

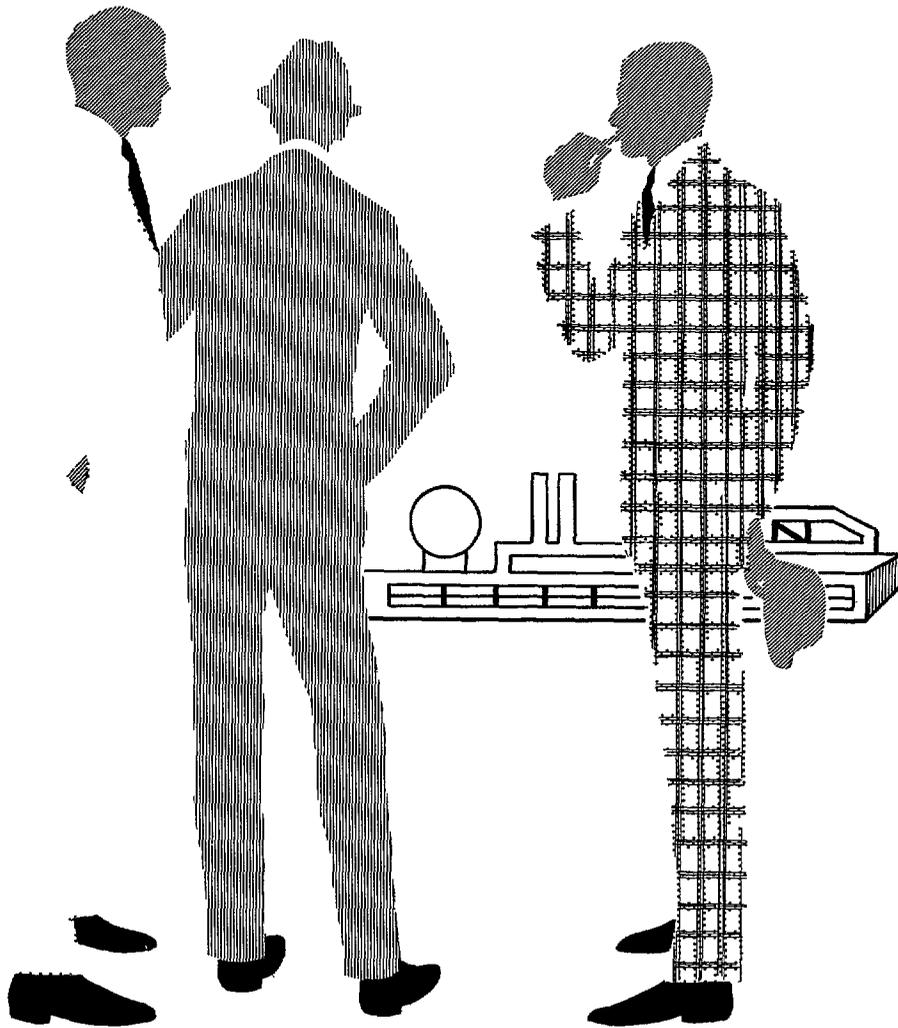
K'S
687.11
U19

A.I.D.
Reference Center
Room 1656 NS

PN-ABK-583

REPORT ON ~~KNOW~~ MEN'S APPAREL INDUSTRY

FOR
KOREAN MINISTRY OF COMMERCE AND INDUSTRY
AND FOR
UNITED STATES OPERATIONS MISSION TO KOREA



JEROME I UDELL

CONSULTANT TO ROKG
(INDUSTRY AND ENGINEERING
DIVISION OF USOM/KOREA)

SEPTEMBER 1966

41

PX-ABK-583

REPORT ON
MEN'S APPAREL INDUSTRY
FOR
KOREAN MINISTRY OF COMMERCE AND INDUSTRY
AND FOR
UNITED STATES OPERATION MISSION/KOREA

SEPTEMBER 1966

JEROME I UDELL
CONSULTANT TO ROKG
(INDUSTRY AND ENGINEERING
DIVISION OF USOM)

INDEX

	PAGE
I ASSIGNMENT	1
BRIEF SUMMARY OF PROPOSALS AND COMMENTS .	1 - 3
II GENERAL OBSERVATION	3 - 11
III ESSENTIALS FOR A GROWING AND PROSPERING APPAREL INDUSTRY IN KOREA	
A FINANCES	12 - 13
B PLANT REQUIREMENTS	14 - 15
C LABOR SUPPLY AND TRAINING	15 - 17
D PURCHASE OF RAW MATERIAL .	17 - 19
E MARKETING	19 - 21
IV CONCLUSION	22

I ASSIGNMENT

Make an overall study of the present structure and development potential of the men's garment industry. On the basis of the study recommend steps to increase productivity and sales for greater profit

INTERIM REPORT

For the purpose of simplifying the report for readers, the important elements of the INTERIM REPORT of August 4, 1966 have been incorporated into this final report.

BRIEF SUMMARY OF PROPOSALS AND COMMENTS

The recommendations in this report all deal, of course, with men's apparel. Each of the points below gives in brief the principal proposals or comments offered and cites for reference the page and item number on which each topic is fully elaborated in the body of the report. Certain items have been underscored at the suggestion of Vice Minister Lee, Chul Seung

1 Despite its impressive growth in the last 3 years, Korea has only scratched the surface of its potential in apparel exports. (P 3-5, item 2)

2. This is a fruitful field and deserves that major emphasis be placed on its development. (P. 5, item 3)

3. Official Korean policy is to hold to a minimum imports of raw materials used in the production of goods for domestic sale. Heavy duties and taxes are imposed to achieve this policy (P. 5, item 5)

4. Consumer apparel supplies for domestic consumption are adequate, although high priced. (P. 5-6, item 5)

5. Considering government policy, this report does not treat with production growth for domestic use. Ultimately domestic products will enjoy the advantages gained in further development of export goods (P 6, item 6)

6. Mass production growth can be obtained in exports alone for some years to come (P 6, item 8)

7 Most manufacturers catering to the export market have relinquished all domestic sales in order to more easily enjoy the advantages provided for exporters. (P. 6, item 9)

8 There have been no exports of men's tailored clothing. There is a golden opportunity in the development of this field - dress pants, suits, sport coats, outercoats and raincoats, which should be of high quality (P. 8-9, item 11)

