

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523
BIBLIOGRAPHIC INPUT SHEET

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Batch # 35

1. SUBJECT CLASSIFICATION	A. PRIMARY	TEMPORARY	
	B. SECONDARY		
2. TITLE AND SUBTITLE Export potential of selected Korean small-scale industries			
3. AUTHOR(S) Diamond, Harvey			
4. DOCUMENT DATE 1976	5. NUMBER OF PAGES 17p.	6. ARC NUMBER ARC	
7. REFERENCE ORGANIZATION NAME AND ADDRESS Ga. IT			
8. SUPPLEMENTARY NOTES (Sponsoring Organization, Publishers, Availability)			
9. ABSTRACT			

(Industrialization R&D)

10. CONTROL NUMBER PN-AAC-072	11. PRICE OF DOCUMENT
12. DESCRIPTORS	13. PROJECT NUMBER
	14. CONTRACT NUMBER AID/CM/ta-G-73-18 211(d)
	15. TYPE OF DOCUMENT

EXPORT POTENTIAL OF SELECTED
KOREAN
SMALL-SCALE INDUSTRIES

by

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*This information document was prepared under funding
provided by the U. S. Agency for International
Development under a 211(d) grant*

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January 1976

EXPORT POTENTIAL OF SELECTED KOREAN SMALL-SCALE INDUSTRIES

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January 1976 15 p.

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The assistance furnished to selected small-scale industries in Korea during the January 1974-July 1975 period by members of Soong Jun University and Georgia Tech has been, for the most part, technical in nature, dealing primarily with problems of production and quality. Since for many of these small-scale industries the technical problems have been resolved, the report gives attention and consideration to the possibility of servicing international markets by presenting an overview of the Korean export situation and exploring the foreign trade potential for the selected small-scale industries in Seoul and Taejon which are currently shipping to foreign markets or would like to export in the near future.

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INTRODUCTION AND PURPOSE

Since the inception of the small-scale industry grant contract between the Agency for International Development and the Georgia Institute of Technology in January 1974, members of Soong Jun University and the Economic Development Laboratory of Georgia Tech have been working closely to provide on-site assistance to small industries in the Korean areas of Yong Dung Po and Taejon. As of mid-1975, representatives of SJU and GIT have, acting together as problem-solving teams, consulted with more than 20 small-scale manufacturers in South Korea.

Because the bulk of the assistance furnished by the SJU/GIT groups during the first 18 months of the program had been predominantly technical in nature with no investigation made into the possibilities of overseas marketing, it was decided that some attention and consideration should be given to the servicing of international markets. The purpose of this report, therefore, is to present an overview of the Korean export status and to explore the foreign trade potential for selected small-scale industries in the Seoul and Taejon areas.

SOUTH KOREAN TRADE

Export Policies

In recent years, Korea's international competitiveness has been substantially strengthened through the expansive liberalization of financial aid for trade activities. Laws have been enacted to provide for the establishment of an Export-Import Bank which would facilitate long- and medium-term credit, for expanding exports, and to help establish a Free Export Zone at Masan. Besides these statutes, actions, such as encouraging foreign banks operating in Korea to release exchange loans for export industry modernization, expanding the number of items eligible for export loans under the local letter of credit system, and urging larger exporters to cooperate on manufacturing technology with overseas counterparts, have been initiated.

Export Guidelines

The basic procedure for export is relatively simple. Documentation is uninvolved, and restrictive measures, once extensive, are now minimal.

Individuals and companies intending to engage in international trade activities in Korea are required to obtain a license and register with the Ministry of Commerce and Industry. As an exception, foreign-invested firms, sanctioned by the Economic Planning Board, can pursue overseas trade, but are limited to importation of capital goods under the terms of investment and to the exportation of only company products.

Each export transaction requires either the permission of the Ministry of Commerce and Industry or, in the case of automatic approval items, the approval of an authorized foreign exchange bank.

Most agricultural and marine products, plus a few of the more sophisticated manufactured exports, are required to pass a quality and quantity government-designated inspection before receiving customs clearance. This procedure, however, is generally dependent upon precision, end-use, and materials involved. Once the customs office has inspected the goods against invoices and export approval certificates and has found all in order, a license for customs clearance is issued. Clearance is usually required within four months following export approval.

