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JPRS L/10241

7 January 1982

Korean Affairs Report

(FOUO 1/82)



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KOREAN AFFAIRS REPORT

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S. KOREA/ECONOMY

ROLE OF BIG BUSINESS ANALYZED

Tokyo EKONOMISTO in Japanese 10 Nov 81 pp 30-34

[Article by Yoshio Sakakibara: "Kankoku no Zaijatsu"]

[Text] Intense Ups and Downs of Big Business

On the midnight television news this past 30 September it was announced from Baden-Baden in West Germany that a decision was made to hold the 1988 Olympics in Seoul. Chong Chu-yon, chairman of the Hyun Dai Group, Korea's number one big business, could be seen in the group which had tried to attract them to Seoul, jumping for joy at the turnabout in the decision. What was going through his mind was that this may be the opportunity to restore the miracle of Han River.

Korea's big businesses are being pressed for a major transformation by the Chun government. For the past several years, big business has been denounced as the ringleader causing a worsening of the fundamentals of Korea's economy through inconstant surplus investments by the big business group.

Since the expansion of big business by excessive competition cannot be permitted by the Chun government whose aim is the efficient management of the economy, in September 1980 it set forth measures to strengthen the revamping of affiliated enterprises of the 26 big businesses. That is, the government is forcing them to devote themselves to reducing operations by discarding those affiliated enterprises which have difficulty continuing in business on their own. Although there were complications, such as problems bound up with sales prices and foreign capital, during this one year period the liquidation of 102 companies was disposed of. That number is equivalent to 16 percent of the total 631 affiliated enterprises of the 26 big businesses, and contrary to expectation, the liquidation seems to be progressing.

The domestic image of Korea's big businesses is not good at all. The view is strongly held that this is nothing but the result of big business' close ties with the government of the day and the improper accumulation of wealth because of preferential treatment. Beyond this emphasis, the position of big business as the nucleus of the economy, in the extreme, has developed to the point of being discussed as unwanted. Actually this drift of argument is seen in some circles.

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To begin with, in the developing nations big business is the group of enterprises which comes into existence for the purpose of possessing the power to compete with the economic strength of the advanced nations; and in order to enhance industrial strength, this kind of enterprise group is indispensable as the nucleus of the economy. Consequently, big business exists in other countries to a greater or lesser extent; and as can be seen typically in many cases in Central and South American countries, they avoid mutual competition and protect their own exclusive society on friendly terms. Compared to them, Korea's big businesses have repeated ups and downs within a fierce competition. This difference is the main factor decisively characterizing the nature of Korea's big businesses.

Next let us examine Korea's big business groups, in particular the role they have played.

In general, Korea's big businesses were not started as industrial capital. Prior to Japan's defeat in the war, it was under colonial control and the formation of native capital was completely controlled. Because of that, the well-known Korean capital at that time was Seoul Spinning Company, which formerly stretched all the way to Manchuria, and Whashin which spread its chain stores to all the provinces, having as its nucleus department store operations which ranked with Mitsukoshi Department Stores.

After liberation, even though a few big businesses began to form from the disposal of property returned from Japan, almost all of them received a crushing blow from the Korean War which broke out in 1950; the starting point of the formation of big business was the manufacture of the "three whites" (raw sugar, cotton and flour) with U.S. aid after the cease-fire. That is, appropriate aid commodities were sold monopolistically and a high profit was realized by means of low-scale processing.

The diversification of operations was planned by means of this kind of accumulation of wealth, but the character of pursuing commercial profits as a businessman with special political connections seemed stronger. Society's criticism is focused on this, but from the view of the historical situation of capital accumulation, it seems this was something unavoidable in the transition.

At the level of industrialization developed from the processing of American assistance goods as the nucleus, those that established positions as big businesses were Sam Sung, Lucky, Sam Ho, Dae Han, Kae Pung, Na Rim, Ssang Yong and Tong Yang, and together with the two mentioned earlier, these were called the 10 large big businesses of the 1960's.

Expansion With Industrialist's Spirit

At the beginning of the 1960's, Korea's per capita national income was less than \$100, falling below Thailand and the Philippines. Twenty years later, it is more than \$1,500. To what is the fact due that it has become influential as a mid-level developing nation? With no natural resources and no capital accumulation, the main factor was solely the manpower resource.

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The prerequisite for promoting the development of the economy in such conditions was "to construct a cycle for reproduction on a progressive scale." It is certain that the operation of relatively rational economic policies and the people's diligence have the greatest importance.