9 The potential in men's tailored clothing would be a minimum of \$25,000,000, which exceeds all apparel exports for 1965. The sum named

would be far greater if quotas were not apt to be established by foreign countries (P. 9, item 12)

10. Several custom tailors and trading companies are keenly interested and ready to invest sizeable sums in the mass production of men's tailored clothing. (P. 9-10, item 13)

11. This report deals with men's apparel, but the comments and proposals apply in large measure to women's and children's apparel too (P. 10, item 17)

12. For prime credit risks the government should arrange for bank loans up to 50% of new fixed investments to be used for exports, payable over a period of five years. (P. 12, item 2)

13. For prime credit risks, short term working capital loans should be made readily available, so that exporters may function uninterruptedly. (P. 12, item 3)

14. Exporters must be able to sell on a 60 day open line of credit to prime risk importers, who can now buy that way in other markets. (P. 13, item 5)

15. A great deal of unused factory capacity now exists. (P. 14, item 1)

16. The M C I Industrial Survey Mission's proposal for a stockpile of machinery is impractical. (P. 14-15, item 6)

17. Their proposal for the government to build a \$624,808 Training and Research Center, to be managed by the Korean Knitting Industry Cooperatives, should not be adopted. Alternatives are stated in the belief that these functions should be left to private industry or associations. (P. 15-16, items 2 to 5b)

18. ROKG subsidies in much smaller amounts can be more effective than the proposed research and training center. (P. 17, item 5c)

19. Pusan is preferable for the expansion of apparel manufacture, because of its lower labor costs and proximity to a seaport as well as its abundant supply of manpower. (P. 17, item 6)

20. Korean producers are moving fairly rapidly (a) to bring in supplies as near the raw stage as possible, (b) to handle all possible conversion steps, (c) thus to reduce the cost of processing and (d) to lower the dollar value of imports (P. 17, item 2)

21. M.C.I 's Industrial Survey Mission recommends that the Government sponsor a warehouse to stockpile raw materials in order to speed export deliveries. The objective is fine, but the stockpiling should be done individually by manufacturers themselves under liberal and helpful regulations. (P. 18, item 4)

22 Such manufacturers should therefore store the raw materials in their own plants (P 18 , item 5, 6)

23. A simplification of paper work and a concentration of authority to give import and export licenses in one agency are of vital importance. As is well pointed out in the M C I, report of its Industrial Survey Mission, Taiwan adopted these and many other progressive ideas some years ago. Taiwan's practises should be studied and emulated (P.18-19, item 8)

24. Korean producers for export should (a) be represented by a trading company, (b) take annual trips to foreign markets for research and selling purposes and (c) be accompanied by production men. (P 20 , item 1, 2)

25 KOTRA should be enabled to make more thorough market studies. (P 20-21, item 4)

26 There are several other policies that the Government should adopt in order to eliminate "nuisance-value" paper work and red tape. (P. 21 , item 5)

II GENERAL OBSERVATIONS

1 Recent actions by M C I and other government agencies indicate a keen awareness of the huge potential that exists in apparel exports. There is a widespread and understandable desire in Government circles to capitalize on this potential. For example, President Park Chung Hee, at the August Blue House conference, instructed the Foreign and Justice Ministries to simplify entry and exit procedures for businessmen in an effort to encourage the export industry. He also requested that shipments abroad by those manufacturers who have had a creditable quality record for the past year be exempt from inspection.

2. Accurate statistics by items or in toto on Korean apparel production are not available. Export figures are available, more so on a total basis than by items. They also include women's wear products. Nevertheless the figures show that there has been a substantial growth in apparel exports from year to year and the potential for further growth looms large. These statistics on total apparel exports come from the Bank of Korea and reflect the rapid increases year by year

1962	\$ 1,119,000	
'63	4,644,000	
'64	6,614,000	
'65	20,713,000	Against a goal of \$9,500,000
1st Half '65	8,077,000	
1st half '66	17,303,000	

Note that the 1965 export goal of \$9.5 million was more than doubled in performance. The goal for 1966 of \$27,370,000 anticipated an increase of almost \$7 million over the 1965 performance of \$20,713,000

In the first 6 months of 1966 alone, actual exports were \$17,303,000 or a gain of over \$9 million above the exports of \$8,077,000 in the same 6 months of 1965.

A combination of statistics from MCI and KOTRA for 1965, reveals approximately the following apparel exports.

1965 Total exports of men's, women's and children's apparel \$20,668,000

Major items were	Shirts (Mainly Men's)	6,011,000 (\$5,070,000 to USA)
	Work Pants (Mainly Men's)	3,617,000 (3,373,000 to USA)
	Sweaters (Largely Women's) ^{1/}	5,993,000 (4,154,000 to Sweden) (1,044,000 to USA)
	Total Major Items	<u>\$15,621,000</u>

The remaining \$5,047,000 included women's wear. The one big item was \$1,803,000 for kimono belts.

When analyzed by countries the figures show these principal amounts

\$11,390,000 to U S A
4,263,000 to Sweden (almost all sweaters)
667,000 to Belgium
458,000 to Canada
444,000 to United Kingdom
<u>272,000 to Holland</u>
\$17,494,000

^{1/} In the first 6 months of 1966, sweater exports of \$7,399,200 greatly exceeded the above total for the entire year 1965.

In men's apparel the greatest progress has been made thus far on shirts, work clothes and, insofar as the figures can be relied upon, men's and women's sweaters. A study of all foreign markets would no doubt reveal that Korea has only scratched the surface in these items. For example, Hong Kong exports of apparel to United States in 1965 were \$39 million and to the United Kingdom \$58 million. Clothing exports to the U S A increased 44% over 1964, whereas United Kingdom purchases from Hong Kong dropped 25%. Exports to Germany, Canada, Australia and the Netherlands showed large increases.

3 Korea's total exports of all products in 1962 were \$56,702,000, and in 1965 they reached \$180,450,000, about a three time increase. Compare this, if you will, with the record in apparel exports which rose almost twenty times in the same three years. Many countries have begun to recognize Korean apparel quality and price appeal and are eager to buy more and more apparel articles. It is academic to conclude that major efforts should be put into items such as these which present the best prospects for growth. Potential markets for all types of apparel include U S A, Canada, United Kingdom, Western Europe, Scandinavia, Australia and hard currency countries.