For the most part, Korea's export transactions are made by irreversible letter of credit (L/C), documents against payment (D/C), and documents against acceptance (D/A). In addition, items such as textile machinery and vessels may be exported on deferred payment terms with collection periods exceeding one year.

Export Shipments

The government's extensive efforts to expand exports have proven fruitful and rewarding. South Korea, an amputated agricultural country in the 1950's, has transformed itself into a trading and competing nation on the international market in less than two decades, with exports equal to 26% of GNP. Backed and encouraged by a strong government-supported trade incentive program, the number of Korean exporters and volumes of exports have increased manyfold in a relatively short time. During the ten-year period 1964-1974, exports from Korea have expanded from \$121 million to \$4.45 billion. This sharp increase represents an average annual growth rate of more than 43%.

Korean exports have not merely grown and diversified; they have changed in makeup and mixture. Whereas the majority of exports in 1964 were, by proportion, little processed and frequently shipped in their natural state, soon thereafter, exports of finished manufactured goods surpassed that of agriculture, aquaculture, and mineral products. In 1974, more than 83% of the export trade was in manufactured items.

In support of the export drive generated during the 1960's, certain measures were governmentally innovated as an inducement to international trade-oriented industries. These incentives included exemptions from customs duties on capital equipment and imported raw materials, export credit and loans for the purchase of raw materials and equipment at rates substantially below the norm, preferential power and transportation rates, income tax reduction on profits earned from exports, and exemptions from various business and product taxes. The combined subsidy effect of these measures has been estimated at about 25 cents per export revenue dollar.

Japan and the U. S. have long been the principal market areas for the Korean exporter. Combined shipments from the Republic of Korea to these two countries climbed steadily from 61% of the total Korean exports in 1964 to 75% in 1970. Since then, however, the high concentration of exports to Japan and

the U. S. has decreased to 64% in 1974. Korean trade markets are presently much more diversified, with sweaters going to Sweden, cotton cloth to Nigeria, and bicycle tires to England. Korean products are presently being shipped to more than 100 countries.

Small and Medium-Scale Industry

As with many other developing countries of the world, small-scale industries play an important part in the advancement of economic growth. Small industries provide a wide base support as subcontractors and ancillaries to larger industries, afford employment opportunities in less urbanized areas, and help industrial decentralization, thereby furthering regional development.

The term "small industry," as it is used to define and describe Korean manufacturing, is based entirely upon size of employment and volume of company assets -- between 5 and 200 permanent workers with total assets of less than 50 million won. The expressions "small industry" and "medium industry" are both very popular in Korea. They are synonymous in meaning and are frequently used interchangeably.

According to the 1972 Korean National Census, the ratios of small and medium industry to large industry for the various economic indices were in 1972: number of establishments, 24,356 (96.5% of 25,248); number of employees, 466,700 (44.7% of 1,045,201); value of production, 652,697 million won (28.3% of 2,302,408 million won); and value added, 260,476 million won, which is 27.6% of a total 942,426 million won.

The role of the small industry is equally important to the continued dynamic growth of Korea's international trade. Statistics show that in 1974 exports made by manufacturing small industry cooperatives constituted 34.7% of the total Korean foreign shipments. This percentage, up from 19.6% in 1964, represents an annual average increase of more than 40% for the decade.

A prime moving force in this expansion of international trade has been a successful government-supported plan to help small industries become export industries. Through this action, designated small industry units have been formed and provided with financial assistance and extension services in management and technology.

In terms of numbers, small industry cooperatives have increased only slightly in ten years. As of the end of 1974, federation unions, nationwide

cooperatives, and local cooperatives numbered 15, 56, and 112, respectively, compared with 13, 48, and 102 in 1964. Total memberships in the cooperatives for this period grew from 7,460 firms in 1964 to 10,146 firms in 1974. (See Table 1.)