However, even more than that, the constructive, forward looking intention of Korea's industrialists was the indispensable prerequisite as the motive power. The fertilizer plant built in 1964 by Sam Sung was taken away by the government, but at that time, the construction of the 330,000 ton urea fertilizer plant was a large project equivalent to the present construction of the Chiba plant of Kawasaki Steel Corporation.

Even though Hyundai's 1 million ton dock, completed in 1974, was built on direct orders from President Pak, Hyundai's fate depended on it. Moreover, even with Daewoo's recently completed shipyard dock at Okpo, which prides itself on being the world's largest at 1.2 million tons, it certainly can be said that it also resulted from the hearty support of the government, but it could not have been achieved without the industrialists' insatiable desire. If it had failed, the same fate may have been waiting as that of Mr Shin, the pioneer of private aviation, who jumped into the Han River. It was a challenge under these conditions.

Chairman Lee Pyong-ch'ol of Sam Sung expressed the conviction, "for a greater tomorrow" to Hanguk Ilbo, a leading publication, in 1964: he asked a question in return, "While we have our own high level spiritual civilization, why hasn't the per capita national income progressed beyond the lowest level in the world?" He also stated, "The rebuilding of the economy cannot be guaranteed without a radical switch to industrialization policies and their practical application. Investment expansion is the greatest requisite condition for emerging from poverty."

Likewise, in reference to the improper accumulation of wealth conduct, he counterargued, "Disregarding those who caused the nation to suffer by failing to manage even though they inherited the majority of the large and small enterprises taken over from the Japanese or those who were unable to revive even one useful factory or profitable operation even though they received bank loans and the blessing of American assistance funds, why punish as people who improperly accumulated wealth the many businessmen who conquered many roadblocks and contributed to the expansion of production and increased employment?"

It seems that Chairman Lee understood that in order for a country where the per capita national income is under \$100 to develop its economy, the sole condition making development possible is not to decentralize but to centralize all business resources. Certainly the Korean economy has developed, adopting industrialization measures with foreign capital as the lever; but if only small businesses had been in existence, the introduction of foreign capital would not have been that easy.

Moreover, deserving of special mention is the fact that the prosperity of consumer industries based on aid commodities reached their peak, and when the state was reached where the heavy chemical industry was inevitable, the industrialist's spirit showed even more of an uplift. Since the mid 1960's many rising big businesses have surfaced with remarkable vigor, such as Hyundai, Han Gin, Daewoo, Hyosung, Kolon, Sunkyong, OB, Kumho, and Daerim.

And then the heavy chemical industry was actively dealt with in the 1970's. In the course of this, it seemed measures were introduced.

That is, an expansion of operations was planned by putting into the heavy chemical industry earnings from the light industry field, starting with the textile field. Of course, they had the backing of the government on loans for the heavy chemical industry field, but some of the big businesses which could not deal with the trend of the times or the big businesses which had rapidly expanded operations under a financial structure wherein they depended too much on outside funds and had little of their own capital, vanished.

Status of 20 Major Big Business (1980)

Unit: 1 million won (percent)

Rank	Group name	Sales	Total Assets	Total liabilities	Capital	Liabil-ity ratio (percent)	Owned capital ratio (percent)
1	Hyun Dai	3,262,100	2,984,021	2,344,039	267,765	366.27	21.45
2	Lucky	2,970,900	1,739,650	1,474,146	144,303	555.23	15.26
3	Sam Sung	2,905,000	2,012,057	1,730,760	197,715	615.	13.9
4	Sunkyong	2,669,287	1,501,220	1,434,837	131,890	2,161.45	4.42
5	Daewoo	1,613,232	1,774,594	1,417,677	254,776	397.20	20.11
6	Ssangyong	1,322,600	975,783	815,997	79,657	510.67	16.38
7	Hyosung	1,191,724	1,051,520	942,110		861.08	10.4
8	Kukji Training Co	919,955	682,758	596,409	49,944	690.70	12.65
9	Hanjin	893,861	1,037,503	960,939	69,010	1,251.83	7.40
10	Tai Lin Industrial Co	786,131	831,111	635,729	94,282	325.38	23.51
11	Korea Explosives Co	734,785	561,584	511,661	39,374	1,023.90	8.89
12	Tonga Construction Co	640,185	524,324	375,070	27,945	251.30	28.47
13	Lotte	565,209	525,346	385,594	136,813	275.91	26.60
14	Kolon	445,556	344,630	280,005	33,542	433.3	18.7
15	Kumho	444,624	384,464	316,657	31,130	467.00	17.64
16	Korea Electric Cable Co	403,248	438,870	350,471	57,636	396.46	20.14
17	Sammi	398,276	376,302	336,239	25,900	839.28	10.65
18	Doosan	385,382	640,121	535,195	43,434	510.	16.4
19	Dongkuk Steel Mill Co	384,527	394,603	336,571	672,159	580.	14.7
20	Hanil Synthetic Fiber Co	383,733	389,578	308,508	35,179	297.24	25.17

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Control of Most of the Economy

However, the position the big business groups hold in the national economy rose annually, conjointly with the department store formula aim of one set, no matter what it is.