Korean and Japanese Trading Companies must be credited with initiative shown thus far in developing Korean apparel exports, and they will continue to merit such credit. They are able, through offices abroad, to get orders and to guide manufacturers in many other ways.

4 There is plenty of Korean private initiative ready to pursue these prospects, but the government can, of course, speed the growth in many ways which will be cited in this report. Exports are the life blood of all countries, especially the developing ones whose natural resources are limited, as in Korea.

5 Official Korean policy is designed to hold to a minimum imports of those raw materials which are used in the production of goods for domestic sale. In the apparel field, most raw material imports for domestic use are limited by quota. Moreover, the home trade is given complete protection against foreign competition by a blanket prohibition on imports of any finished apparel items. This is a wise policy for the obvious reason that imports used for Korean consumers are a drain on the balance-of-trade payments.

Heavy duties and taxes are imposed on imported raw materials intended for use in the manufacturer of apparel items for home consumption. Take finished worsted cloth as an example. Raw wool imports account for about half the cost of the finished cloth product. As a result of the heavy levies on such wool and of business and commodity taxes together with profits added to these costs by various dealers, the domestic retail price runs as much as three to four times the export price of similar fabrics, though domestic fabrics are in fact usually made of a lower grade yarn. While these levies result in considerable revenue for Korea, the

CORRECTIONS

In the interest of accuracy I am submitting herewith several corrections based upon information obtained in Taiwan from the following sources:

S.Y. Dao, Secretary-General (C I. E C D) Council for International Economic Cooperation and Development
C F Wang (I D I C) Industrial Development and Investment Center
Philip C M. Wang (I.D.I C)
Wen-Hou Shin, Manager, Liu-Tu Branch, Land Bank of Taiwan
Yu Chien, Assistant Manager, Land Bank of Taiwan

Operations of the Foreign Exchange and Trade Commission (F E T C) and the Bank of Taiwan (B T.) were described for me by Secretary-General S Y Dao (C I. E C D) and C F. Wang (I, D I C.)

It is recommended that the reader substitute the following sub-headings in place of those presently existing on pages 18 and 19

8 The Taiwan Government recognized this need several years ago and has been eminently successful in adopting corrective measures.

(a) All licensing and other procedures for the importation of raw materials, as well as for export of finished products, have been entrusted to one central agency, the F E T C , which issues export and import licenses. Thereupon B T provides the necessary foreign exchange funds.

(b) Applications for export licenses are processed in 24 to 48 hours Applications for import licenses are processed in 5 or 6 working days.

(c) Imports and exports are classified according to a schedule issued by the Taiwan Customs Bureau

Permissible - Export licenses are available in 1 to 2 days, import licenses in 1 to 6 days

Controlled - Export licenses are available in 1 to 2 days, import licenses in 1 to 6 days

Prohibited - No licenses are obtainable for these items which include luxury and government monopoly goods.

Samples valued under \$25 may be imported and exported without any license

(d) Imported raw materials need not be stored in a government bonded warehouse. A producer can have his own stockrooms designated as his bonded warehouse.

(e) Where the credit risk of the buyer is approved by the Bank of Taiwan, sales may be made on extended terms under a letter of credit

(f) Export companies are exempt from import tariff, business tax and community tax, also for 5 years from all corporate income tax which runs up to 18% maximum for foreign investors. After 5 years 90% of the income tax or 16 2% has to be paid

(g) If desired the government will build a standard type factory in the desired size in an industrial area and lease it to the producer. This is handled by a working group which includes the I.D I C , the Land Bank of Taiwan and a few other agencies. It is planned to have 59 such industrial areas ultimately.

(h) Producers for export may stock raw materials or half finished products, which have to be converted or completed, for 12 months. If there are several manufacturing processes performed by different producers, the 12 months privilege extends to each producer. Merchandise kept in a bonded warehouse or bonded factory may be held for 2 years, provided an appropriate guarantee is furnished.

Goods in an Export Zone, where all production is for export only, may be kept for an unlimited time.

(i) There is no duty levied on imports of machinery used for export purposes, provided it is installed in an Export Zone such as the one in the Kaohsiung industrial area. However, such machinery installed elsewhere may come in without duty, if borrowed or leased, for 5 years and if used solely for exports.

(j) Korean exports of all apparel have risen almost 20 times in 3 years, from \$1.1 million in 1962 to \$20.7 million in 1965. Taiwan apparel exports in 1960 were \$2.4 million and in 1965, five years later, were \$8 million or an increase of only $3\frac{1}{3}$ times. As previously stated all Korean exports rose from \$56.7 million in 1962 to \$180.4 million in 1965 or 3.02 times in 3 years. Korea is gaining at a much faster rate in apparel as well as in all exports. However, Taiwan is operating from a much higher base figure to begin with.

ADDENDA

1. In Taipei I met a producer whom I have known for about 20 years and whose reputation is good. He had endeavored a few years ago to establish an export sales agency for Korea, but had to abandon the effort for the following reasons

(a) Inability to get a multiple visit visa in New York. An attempt to get it in Korea involved many visits to the Foreign Office, and he finally gave it up as hopeless

(b) The cotton quota for producers was established on a quarterly basis just prior to the beginning of each quarter, making it impossible to plan ahead.

(c) A Korean shirt manufacturer was unable, after 3 months, to deliver samples on an order for 25,000 dozen shirts and nurses uniforms. The cloth was 25% Tetoron and 75% cotton. The manufacturer was unable to get an import license for labels and polyethylene bags. These were needed for the samples, without which the buyer was unwilling to establish a letter of credit. The order was lost.

(d) A pants order (55% Tetoron and 45% wool) for 4,000 pairs a week from America's largest manufacturer and wholesaler of pants was cancelled for similar reasons.

2. At the LIU-TU industrial area we were shown slides of factories and products in a spacious and comfortable room. There we saw exhibits of all products made at LIU-TU. These exhibits were displayed in a cheerful, brilliantly-lighted room. All the foregoing was used to sell buyers or to interest investors in establishing factories in LIU-TU.

primary purpose is not revenue, but rather a desire to minimize hard currency payments for imports which produce no foreign exchange.

