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PAGE 1 OF 10
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In accordance with USOM Order 820-3, the attached report was prepared, and the following comments are made:

The incumbent has made a comprehensive and accurate report of his activities and duties during his last tour with USOM.

Action on Recommendations

USOM concurs in the three recommendations made by the incumbent and is already working toward the goals mentioned. Particularly recommendation (c) is considered to be most important if Korea is to move ahead toward self sufficiency.

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END-OF-TOUR REPORT

Eugene F. Sullivan - FSR-4
A/Deputy Chief Industry Branch, Industry & Mining Division
USOM/KOREA

1. General Objectives and Specific Goals**A. The general objectives were:**

a. to assist and advise the Industry Officer and ROKG counterparts regarding overall improvement and direction of industry programming, planning, reporting and implementation of AID funded industrial activities;

b. to apply modern, sound engineering principles, practices and processes where required in assisting AID funded industry projects to expand output, control product quality and marketability, and thereby contribute to improvement of the ROKG balance of payments position.

B. The specific goals were:

a. to assist the Industry Officer and ROKG counterparts in stimulating and accelerating sound ROK industrial development by screening, analyzing and evaluating proposed DLF and private industrial project applications with respect to each project's technical and economic feasibility, profitability and essentiality within the overall framework of planned ROKG economic growth and development;

b. to achieve expansion and, in some instances, self-sufficiency in the production of basic chemicals, cement, newsprint, bond paper, paint, plastics and related products by providing technical and economic advisory assistance to ROKG counterparts and certain Korean factory owners and entrepreneurs.

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2

2. Activities

Upon my return from home leave, I immediately assumed the duties of Chief of the Industrial Facilities Branch which included 15 American and Korean technicians. In addition, I retained project engineer responsibility for approximately 40 medium and small industry projects for which approximately US\$15 million was being supplied by AID (ICA). After one year, I was appointed as Acting Deputy Industry Officer and have retained the duties of this position throughout the balance of my present extended tour. These duties may be summarized as follows:

a. Assist and advise the Industry Officer regarding the preparation, selection and evaluation of all proposed ROK industrial development program activities including new project appraisal, ROKG budget requirements, local currency utilization, participant trainee selection as well as overall annual industrial raw material and equipment requirements.

b. Direct project supervision of 30 AID projects in the fields of basic chemicals, chemical intermediates, cement, paint, plastics, paper and related fields including preparation of E-1's, PIO's, progress and completion reports and specific industry situation studies.

c. Appraise the technical and economic aspects regarding proposed AID and DLF financed industrial plants to determine whether they are sound from an engineering standpoint, including process, equipment, size, internal balance, availability of all necessary physical operating requirements, location and design.

d. Provide consultative engineering and marketing advice to local manufacturing firms to achieve an overall increase in quality and quantity of their end-products, particularly those being produced for export or sale to the U.S. and ROK Army.

e. Assist the Industry Officer in planning, programming, organizing, coordinating, administering, and evaluating the work performance of 26 American and Korean industrial engineers and technicians, including field inspections, project progress, engineering, and feasibility reports.

3. Favorable and Unfavorable Factors

A. Favorable Factors

1) One of the most noteworthy factors is Korea's sizeable reservoir of manpower available for substantial industrial expansion. Thousands of skilled and unskilled industrial workers who fled to the south before, during and immediately after the Korean War, together with those who learned valuable skills while in the military service and others who have received either on-the-job training or U.S. financed training abroad, collectively represent a suitable base for launching the current 5 Year Plan of industrial development.

2) Korean skilled technicians, particularly, in the chemical, cement, paper and related plants have demonstrated considerable ingenuity, resourcefulness and competence, and possess an excellent aptitude for learning, as well as a keen desire to enlarge their technical knowledge. The mechanical ingenuity demonstrated by several Korean skilled technicians and engineers particularly in improvising or modifying old, nearly obsolescent equipment and machinery is an

asset which can be further exploited with sound engineering advice to stimulate further initiative for steady industrial growth.

3) The new military government has demonstrated a vigorous and dynamic policy of maximizing more efficient utilization of U.S. assistance. In the past few months, this has become refreshingly apparent in the attitude of cooperation and willingness of the new junta government to expand and improve commercial credit facilities, to streamline foreign exchange and customs clearance controls and procedures, to simplify and codify import-export controls and revise protective tariff regulations.