Table 1
SMALL AND MEDIUM COOPERATIVES IN KOREA

Year	Number of Cooperatives				Number of Firms in Membership Cooperatives		
	Federa- tion	Nation- wide	Local	Total	Nation- wide	Local	Total
1962	9	33	75	117	1,164	3,960	5,124
1963	12	34	87	133	1,504	5,011	6,515
1964	13	48	102	163	2,191	5,296	7,460
1965	13	50	105	168	2,167	5,096	7,263
1966	15	57	112	184	2,290	5,487	7,777
1967	13	60	103	176	2,375	5,046	7,421
1968	13	62	106	181	2,490	5,009	7,499
1969	13	62	103	178	2,570	5,222	7,792
1970	13	61	101	175	2,658	4,924	7,582
1971	13	59	99	171	2,550	4,786	7,336
1972	15	55	105	175	2,570	5,037	7,607
1973	15	53	105	173	2,776	6,269	9,045
1974	15	56	112	183	3,189	6,957	10,146

It is, however, in value of exports that a dramatic increase has occurred. In 1964, exports from member cooperatives totaled US \$23.7 million. By 1974, this volume had mushroomed to US \$1.64 billion, or an increase of more than 6,800%. Table 2 shows annual changes in total manufactured exports and cooperative association exports.

Of the 71 federation unions and nationwide cooperatives currently operating in Korea, 53 are participating in overseas shipments in 1975. Combined planned exports for the year are expected to approach \$2 billion, one third of the projected national total. Individual union and cooperative estimates for 1975 are listed in the Appendix.

Table 2
 VOLUMES OF KOREAN EXPORTS
 (in thousands of U. S. dollars)

<u>Year</u>	<u>Korean Total Exports</u>	<u>Manufactured Commodity Exports</u>	<u>Exports from Member Cooperatives</u>
1964	120,851	62,322	23,684
1965	180,450	112,372	41,591
1966	255,751	159,684	71,206
1967	358,592	251,175	101,559
1968	500,408	368,940	157,080
1969	702,811	555,055	255,771
1970	1,003,808	839,369	322,865
1971	1,352,037	1,162,855	437,379
1972	1,806,963	1,584,268	652,908
1973	3,256,912	2,914,000	1,213,695
1974	4,460,000	4,252,707	1,640,423

Export Associations

Korea has also encouraged the formation of private associations of exporters as an alternative to government intervention. Besides fostering self-policing and allowing the government to concentrate in other areas, private cooperative exporting associations offer members a coordination of marketing efforts which permits a greater impact on export markets through single or family branding, reduced competition among domestic exporters by helping to stabilize export prices, and the combination of financial and technical expertise for sales promotion purposes.

Association membership is open to any or all exporters. Overseas shipment of a particular product is channelled through the relevant association or with its recommendation. This permits the association to supervise the quality and quantity of exports, the standards for which it aids in determining. In turn, the export associations work closely with the government, which oversees the establishing and enforcing of regulations and membership procedure.

SELECTED SMALL-SCALE INDUSTRIES

Background

Through a small industry grant, authorized and funded by AID, representatives from Soong Jun University and Georgia Institute of Technology have cooperated closely for almost two years in a program of management and technical assistance to Korean small-scale industry. Working together during this time, active groups from the Industrial Technology Institute (SJU-Seoul), the Regional Development Institute (SJU-Taejon), and the Economic Development Laboratory (Georgia Tech) have extended technical and managerial assistance to more than 20 small Korean companies. Although 1974-1975 has been, by and large, a recession period economically, the manufacturers with whom the SJU/GIT teams have worked have experienced sizable increases in employment, productivity, value added by manufacture, and profit.

Of the 20 or more industries the SJU/GIT teams have consulted with during the program's first two years, seven are currently selling manufactured products overseas. Foreign shipments from these firms vary in volume from negligible to a million dollars annually. In recent months, a number of other small-scale industries have indicated a growing interest in obtaining export information and assistance.

A brief identifying description of each of the seven exporting industries, along with an indication of export market size and a suggested approach, is given in the following cases:

Case A

Operation

Located in the Yong Dung Po district, this metalworking company produces screw machine products and small metal specialty parts. About 80% of production output is standard screw machine items and 20% special components. Company export volume for 1974 was valued at \$115,000. Approximately half of the standard screws and a large portion of the specialty parts are sold to the Mattel Toy Co. in Korea, which exports finished products to the U. S. The firm would like to export standard screw items to the U. S. and to supply other U. S. toy manufacturers with specialty components.

Market Indication

In 1974, Korean exports of screw machine products totaled \$8.7 million. The major importing countries for these items were the United States and Japan. Total U. S. imports of screw machine products for the year were \$394 million.

Primary Suggestion

Compile a list of U. S. toy manufacturers and a list of American metal fabricators for the Korean company to contact.