So far, there is no evidence that supplies of consumer apparel goods are not adequate although they are high priced. When compared to what is done in the United Kingdom to protect the value of sterling, one can hardly say the program in Korea is austere. There are many other countries where austerity has severely held down the supplies of consumer products, notably the developing and communist countries.

Korea can correct its program when the need to pay foreign exchange for raw materials for any given products disappears or becomes nominal. Meanwhile, if there should be a shortage in consumer supplies, the quota on war material imports can be adjusted and producers for domestic use can expand their production in existing plants or even establish new factories. Presently higher prices, lesser quality and modest stocks influence the degree of consumer purchases, and require the use by consumers of greater care in the preservation of those items bought.

6. For these reasons, no attempt is made in this report to deal with the growth of domestic markets. Cost reductions enjoyed by exporters in mass production will automatically be available to producers for domestic consumption and will inure to the benefit of domestic consumers.

Meanwhile government policy, through high import taxes, is to discourage sales in the domestic market of products requiring imported raw materials, which must be paid for with foreign exchange.

7. The only figures available on apparel are the exported amounts. Total apparel production figures are not obtainable from any source. Data received from associations are incomplete and inaccurate, partly because some manufacturers don't report at all, and partly because the output of those that do report is duplicated by some manufacturers who report to two or more associations to which they belong.

8. Mass production and growth in output do not require increases in production for domestic use. Full capacity operations can be obtained through exports alone for some years to come.

9. Because of the great demand for export items most exporters, despite the fact that they all claim domestic business is more profitable, seem to have converted completely from domestic to export trade. They are able to operate at capacity and the added advantages are

a. It is easier for them to get tariff exemptions on machinery and raw material when they operate 100% for export,

b. Their interest charges on borrowings against letters of credit are $6\frac{1}{2}\%$;

c. There is also a desire on the part of many manufacturers, it is said, to do this for their country's welfare

10. Here are two interesting case histories

a. A shirt manufacturer had a volume of two million dollars, all in domestic sales, in 1962. In the domestic field the two million dollars translated into units would have been equal to only \$500,000 if they had been priced for export. This is due to the artificially inflated domestic prices. In 1965, his exports were \$875,000. At the current rate, he estimates he will manufacture and export \$1,500,000, the equivalent of three times as many units as he sold in 1962.

b. Another graphic proof of what has been accomplished in the last few years, and of what is in store for Korean manufacturers of apparel, is illustrated in the case of one manufacturer of sweaters. In 1961 the sales of this company for domestic use only were \$10,000. In 1965 the volume had grown to \$120,000, all for export. In 1966 actual shipments for the first six months were \$680,000, and it is estimated they will continue at that rate for the balance of the year, making a total sales figure of \$1,360,000.

Looking ahead, this company plans to do \$3,000,000 a year or more before very long. Their present 180 looms (a growth from 4 looms in 1961) will be increased to 380 looms before the end of this year. With 180 looms, the output is estimated to cover \$800,000 in sales this year, with \$560,000 farmed out to sub-contractors. With 380 looms, the output will cover sales of \$1,700,000. It is expected that sales will not only rise to that point, but that the company will still require the use of sub-contractors to handle increasing volume.

It is interesting to note that none of this company's sales was to the U S A, so that a big, new market still remains to be tapped. The company has been unable to accept all orders, and has a record of late delivery on some orders it did accept. Complaints about late delivery from Korea are chronic, so I am pleased to add that in this particular case the late delivery has not involved a large percentage, nor has it been long delayed.

Management of this company is willing to take the risk of importing raw material and making stock before receiving orders or letters of credit. They feel in this way they could not only increase their volume but insure better deliveries. An added advantage would be the possibility of complete use of factory time in weeks during which the factory tends to be idle.

To make \$100,000 worth of sweaters at sale price would involve an investment risk of \$81,000. This investment would be divided 38% into imported raw material, 8% for dyeing and 35% for knitting, for a total of 81%. Before a risk of this kind can be undertaken, this company

would like assurances from MCI and other agencies involved that it would have greater cooperation in order that

a) The raw material can be housed at an early date "in bond" in their factory for use as needed. This would result in a transportation saving and in the speedy availability of the material

b) The penalties, which would currently be invoked if the raw material were not consumed within a maximum of three months, not be operative for 6 months.

c) Financing be arranged at the $6\frac{1}{2}\%$ per annum rate now available for exports against letters of credit. The company enjoys a high credit standing

11 There is a golden opportunity in the development of ready made men's tailored clothes^{1/} for export. Such clothing is presently made only by custom tailors, and one at a time for domestic sales only. There is no factory in Korea mass producing any such clothing. Note that ready-made men's tailored clothing can be anything from machine made to hand made.

With the help of Japanese or U S technicians the custom tailors will be able to produce ready-made clothing for export on a mass basis. The first item that should be developed is dress pants because these are the simplest to manufacture. Fine trousers can be produced with some additions to equipment and the necessary changes in specifications and quality in factories now making work pants. ~~Factories now making Herringbone Twill Fatigue Uniforms may also lend themselves to a similar conversion to dress pants.~~

Suits, sport coats, outer coats and rain coats could follow. They should be quality products with a maximum of hand features which would thus provide high "value added" or "intensive labor" components. Such quality products would earn more foreign exchange, and make the product more competitive in foreign markets

In suit coats and sport coats, tailoring, styling and fit will have to conform to the specifications of the importing country. The scale of sizes too, differs from country to country. Importers would no doubt provide their own marker patterns. In this connection, it is worth noting that American styled clothes are acceptable and even preferred by some consumers in many other countries

1/ For the purpose of this report "men's tailored clothing" will include dress suits, sports coats, slacks and outer coats. Men's apparel or garments will cover the foregoing and all other men's wearing apparel such as work clothes, raincoats, dress and sport shirts, undershirts, socks, sweaters, ties and gloves. In other words, apparel is the all-inclusive term whereas men's tailored clothing is only one segment

Korean mills are now exporting the kind of fabrics that would be preferred for these finished products in most countries. They are suitable in patterns, colors, weights and weaves. However, the United Kingdom and Scandinavia are accustomed to using 14 to 16 ounce weights as against 11 to 12 ounces in the United States and elsewhere.

