, a willingness to listen, a desire to do something, and in some cases, company managements have already made remarkable progress in quality and cost control. It is this combination of receptivity and demonstrated accomplishments (modest though it may be) which continues to help formulate U.S. strategy in assisting Korea's industrial development.

D. Planned Targets, Results and Output

This project is designed to help Korea improve industrial productivity on a national scale and to increase industrial and manufacturing production, especially in the export area. To achieve the objectives of this project, it is planned that the following targets be met:

a) Finalize efforts in helping the Ministry of Commerce and Industry (MCI) to formulate policies and procedures designed to promote Korea's industrial development and to continue the favorable economic trends cited above in Section B (by end of FY 1971); MCI

b) Assist the MCI implement the IMI recommendations to establish a Korean Market Development Center (by end of FY 1970);

c) Help MCI draft and implement a Five-Year Plan to modernize the Korean marketing and distribution channels including the establishment of chain store distribution channels and supermarkets (by end of FY 1971);

d) Advise KPC about ways to continue increasing the proportion and amount of its income earned from its consulting services to private industry, and to further improve the quality of this consulting service; (by end of FY 1971); Korean Productivity Center

e) Assist the private steel companies to maintain their current growth patterns both in crude tonnage poured as well as tonnage rolled in Korea (by end of FY 1971); and

f) Initiate a combined effort of the Federation of Korean Industry, Korean Chamber of Commerce, and the Korean Productivity Center to establish an "on-going" program to retain and continue the industrial technical assistance flow between U.S. and Korean industries especially after this AID project is completed (by end of FY 1971).

E. Course of Action

It is proposed that AID continue to finance U.S. direct-hire and contract technical services as well as participant training for the aforementioned purposes throughout the remaining life of this project. Specifically, one direct-hire industry advisor will continue to supervise the overall planning and implementation of this project and advise the ROKG ministries and private business sector on industrial development. In addition, it is proposed that this project finance the two-year contract services of four specialists in industrial development to work closely with the recently reorganized divisions of KPC related to each technician's specialty. An industrial engineer (FY 1969 funding) will advise on such matters as quality control, production planning, plant layout and construction, and plant engineering; a cost control specialist (FY 1969 and FY 1970

funding) will assist in managerial accounting, cost control, cost analysis, and financial management; a marketing expert (FY 1970 funding) will advise on sales promotion, market research, distribution analysis, and sales manpower development; and a management expert (FY 1970 funding) will assist in personnel management, wage and salary administration, industrial relations, management development, and office management and organization. Two other short-term (four months) consultants will also be financed (from FY 1970 and 1971 funding) to advise on various areas of industrial development, such as long term corporate planning and the financial aspects of industrial development.

Under this project the arrangement involving KPC will be more of a Korean-operated activity, except for general USAID supervision and U.S. financing of four contract advisors. The KPC will actually recruit the advisors, locate housing, and handle the day-to-day operations of these advisory activities. This innovative arrangement is intended to help KPC enhance its ability to operate with greater dependence on its own resources, in anticipation of the time when the AID project in industrial development will have been terminated.

USAID also proposes that this project continue to finance two observation tours per fiscal year (1970 and 1971) for top management teams (ten men each) to enable Korean business and industrial leaders to see first hand and learn from U.S. business practices, especially those that are applicable to Korea. In addition, training is planned for (13) participants in FY 1970 and sixteen (16) in FY 1971 in such fields as industrial standards and testing, management consulting, marketing research, chain store marketing, machinery practices, and testing and standards procedures.

Because the project for Improvement of Transportation Capabilities (486-11-330-600) terminated at the end of FY 1969, the remaining costs for needed participant training not funded under the Air Navigation Development Loan will be financed under this Industrial Development Project. This training will consist of two participants in FY 1970 and three participants in FY 1971 in such fields as radar air traffic control, flight inspections, and radar technology.

Upon the termination of the Industrial Development Project, it is anticipated that the Korean industrial sector will have achieved a minimum level of proficiency in industrial development, as evidenced by the successful achievement of the aforementioned targets and objectives. The follow-up and residual USAID advisory assistance required in FY 1972, or after the termination of this project in FY 1971, will be handled by the industrial development advisor who will then be funded under Technical Support.

PORTER

Proj. 4890606
PN-00.50

PROJECT AUTHORIZATION

1. PROJECT NUMBER	3. COUNTRY	4.
489-15-[illegible]-625	Korea	

2. PROJECT TITLE		5. AUTHORIZATION DATE
Industrial Development	A.I.D. Reference Center Room 1656 NS	4/30/70
		6. PROP DATED 12/2/69

7. LIFE OF PROJECT

a. Number of Years of Funding: 7
Starting FY 1964 Terminal FY 1971

b. Estimated Duration of Physical Work After Last Year of Funding (in Months): 12

8. FUNDING BY FISCAL YEAR (in U.S. $ or $ equivalent)	DOLLARS		P.L. 480	LOCAL CURRENCY Exchange Rate: $1 = 1284			
				U.S. OWNED		HOST COUNTRY	
	GRANT	LOAN	CCC + FREIGHT	GRANT	LOAN	JOINTLY PROGRAMMED	OTHER Trust Fund
Prior through Actual FY 69	4,547						89
Operational FY 70	270						51
Budget FY 71	147						54
B + 1 FY 72							23
B + 2 FY							
B + 3 FY							
All Subsequent FY's							
TOTAL	4,964						217

9. DESCRIBE SPECIAL FUNDING CONDITIONS OR RECOMMENDATIONS FOR IMPLEMENTATION, AND LIST KINDS AND QUANTITIES OF ANY P.L. 480 COMMODITIES

10. CONDITIONS OF APPROVAL OF PROJECT

(Use continuation sheet if necessary)

11. Approved in substance for the life of the project as described in the PROP, subject to the conditions cited in Block 10 above, and the availability of funds. Detailed planning with cooperating country and drafting of implementation documents is authorized.

This authorization is contingent upon timely completion of the self-help and other conditions listed in the PROP or attached thereto.

This authorization will be reviewed at such time as the objectives, scope and nature of the project and/or the magnitudes and scheduling of any inputs or outputs deviate so significantly from the project as originally authorized as to warrant submission of a new or revised PROP.

A.I.D. APPROVAL	CLEARANCES	DATE
[signature] SIGNATURE	EA/NEAP, CFShook	12/29/69
	EA/NEAP, CSBell	1/3/70
EA/DP TITLE — 4/30/70 DATE	EA/CDF, N.Zirinsky	1/15/70
	A/CONT	