Case B

Operation

Located in the Taejon area, this bicycle parts company manufactures hubs and brake assemblies. The greatest portion of the firm's production output is sold to, and partially exported through, the KIA Industrial Co. Ltd., makers of automobiles, motorcycles, and bicycles. The company would like to export directly to the U. S. and elsewhere.

Market Indication

For 1974, Korean exports of bicycle parts totaled \$1.3 million. The major importing countries for these items were Japan and the United States. Total U. S. imports of bicycle parts for the year were \$155 million.

Primary Suggestion

Compile a list of U. S. bicycle manufacturers for the Korean company to contact.

Case C

Operation

Located in the Yong Dung Po district, this cast iron foundry molds lifting weights, barbells, iron cooking skillets, and various other cast iron items from domestic scrap. Foundry capacity is 3,000 pounds daily. Product finish is poor, thereby giving appearance of low quality. More than two thirds of the production output is exported through Japan at a small margin of profit. The cooking

skillets do not have esthetic qualities to compete in the American market but the founders believe the finish can be improved.

Market Indication

For 1974, Korean exports of domestic iron utensils totaled \$5.2 million. The major importing countries for these items were the United States and Japan. Total U. S. imports of domestic iron utensils were \$72 million.

Primary Suggestion

From a sample iron skillet that had been imported by the U. S., determine if quality and price can be matched. If so, further marketing help is warranted.

Case D

Operation

Located in the Yong Dung Po district, this foundry molds cast iron machine parts. Monthly production capacity is 150 tons, with a work force of 70 persons. Exports from this company are minimal (\$15,000 in 1974), and as yet, SJU/GIT has not been asked for marketing assistance.

Case E

Operation

Located in the Yong Dung Po district, this firm manufactures woodworking machinery. Included in the product line are single surface planers, jointers, universal circular saws, spindle moulders, routers, knife grinders, and wood lathes. Monthly production capacity is 120 units. Export volume of this company in 1974 was valued at about \$40,000 and was directed to the Asian market. The company would like to establish a joint venture with an American company that manufactures a similar or allied line of machinery.

Market Indication

In 1974, Korean exports of woodworking machinery totaled \$672,000. The major importing countries for these items were Singapore and Indonesia. Total U. S. imports of woodworking machinery for the year were \$7.2 million.

Primary Suggestion

Select four or five U. S. machinery companies which might be interested in a joint venture for the Korean firm to contact.

Case F

Operation

Located in the Yong Dung Po district, this company manufactures women's handbags made from leather, plastics, or fiber. Exports are to several countries, but primarily to the U. S. Principal American customers are Sears Roebuck and J. C. Penney Co. In 1974, company export volume was valued at \$920,000. No request for anything other than technical assistance was made to SJU/GIT.

Case G

Operation

Located in the Taejon area, this apparel manufacturer produces leather and PVC jackets, shirt jackets, and coats. The firm exports through a trading company almost \$500,000 worth annually (his entire production). At present, 90% of production output is shipped to the U. S., with most of the remainder going to the European market. The company would like (1) to cut out the trading company and export directly; (2) enter a joint venture with an American leather company to facilitate hide procurement.

Primary Suggestion

(1) Furnish names of two or three large American hide brokers or tanners that might be interested in a joint venture. (2) Compile list of large department store chains for the company to contact.

Case H

Operation

Located in the Taejon area, this agricultural chemical company produces insecticides and pesticides in powder, liquid, and granular form. About 80% of the items manufactured are used on food crops. Because the firm imports a

large proportion of its raw materials (malathion and organic phosphates) and the production operation is basically grinding and blending, there is doubt as to whether it can compete with a broad product line on the international market.

The company does appear, however, to have export possibilities in (1) an organic mercury compound which is used for seed plant protection and (2) a paraffin-coated rat poison that is flavored and/or scented.

Market Indication

In 1974, Korean exports of pesticides totaled \$1.9 million. The major importing countries for these items were Japan and Hong Kong. Total U. S. imports of pesticides and insecticides were \$42.6 million.

Primary Suggestion

Check whether the two products named above are presently being marketed in the U. S. and Southeast Asia.

Although the industry described in the last case (Case H) does not export any manufactured products at this time, it has strong foreign market possibilities and therefore was included in the listing.

Observations and Recommendations

Statistics show a sharp expansion in the volume of manufactured products being exported by small-scale industries in Korea. Each year, an increasing number of small companies are realizing the economic advantages of shipping to foreign markets. Government incentives extended to industries interested in international trade have raised profit ratios substantially, thereby making it "good business" to export.