From the point of view of equipment and space, suits would require the erection of new factories in order to capitalize on the numerous mass production advantages. Cutting tables, for example, would have to be 66" wide and 80-85" long. Then cloth could be cut on the 60" open roll width, and it would be possible to make one marker running up to 8 sizes. Instead of cutting one or two suits by shears, they could be cut 40 to 50 high on as much as 8 sizes or up to 400 at one time. This would save considerable labor and equally important, as much as $\frac{1}{2}$ yard on a suit. There are also tailoring savings in mass production-not as much as in cutting but nevertheless of important value. For example, specialization by tailors on individual operations will not only improve the quality of the work but will speed performance, some operations now performed by hand could be done by machine without affecting the hand-tailored image. On straight runs of a given pattern, color of the thread need not be changed.

These plants would also require certain special sewing and pressing machines in order to turn out an acceptable suit.

Some idea of what could be accomplished will be obvious from the fact that one U.S. A importer is bringing in 200,000 suits a year from Japan as well as a large quantity of sport coats, and something in excess of 200,000 pairs of pants. My estimate is that the importers of quality suits made in Korea could wholesale them at \$30, whereas an equivalent suit made in the United States would wholesale for \$75. The Korean suit could be retailed for \$50 to \$60 as against a price on a comparable U.S. suit of \$125 to \$150.

12. Another reason I have stressed men's tailored clothing is that it constitutes about a 2 billion dollar per annum industry in the U.S. at wholesale prices. If the proper effort were made it is not an exaggeration to say Korea might hope to add to its exports \$25,000,000 or more a year to the U.S. alone. I limit the figure to \$25,000,000 because it might become necessary to impose a quota on the amount shipped or to reach a voluntary gentleman's agreement for that purpose. There is presently no restriction whatsoever on the amount that can be imported. But let us not overlook that there are many other hard currency countries all over the world to whom Korean quality tailored men's clothing would appeal. So, the potential is extremely large - more than the total of all Korean apparel exports recorded in 1965.

13. In this connection, I am glad to report I have already interested a very experienced and financially responsible American who has the reputation of being a leader in the development of high-style tailored

clothes He was in Korea in July and placed trial orders for 2,600 pairs of slacks. The sample shown to him was produced in a factory making work pants which are different from dress pants, however, the sample was of a high quality.

This same gentleman placed trial orders for 150 suits with three custom tailors to whom he has supplied his marker patterns as well as tailoring and trimming specifications. If the first deliveries are satisfactory, this could mark the beginning of ready-made tailored clothing exports from Korea. Should the volume grow sufficiently, he plans to arrange for a technician to supervise the work in Korea as it is made

Several custom tailors and several Korean trading companies with whom I conferred stated they were very much interested, and ready to invest sizeable sums to inaugurate mass production of tailored clothes.

At least two Japanese trading companies are keenly interested in this situation, and they are each working with a custom tailor to get the projects started. One of these Japanese trading companies expects to place an order for 50,000 suits when a new plant is ready.

14. The process in Korea will probably follow the change that took place in the United Kingdom, Japan and Italy, starting as recently as 15 to 20 years ago. Ready-made men's tailored clothing was previously rare in these countries. Today it captures an ever-increasing portion of the total volume.

15 Raincoat exports were \$560,000 in 1965, but fell to a negligible amount in the first 5 months of 1966. The reason given was that they were made of cotton on which Korea has very small U S A quota. It would seem, however, that unsatisfactory quality must have been a major reason. This item can nevertheless become a big export product, if it is properly and smartly tailored of 75% Polyester and 25% Cotton under the guidance of a foreman with styling and technical tailoring know how in rainwear.

16 Since shoes are an item of apparel, I investigated the potential in this field. Rubber and canvas shoes are already being exported in substantial volume. Leather dress shoes, I believe, also lend themselves to a substantial export development. Excellent quality leather shoes are being produced on a custom basis now. They could be mass produced for export. My study of the prices indicates they would be able to compete successfully in world markets.

17 This report deals with men's apparel, but I believe the recommendations cited throughout the report apply in large measure to women's and children's apparel as well.

18 Under various topical headings I shall deal with two reports of MCI, the one of March 1966 regarding new factories and that of June 1966 relating to a training center Also covered hereinafter is the report of the recent Industrial Survey Mission to Japan, Taiwan and Hong Kong. This report has proved very helpful in many ways.

14

III ESSENTIALS FOR A GROWING AND PROSPERING APPAREL INDUSTRY IN KOREA

There follows an analysis of fine major components needed in the development of a healthy business

A FINANCES

1 Some manufacturers and some trading companies have already indicated a readiness to invest in new apparel companies, and they seem to be in a position financially to assume the necessary business risks Included among those concerns are two Japanese trading companies. All that is needed to spur Korean investors is the proper incentives. The government must help in many ways which are spelled out hereinafter According to Edwin O Reischauer, until recently U S Ambassador to Japan, that country provided many incentives starting back in the last century. The Japanese have quickly recouped all that was lost during World War II. Taiwan, which is a relative newcomer in exports, went all out in its efforts to facilitate exports in recent years and has achieved splendid results.

2. Unlike the production of durable goods where sales sometimes are as little as two times the fixed investment or even less, capital investment in the apparel industry is only nominal. Sales in this industry can easily run ten times, per annum, the fixed investment.

It is recommended that in cases where the credit standing is satisfactory ROK should arrange for the principal banks to lend up to $\frac{1}{2}$ of the initial fixed costs on a five year payment plan. This refers, of course, to expansion of existing factories or the creation of new ones designed solely for export development.

The government has set aside \$7,400,000 to be loaned for new factories and equipment over a period of six years In 1966 the program called for lending \$1,934,000. These figures represent partly foreign currency and the balance is the dollar equivalent of won budgeted. I am told, however, that these loans are to carry interest at 8% to 12% and to run for only three years. Presumably the funds are to come from loans already made to Korea by USOM, Japan and Western Germany.

3 Working capital can easily be turned four times in the apparel industry with only a reasonable amount of short term seasonal borrowing Such accommodations for prime credit risks are essential if producers are to function at maximum capacity.

