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FROM - SEOUL

SUBJECT - End of Tour Report (Control No. U-513)

REFERENCE -

Name: John L. Withers Job Title: Capital Projects Officer

Country of Assignment: Korea

Tour of Duty Began: September 4, 1962

Tour of Duty Ended: June 5, 1965 Prior Country Assignment: Burma, 1 yr.

Project Activity on which engaged: Development and Cooley Loans

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1. Summary of the Report

The Mission's Development Loan program is designed to promote the creation of the conditions which will make sustained economic advancement possible. Therefore, in its first phase, emphasis has been placed upon developing those facilities that form the base of modern economic activity, i.e., power, transportation, fuel, and communications. Since such investments cannot be fully supported by private individuals and since their yields spread throughout the

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community, the loans for these projects have for the most part been limited to governmental entities. However, since most of the basic economic infrastructure has been established emphasis will now be shifted to those measures which will facilitate and stimulate private enterprise.

The physical output and continuing industrial production that will be made possible as a result of the high priority capital projects financed by the loans, plus the more efficient fiscal and managerial techniques induced by them constitute a significant contribution to the economic development of Korea.

Korea is now at the stage where a substantial inflow of well-directed capital for a number of years could generate a level of productive activity which would permit continued development thereafter on an increasingly self-reliant and self-sustaining basis. However, this task, if it is to be realized, requires substantial public and private capital from abroad in order to achieve a rate of growth and a pattern of production sufficient to sustain its growing population.

The Development Loan program constitutes the vehicle through which the U.S. assists in this effort, and acts as well as a catalyst which joins U.S. capital with Korea's developmental aspirations.

In addition to Development Loans, the Cooley Loan Program and the Investment Surveys and Guarantees Program, both of which are devised to

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encourage U.S. business interests to invest in Korean industry, are coordinated and supervised by the Mission to aid in the establishment or expansion of capital facilities, or to assure that private individuals have the opportunity to contribute to Korea's economic growth.

2. Existing differences between U.S. and Local Practice

The American economy depends primarily upon private enterprise as the principal source of investment. However, the U.S. does not look upon American private investment as a substitute for U.S. aid to Korea. Nevertheless it is the established policy of the U.S. Government to foster, encourage and promote participation by U.S. private enterprise in Korea's economic development. The rationale upon which this policy is based is the recognition of the vital role of free enterprise in achieving rising levels of production and standards of living essential to economic progress and development. The U.S. Government is also cognizant of the fact that there are far greater resources at the disposal of private enterprise than can ever be applied to such development by governments.

The Mission favors joint-venture type private investments with local capital because this type of enterprise is most likely to result in a transfer of entrepreneurial, technical and management skills to Korea itself. Further, the Mission believes that it is wisest in the long run for U.S. investors to identify their interests closely with those of the citizens of Korea. In view of the desire to mobilize scarce foreign exchange resources, those investments which are accompanied by dollar capital, in addition to

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management and technical know-how, are preferred. The sale of packaged plants, or the provision of so-called "turn-key" jobs, usually take a lower priority position than those proposals in which there is a sizeable private equity contribution in relation to debt.

a. Purposes served by the activity

One of the several methods in which U.S. aid is making Korea more self-sufficient is by aiding in the establishment and expansion of priority capital facilities in the country through the medium of AID Development Loans. The several loans of this kind which Korea has received have been designed to promote the development of those facilities that form the base of modern economic activity. Progress towards this objective may be seen from the fact that such Development Loans have been largely responsible for many growth indices in Korea.

Since 1959, the U.S. has authorized fifteen Development Loans. The focus of these loans has been placed upon developing power, transportation, fuel, cement and communications. These Development Loans will further expand and improve telecommunications, power distribution and transmission, city water systems and also to complete the dieselization of the Korean National Railways. In addition such loans have helped Korea expand its production of nylon and approach self-sufficiency in the output of cement.

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b. The type of conditions which Korea Must meet in applying for a Development Loan include the following:

(1) Dollar financing must not be available on reasonable terms from private or other public sources.

(2) The projected new investment, or expansion or diversification must be acceptable to the ROKG.

(3) The project must give reasonable promise of contributing to the development of economic resources and/or increasing the productive capacities of Korea.

(4) It must be consistent with the other development activities being undertaken or planned for Korea. Necessarily, AID is limited to financing only those activities which occupy a relatively high priority position in Korea's development program.

(5) The proceeds of the loan must be used to finance the dollar costs of the project.

(6) Borrowers must agree to follow normal commercially acceptable business practices.

c. How the activities are implemented:

Responsibility for developing and carrying out any development loan projects rests with the borrower. The borrower is expected initially to develop his loan proposal to the point where its eligibility for AID financing is clearly and unequivocally demonstrated. The borrower is responsible, after the loan is approved, for carrying out the project in a manner consistent

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with the loan agreement and implementation letter which were proposed and approved by the Agency. Finally, the borrower is responsible for sound operation and management of the completed facility and the repayment of the loan.

The point at which the Mission is best able to ensure the success of a development loan project is before the loan is made. Before Agency funds are committed, each project will be subjected to intensive examination to ensure: (a) that the project meets AID criteria, (b) that the project is economically and technically feasible, and financially sound, (c) that the proposed arrangements for, and the proposed scope of, design, engineering, construction, and other services required to carry out the projects are adequate, and (d) that suitable arrangements (including training programs, if necessary) are made for management operation and maintenance of the completed facility, and for repayment of the loan.

The Mission's regular review and assessment of the host country's needs, resources, balance of payments situation, tax structure, over-all economic development plan, progress in implementing the development plan, and general economic developments will do much to establish the general context in which development loan proposals are considered. Because of its day-to-day contacts with the host government, the Mission is in a unique position to expedite the development of sound loan proposals, to explain the criteria for development loans, to advise the host government and private applicants regarding supplementary or alternate methods of assistance (such as AID extended risk guaranties), and to point out gaps in planning, resources and data.

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3. Future measures and directions for U.S. activities.

Development Loans are used by USOM/Korea as operational tools for the furtherance of the Mission's overall goals of improving managerial practices, developing a productive base, and expansion of export earnings in Korea. The program contributes to these basic objectives by aiding in the establishment or expansion of priority capital facilities, and is based upon the rationale that such development promotes the achievement of a rapid growth in national income, increases the stability of the economy, and helps improve skills and entrepreneurial experience that will lead to an increase in productivity and a more flexible economy.

As a major source of medium and long-term credit, Development Loans serve as a powerful stimulant for directing the limited resources available toward the most essential needs. They are now being used to help create a vigorous class of local entrepreneurs and efficient administrators, as well as serve as a training ground for professional personnel such as engineers, economists, accountants and managers. Capital projects, as a result of the conditions imposed upon them by the loans, are intended to develop into self-supporting projects and institutions performing functions so important in the economy that they become points of stability which must be maintained despite changes in the political structure. In this way, they are expected to influence public attitudes toward business and to have an important effect on business organization, law and the related methods of doing business.

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