Although recent simplification of foreign trade procedure has untangled much of the export process for small-scale industries, many firms still lack the marketing capabilities necessary to compete in overseas markets.

These companies need help. Under proper guidance, decisions pertaining to joining a cooperative or export association, seeking a joint venture arrangement, or gaining maximum benefit from government incentives can be made. Assistance should come, however, from people knowledgeable in Korean trade, for unlike technical problems, which usually have universal solutions, answers to

questions on export and marketing are heavily dependent upon local laws and customs.

If a person with Korean trade expertise could be recruited to work with small-scale industry in the Yong Dung Po and Taejon areas, the entire SJU/GIT program would gain an added dimension of accomplishment.

APPENDIX

Appendix 1
MEMBER COOPERATIVES

	Planned 1975 Export Volume (in thousands of U. S. dollars)
<u>Federation Unions</u>	
Dae Han Furniture Industry Cooperative Union	8,000
Han Kook Industrial Arts Cooperative Union	140,000
Han Kook Precious Metal and Jewelry Manufacturing Industry Union	3,600
Han Kook Machine Industry Cooperative Union	38,000
Dae Han Knitted Goods Industry Cooperative Union	320,000
Han Kook Non-Ferrous Metal Manufacturing Cooperative Union	18,000
Han Kook Dyeing Industry Cooperative Union	30,000
Dae Han Printing Industry Cooperative Union	4,800
Han Kook Textile Industry Cooperative Union	190,000
Han Kook Paper Industry Cooperative Union	1,500
<u>Nationwide Cooperatives</u>	
Han Kook Handbag Industry Cooperative	8,000
Han Kook Caustic Soda Industry Cooperative	120
Han Kook Gauge Industry Cooperative	1,800
Dae Han Rubber Goods Industry Cooperative	26,000
Dae Han Mining Industry Cooperative	32,000
Han Kook Metal Industry Cooperative	72,000
Han Kook Agricultural Implements Industry Cooperative	3,600
Dae Han Ceramic Ware Products Industry Cooperative	26,000
Han Kook Fur Goods Industry Cooperative	74,000
Han Kook Timber Industry Cooperative	62,000
Han Kook Stationery Materials Industry Cooperative	18,000
Dae Han Textile Yarn Industry Cooperative	20,000
Han Kook Matches Industry Cooperative	3,200
Han Kook Celluloid Industry Cooperative	7,200
Han Kook Fire-Fighting Equipment Industry Cooperative	572
Han Kook Watch Industry Cooperative	26,000
Han Kook Musical Instrument Industry Cooperative	12,000

Appendix 1 (continued)

<u>Nationwide Cooperatives (continued)</u>	<u>Planned 1975 Export Volume (in thousands of U. S. dollars)</u>
Dae Han Medical Supply Industry Cooperative	2,600
Han Kook Stone Polishing Industry Cooperative	100
Han Kook Silkworm Industry Cooperative	3,000
Han Kook Toy Goods Industry Cooperative	32,000
Dae Han Sporting Goods Industry Cooperative	24,000
Han Kook Glass Products Industry Cooperative	3,000
Han Kook Motor Vehicle Industry Cooperative	12,000
Han Kook Electric Industry Cooperative	9,000
Han Kook Electric Wire Industry Cooperatives	16,000
Han Kook Electronic Industry Cooperative	380,000
Han Kook Battery Industry Cooperative	1,800
Han Kook Tents Manufacturing Industry Cooperative	72,000
Dae Han Bookbinding Industry Cooperative	1,500
Han Kook Lighting Industry Cooperative	10,000
Han Kook Shipbuilding Industry Cooperative	600
Han Kook Steel Industry Cooperative	6,800
Han Kook Soft Drinks Manufacturing Industry Cooperative	40
Han Kook Towel Industry Cooperative	4,800
Dae Han Coal Mining Cooperative	740
Han Kook Electronic and Service Business Cooperative	6,000
Han Kook Paint and Ink Industry Cooperative	6,000
Han Kook Plastics Industry Cooperative	158,000
Han Kook Clothing Industry Cooperative	80,000
Han Kook Leather Goods Manufacturing Industry Cooperative	30,000
Dae Han Fastner Manufacturing Industry Cooperative	3,600