4 Some of the conversations presently being held in connection with possible joint ventures between Korean trading companies and Korean manufacturers would constitute a desirable arrangement. The optimum arrangement would be to have foreign investors, with expertise in production, styling and marketing, share in the project and capitalize on Korea's very favorable Foreign Investment Encouragement Law.

15

Some countries give further assistance to their nationals investing in foreign lands. For example, U S A investment guarantees are provided by AID against many contingencies.

5. In all of the developed countries exporters are prepared to give an open line of credit to buyers whose credit is sound, without requiring letters of credit. This applies at least to apparel and textiles. If Korea wants to insure great growth in its exports, the practice of shipping only with the privilege of sight draft, bill of lading attached, against a letter of credit will have to be changed. Exporters should be desirous of granting open credit for 60 days and should be able to receive similar credit from their suppliers, both domestic and overseas. The cost of such financing would naturally be included in the pricing of any item.

Foreign importers are now being asked to pay for merchandise before they even have the chance to see it. The fact that so many have done so is of course proof of the great appeal of Korean prices and products, but there are many who are unwilling to pay cash in advance of seeing the merchandise and this volume is being lost

6. Studies, made in 1964 by Dr. Ralph Winston, C P A , under the aegis of Washington University, on behalf of USOM, show that most Korean business men keep no real records to determine actual costs. They not only do not know whether a specific item represents a profit or loss but even whether they are earning overall profits. Mr. Song, Sung Soon, C P A of DFD, USOM supports these findings. He believes that business men are willing to go along blithely as long as operating cash is available.

The tendency, Dr. Winston adds, is to consult educators when they run into a problem. This tendency arises from a traditional high respect for professors, in the belief that they know the answers to all problems. Often the professor will conceal his lack of knowledge in order not to lose face.

Efforts should be made to prevail on business men needing accounting aid to consult and engage C P A 's. Many are available. They are the ones who can install cost accounting procedures by which to pre-determine costs of material, labor and overhead and to check these items against actual experience. Instead of relying on an informed guess and never knowing whether it is correct or not business men can use the latest experience figures from season to season.

One foreign importer to whom I talked related that the price on an item he wanted to buy was reduced 4 times before he placed an order. He interpreted this as being due to an absence of knowledge of costs.

B. PLANT REQUIREMENTS

These comments are not the result of any formal survey but they arise from observations and impressions obtained on visits to many factories.

1. There is a great deal of unused apparel factory capacity despite the fact that several of these plants have been favored with Vietnam orders for herringbone twill fatigue uniforms and other apparel. Some plants seem to be relying solely on this kind of business and find themselves with intervals of no work when the military contracts have been completed. A 1965 study made by Dr. Powell Niland for USOM emphasizes the "over investment in existing capacity "

2. In addition to using facilities presently idled at times there is a great opportunity to increase the output in all existing factories by running on a two shift basis. Factories where piece work rates are not in vogue will find it easier to switch to a double shift schedule. It is obvious that this would result in considerable savings in overhead and depreciation as well as doubled output.

3. Plants making ~~fatigue uniforms and work pants~~ can be converted to the manufacture of ~~dress pants with little additional machinery~~ and with the development of labor techniques to improve quality. For jackets new plants would have to be created and the training of labor would be much more difficult for the mass manufacture of suits for export.

4. Considerable assistance has been provided by the abandonment of import duties on machinery to be used for export purposes. Some magnificent and modern plants have already been developed in the Korean apparel industry, in some cases with the help of Japanese trading companies. These new factories are laid out for something akin to an assembly line flow of work. Many older factories will have to be re-laid in order to take advantage of these more modern operating techniques.

5) Wherever possible each factory should concentrate on a single product. When a factory, making two or more products on the same machinery, is converted from one item into another there is a loss of production time in finishing up the flow of work on one product and starting on another. If each factory unit is limited to a single item, the result will always be greater output, lower costs and better quality.

6. The recent M C I Industry Survey Mission recommended that the government arrange for a stock pile of various types of machinery to be loaned, as the occasion required, to manufacturers who needed additional equipment. This is not a practical proposal at all, but the proposal to lend the machines is even more unrealistic. In order to have every type that might be required it would be necessary to stock pile a vast array of machinery to cover the many items of apparel. No census of such requirements would be feasible or reliable.

M

The government should encourage manufacturers to import whatever machinery they may require. Primarily this is being done, as stated, through the elimination of duties on machinery to be used for export purpose. Assistance by ROKG and the banks is urged in financing such projects with foreign exchange for long periods of time at low interest rates.

As to the stock piling of machinery, if it were practical and sound, sales agencies now in Korea would bring in the necessary stock in bond. Perhaps such companies can be given an incentive that would enable them to do this, but I believe it would at best be done on a minimal basis and would not attempt to cover a wide variety of machines.

C LABOR SUPPLY AND TRAINING

1. Labor Supply This is obviously no problem in Korea in view of the vast army of unemployed. Moreover many experienced and even skilled apparel workers are available.

2. Technical Training Center It has been suggested by the Mission sent abroad by MCI that a Technical Training Center be established. This plan contemplates a capital investment of \$286,808 and the Won equivalent of \$338,000 or a total of \$624,808 to be obtained from USOM. The Center would be managed by the Federation of Korean Knitting Industry Cooperatives under the supervision of MCI. A major aim would be to train 2,100 workers per annum.

3. Research Other aims contemplated would endeavor

- a. To re-train technicians,
- b. To study improved quality,
- c. To study designing,
- d. To develop cost reductions through quality and production controls,
- e. To investigate overseas market trends,
- f. To investigate domestic industry with reference to products to be made,
- g. To study modernization of factory management and facilities.

Another part of the proposal contemplates a Textile Research and Guidance Center, qualified to test materials for color fastness, tensile strength, resistance to abrasion, elasticity, pilling, weight, washability et al.

The Knitters Association and the Weavers Association already operate such laboratories. Presumably new ones are being advocated for the garment industry and the woolen and worsted industries.

4. Financing It is proposed that half of the operating costs for 3 years be loaned by ROKG to the Federation of Korean Knitting Industry Cooperatives, which would provide the other half. Tuition would be charged with the hope that the projects could be self supporting at the end of three years or that they would be subsidized by the Federation

5. Comments I cannot agree with these proposals.

(a) As far as training is concerned, much more can be achieved by the "on-the-job" or "in-the-factory" technique. A training center would have to give an all-inclusive course, not knowing for which operation a worker might be employed. This would involve unnecessary training since mass production relies on the segmentation of operations, with each worker performing one or perhaps two operations. No item of apparel is mass made completely by one worker.