B. Unfavorable Factors

1. Lack of a favorable investment climate has discouraged the influx of foreign capital and has forced many potential local investors either to risk their surplus capital in commodity speculation or "curb market" usury, or to conceal it completely to avoid being classed as an illegal profiteer. The latter has been particularly evident in the local cement industry sector where the owners of the two existing cement plants have been arrested and fined, by the ROKG, billions of huan on grounds of illegal profiteering. Both of these plant owners had planned to expand their respective production facilities by adding one more kiln to each plant. Although the ROKG had originally provided for expansion of these two plants in the current 5 Year Plan, because of the alleged profiteering activities of these two owners, the ROKG has now decided to build first two other additional cement plants. I have already

5

advised my counterparts in the Ministry of Commerce and Industry and the Economic Planning Board on several occasions that it would be considerably more efficient and economical where feasible, to expand the existing cement plants, than it would be to construct entirely new plants. I feel confident that this advice will eventually be implemented.

2. The scarcity of capable energetic organizers willing to undertake pioneer industrial ventures and the scarcity of modern-trained managers at all levels from foremen to plant superintendents and company directors are among the most important obstacles to successful implementation of the current 5 Year Plan. This is especially evident in the slow development of a broad basic chemical industry, which requires a relatively large percentage of technically trained labor and supervision. Since it has not been possible to develop in advance general managers or production managers for pioneer chemical plants in Korea, an effort has been made to develop managerial and technical competence by means of AID sponsored participant training abroad and on-the-job training at the plantsite. An effort has also been made to convince ROKG counterparts and selected project sponsors of the desirability and practicality of obtaining technical assistance contracts and working agreements with foreign manufacturers. This has been most successful in the pharmaceutical, paint, plastics and rubber processing industries and is something that could be applied to other industrial sectors.

3. Lack of modern private commercial banking and credit facilities

and the absence of a securities exchange have greatly inhibited the development and encouragement of private enterprise. In addition, many industrial enterprises have been started by family or other closely held groups, who do not choose to invite potential outside sources of equity capital, even when they actually need it, because they prefer instead to keep the ownership, management, profits and business secrets of the company firmly in their own hands. This practice tends to inhibit a wider and more desirable diffusion of ownership. In the industrial banking field, the Korean Reconstruction Bank, which was established in April 1954 as a government owned industrial development bank, has been the chief source of low interest financing for new industrial ventures. Unfortunately, because it is a government entity, subject to the close supervision and control of the Ministry of Finance, it has been forced to make several unsound or questionable industrial loans due to strictly political influences, pressures and interferences. As a result, many of these loans have been more harmful than helpful to industrial development. However, since the May 16 revolution, this bank has been revitalized and given more authority and autonomy in loan procedures and bank management which should eventually provide a more beneficial stimulus for encouraging the development of private enterprise.

4. Evaluation of Results

a. Chemical and Paint Projects

In general very satisfactory progress has been achieved in getting most of these projects in full operation. Repeated efforts to convince ROK counterparts concerning the urgency of reducing the domestic price of salt



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c. Participant Training

Participant training in the chemical and paper sectors has been quite successful. Follow up on participants indicates that more than 90% are engaged in the field of their training or are working for the firms who sponsored them. Most have received advancement and added responsibilities; some in the management sector have started their own companies, and are making a valuable contribution to the further expansion of this industrial sector.

5. Recommendations for the Future

In order to improve the "climate" for increased industrialization in Korea, it is essential that the following recommendations be considered:

a. The ROKG should be advised to formulate and implement a realistic policy of encouraging foreign and domestic capital investment by providing tax incentives, loan guarantees and subsidies, particularly for new industries, in the form of protective tariffs, embargoes, and special power rates (especially for electrolytic plants).

b. The ROKG should be encouraged : 1) to establish a solid foundation for the expansion of the existing Korean Securities Exchange by first advocating and later requiring that each company listed must provide accurate, detailed, audited financial statements; 2) to consider repealing the present tax law which requires disclosure of source of funds used for the purchase of corporate stocks; and 3) to permit the commercial banks to accept stock certificates for industrial equity loans from companies which would later be able to buy back these certificates. Meanwhile, the banks should be permitted to sell these stocks on the Securities Exchange or to private investors directly.

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c. USOM should encourage industrial firms to negotiate technical assistance and licensing agreements with U.S. and foreign firms in order that the latter may take better advantage of the reservoir of semi-skilled, low priced labor in Korea which could be used to process semi or unfinished industrial goods. This has proven to be quite successful in the fields of pharmaceuticals, oil paints and enamels, rubber tires, cosmetics and plastics.

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