Modern practice is to set up a pilot or miniature plant in a small section of a big factory, providing it with all the equipment necessary to make a garment from beginning to end. Trainees or learners are employed in these pilot plants and each is taught by a practical, experienced foreman to do one or a few operations. These learners are paid less than the standard wages. Those that are adept can be transferred to a job in their particular operation at full pay upon completion of their training.

Basically I believe that this function should be left to private enterprise. Training cannot be done in a vacuum. Materials have to be used for conversion into the finished product. Private business can judge best what type of inexpensive materials should be used during the break-in period, and private business is best qualified to dispose of the products so produced.

Moreover, in the apparel industry Korean workers already possess basic skills in large measure. They are alert, hard-working and quick to learn. Judging by what I have seen in finished products such as shirts, underwear and work trousers, employees in many factories have apparently mastered the important operations needed for a quality product.

(b) Again, it would be better if the other research proposals were also undertaken by private companies or thru their associations. In these research and technical training areas, there is a wealth of ideas that can be obtained if manufacturers and their technical or production men are encouraged to go abroad and study foreign methods. Another approach is to bring in, for periods of three to six months, apparel engineers who are qualified in the manufacture of specific items of apparel, but this is more costly.

Aside from current advanced techniques and processes which can be utilized, changes or new developments are infrequent. Sometimes they relate to smoother flow of work, sometimes they involve the omission of a specific operation or the combination of two operations into one or the

division of one operation into parts. Occasionally only are new and better methods of performing a specific operation adopted.

(c) Subsidy If ROKG subsidy is given, it can be effective at a far smaller cost and with greater results than through a training school or research center. This can be achieved by having ROKG assist or subsidize those private companies which themselves undertake the above functions of training and research.

(d) In any event a Training and Research Center, if one is to be created, should not apply to workers but only to technicians such as designers and foremen, it should be part of an established educational institution as an addition to its curriculum. This would be less costly because the institution selected would already have administrative procedures to guide the Center. Moreover it would be a more effective teaching job and would cover the subject more broadly than could be done by one specialized industry association.

6. Geographical Location Seoul and Pusan are the two principal centers for the manufacture of apparel. Pusan seems to offer not only an excellent supply of manpower, but lower labor costs and the advantage of proximity to a sea port.

D. PURCHASE OF RAW MATERIAL

1. Virtually every item of apparel requires the import of raw materials, be they synthetics, cotton or wool. The only exceptions are silk and flax which are home-grown.

2. Korean producers are tending more and more to bring in such materials as near the raw stage as possible so that the conversion into cloth or articles of apparel can be performed here. As this process tends to "verticalize" back toward the raw material, the product evidently becomes more "labor intensive." This obviously reduces the dollar value of imports, and furthermore reduces the cost of processing since the labor added can be performed more inexpensively here than abroad.

An eloquent example of this tendency is the decision to establish a Beslon acrylic fiber factory in Korea. Instead of importing this yarn from Japan, all that will have to be imported are the raw materials. Most Korean mills producing fabrics are now able to convert from raw material to yarn not only for their own weaving but for other Korean mills which don't have the primary facilities. This applies to linings and fabrics for shirts, underwear, socks, trousers and suits as well as to many items of women's clothing such as stockings, lingerie and dresses.

3. Some trimmings and findings still have to be imported primarily from Japan such as buttons and zippers. No doubt these too will in time all be made in Korea

4. MCI's Industrial Survey Mission recommends a government warehouse in which various types of raw materials would be stored in order to avert a serious delay in the acquisition of such materials for the manufacture of export orders. While I agree it is important to stock such materials, I strongly believe this is not a matter for a government warehouse to handle. Each manufacturer must be encouraged to stockpile for himself, based on his prior performance and usage. A government warehouse might cover the needs of some manufacturers, but it could never cover a large part of the emergency needs nor could it be nearly as efficient as having a manufacturer put his name on an order and assume responsibility. The virtue of this point of view seems to have been recognized in MCI's public notice No 2719 promulgated early in August. The new regulation permits a manufacturer who has exported \$50,000 or more in the prior twelve months to bring in sufficient raw materials to cover half the requirements for the prior volume, without first obtaining either export orders or letters of credit. Previously, this privilege was limited only to those who had exported \$300,000 or more in the prior twelve months and was placed at a 25% rather than a 50% level.

5. Manufacturers who bring in raw materials should be able to store them, securely and under specific regulations, in their own stock rooms rather than in a public warehouse. This privilege would also permit producers to convert part or all of the raw material into stocks of finished apparel items in anticipation of orders. The risk in this can be minimized by creating stock of only the best selling items. Some of the results would include the saving of extra delivery and warehousing costs, the salvage of idle factory time, the expedition of deliveries and an increase in export volume.

6. The government should arrange for banks to liberalize financing of this type of raw material imports for a reasonable period of time and at low rates. Producers with prime credit who are willing to take the risk involved in buying materials without actual orders in hand and in creating stock should be encouraged by liberal financial cooperation.

7. Exporters must be encouraged and permitted to spend more time on selling and less on regulations. There must be a simplification of procedures with a sharp reduction in the amount of paper work.

8. The M.C.I. Industrial Survey Mission reports that the Taiwan Government recognized this need several years ago and has been eminently successful because of the following steps which were taken

(a) All licensing and other procedures, for the importation of raw materials as well as for export of finished products, have been entrusted to one central agency -- the Bank of Taiwan.

(b) Applications are processed in 24 hours.

(c) Imported raw materials need not be stored in a Government bonded warehouse. A producer can have his own stockrooms designated as his bonded warehouse.

(d) Where the credit risk of the buyer is acceptable to the Bank of Taiwan, sales may be made on an open line of credit, without the necessity of getting a letter of credit.

(e) The exporter is exempt from import tariff, business tax and community tax, also for 5 years from all income tax. After 5 years a part of the income tax has to be paid.

(f) Approval is not necessary for the import or export of samples.

(g) If desired the Government will build a standard type factory and lease it to the producer.

(h) Producers can stock imported raw materials for subsequent export, half finished products or finished products for an unlimited period of time.

I urge that these and any other feasible aids be given to exporters. As far as enforcement is concerned, any system requires it. Even under the present regulations there comes a date when the manufacturer has the warehoused material delivered to him. Careful audits are the only control from that point on. The prior performance would indicate what exports should be, relative to the import total.

Make the audits as thorough as possible. Make the penalties for violation severe. There is no thought in these suggestions of compromising with any principle. It is entirely a matter of being practical.

Taiwan is one of the most fitting countries with which to compare Korea in the matter of exports. Taiwan's success strongly supports the thesis here advanced.

E. MARKETING

Korean producers cannot and should not rely on being sought out by foreign importers. Since the aim is a substantial and continuing growth in exports there are certain essential policies that should be followed.

1. Every producer should be represented by a trading company unless he operates his own. Many trading companies have offices abroad, they frequently know styles and patterns that are desired in specific markets, they learn quickly the price level that would be attractive in such markets; they are actually able to take orders, and of course they are a great help in connection with financing and procedural work.

2 The individual manufacturer should not, however, leave everything in the hands of his trading company. Those who can afford it should make at least one trip a year to various foreign markets and work with the trading company office in such markets. Where the trading company has no office KOTRA can be of great help. There is nothing comparable to the person-to-person relationship between a seller and a buyer. If the volume is sufficient, the producer can retain his own sales representative where sales may seem likely to justify this. Even then the producer should visit his principal markets personally in order to gain a first-hand knowledge of the market needs and the competition to be faced. Frequently, a producer can clinch a sale by his very presence, and also because he knows whether the quality, delivery or price quoted can be improved upon.

Where the manufacturer is seeking to improve his production techniques he should be encouraged to take with him his factory manager who would be in a position to take advantage of technological improvements as well as to note preferences in packing, labelling, packaging and other items.

Foreign exchange for these purposes should be readily available under reasonable safeguards

It is now necessary for a manufacturer who seeks to go abroad on business to apply to the Ministry of Finance, then get approval from the Ministry of Commerce & Industry, return to the Ministry of Finance for final approval, and go to the Bank of Korea for the necessary foreign exchange. This procedure can and should be simplified.

3. Korean trading companies must be alive to the fact that they are competing with their Japanese counterparts who are invading the Korean market more and more. This has its advantages since the Korean trading companies can learn from the example of the Japanese, but in the last analysis less foreign exchange is earned when business is handled by the Japanese trading companies.

4 As stated in the report of the Industry Survey Mission, it is extremely important that there be market studies indicating what products have the best prospects in specific countries. This would enable Korean exporters to direct their efforts to increase exports where the rewards are apt to be biggest. This function belongs to KOTRA.

Market studies should make available

- a. A description of principal imports by item in each of the countries studied,

- b. A record of the import duties levied on such items,
- c. What quotas, if any, exist, on specific items,
- d. Whether there are any foreign exchange controls,
- e. Whether imports may be impeded by labor union activities

In this way, an exporter will be armed with the necessary information to guide him as to the extent to which he should pursue specific markets

5. A great deal of "nuisance-value" paper work and red tape must be eliminated. Here are a few examples

a. Exporters must have the privilege of sending the buyers a reasonable amount of selling samples. The importer must have these samples in order to resell what he has bought and he needs them in advance of the delivery of the full order itself. It would suffice if the exporter had the privilege of sending anywhere from 1/2% to 1% of the total order to be used as selling samples. This privilege should be made automatic.

b. Sometimes the exporter must send samples in order to get business by mail. Surely a reasonable minimal amount can be specified as that which may be sent without cumbersome procedures.

c. Frequently the initial order from a buyer is a small or sample order. Shipments should be readily authorized on such trial orders, but it is important that the exporter, particularly if the product is new, get the benefit of all import exemptions in order that he may be able to determine a fair price to quote.

6. The importance of prompt delivery is on a par with the importance of price and quality. An order delivered late or not delivered at all is damaging to Korea's reputation. It is a blow to Korean prestige when an order has to be cancelled for late delivery. This usually affects a limited number of customers whom it is harder to recapture than if they had never been sold at all.

7. When a Korean producer rejects an order because of his inability to make delivery, this creates a bad impression too. Everything reasonably possible should be done to help the producer in getting, financing and filling orders.

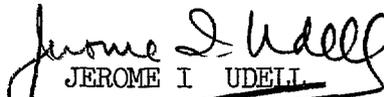
IV CONCLUSION

There is one point I would stress because it deals with overall policy and will determine many regulations. In trying to control exporter activities, rules should not be so restrictive as to put exporters in a straight jacket. They must have reasonable flexibility, even though some may try to take advantage of the situation. Such violators can be apprehended in due time. The many who conform to all rules must not be impeded by the few who misbehave.

It will be obvious from this report that Korea has a glowing future in the men's apparel export field. This is due not only to such things as low labor costs and capacity to acquire skills, but also to the fact that Korea and Koreans are making many sacrifices in order to achieve world recognition. It is gratifying to note to what a large extent this is already being recognized on all continents.

Appropriate action on the recommendations herein contained will accelerate the progress thus far achieved. Such action must be accomplished by the combined teamwork of M C I, producers and trading companies.

The writer would like to take this opportunity of expressing gratitude to all those who have been exceedingly cooperative -- the business community and members of the M C I staff, the KOTRA staff and USOM staff. All are motivated by one guiding desire -- to help Korea realize its just place in the world.


JEROME I UDELL

A special word of thanks is due to Mr. Richard L. Goodrich whose guidance and counsel have been invaluable, to Mr. Amicus Most, Mr. Leonard R. Anton, and Mr. Bert Miripolsky for the part they played in aiding me. My thanks also go to Mr. O. Wonchul and Mr. Kim, Chang Dong of M C I, who have helped greatly to enlighten me on some important points. Likewise I must mention Mr. Chung, Soo Jong, M C I, who has responded capably and graciously to my many demands on his time, and Miss Lee, Ock Jin, M C I, who not only served ably as interpreter and assistant but also contributed greatly with her suggestions to making my task easier.

JIUdell hjh
9/2/66