As a result, the sales of enterprises affiliated with the top 10 big businesses in 1980 reached 55 percent of GNP at 19.3 trillion won. Likewise, in terms of exports, the ratio the top 20 big business affiliated enterprises hold of total exports was 43 percent with actual figures of 7.5 billion dollars.

The relative importance of the big business affiliated enterprises in manufacturing industry production cannot be ascertained exactly, but speculating from the mining and manufacturing industries census, in 1978 there seemed to have been types of industries which had almost established an oligopoly--such as 85 percent of the transportation equipment field, 75 percent of electronics and 60 percent of textiles. Besides these, the share of completions in the construction industry rose to 65 percent in 1979 with the rapid expansion of overseas construction, and the transportation warehouse industry share has reached 55 percent.

Next, looking at the role big business plays in employment, the number of employees in the big business affiliated enterprises is conjectured to be about 1 million, equivalent to 40 percent of the total employed population, and breaking this down by big business group, Hyundai leads with 125,000 employees, then Sam Sung with 75,000 and Daewoo with 60,000.

One of the roles big business played in terms of employment was that it offered the chance for employment to people of superior talent. Korea is widely known to be zealous about education from olden times, and it started industrialization smoothly with a supply of talented people who could adapt to an industrial society, but there were limited companies which could take them in. In such a situation, big business was greatly effective in absorbing a great number of talented people.

The fact big business used the youthful energy of graduates, who sometimes are a chief cause of social unrest, in building an industrial nation must be highly valued. The rearing of a business elite was the prelude to the appearance of a new middle class in Korean society, and furthermore was connected to a mass production of a more widespread middle class.

On the other hand, that fact caused an enlargement in the income differential with workers on the bottom scale. But it is a fact that in the process of high level growth, a substantial rise in pay in the big business affiliated enterprises had the effect of lifting the bottom of the general pay scale and contributed to a reduction in the differential between enterprises. The rise in the work distribution ratio of recent years backs this up and the fact that there are some big businesses which curtailed to a high degree personnel reductions at the time of the 1980 depression must be specially mentioned, given the nature of Korean enterprises.

Korea's high level growth until now has retained a relationship with excessive competition like two sides of a coin and coexisted with it; but the big

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business group's department store formula operation is obliged to amend its track because of the slump.

The development of diversified operations which from the very beginning aimed at a dispersion of risk could not demonstrate adaptability at the level of the big business groups.

Certainly, even though the development of an enterprise and the competitive motivation is always a contrary relationship, on the other hand the inclination toward expansion which seems to be without any fixed principle is a primary factor putting a strain on the buildup of industry at the national level. The main reason why there is great criticism is that fields where big business advanced extend to many industry fields--from the heavy chemical industry to the service field--and they eat away at the special fields of small to medium-sized enterprises. The internalization of the external economy which restrains as much as possible the general effect of the external economy and tries to restrict it within its own group should be avoided as much as possible.

In order to do so, naturally it is necessary for small to medium-sized enterprises to plan a high level development while accumulating the technology in small- to medium-sized enterprise products fields which until now big business affiliated enterprises could not help but manufacture themselves; and perhaps government support should direct itself to this.

In any event, the operation style where big business extends its tentacles is sounding its end and there is a strong demand that its character be transformed into a modern enterprise group. A same family operation often becomes the target of criticism; and in the present situation where an existence as a national enterprise is demanded, the separation of capital and management is a subject which should be sufficiently considered.

In the economic policies under the Chun government which advocate a switch to a private leadership style, it is not an exaggeration to say that the nucleus encouraging Korea's industrial structure to be a systematic structure befitting an industrial nation is the big business group's manner of behavior.

Responsibility and Moderation To Be Strengthened

In Hyundai's heavy chemical industry, in terms of the technological requirements, it is necessary to make it large scale by means of a comprehensive systematization and diversification, and there is a strong tendency for the necessary funds to be large, and perhaps it is big business which has that role and which possesses the expertise to accomplish it. Likewise, the development of internationalization will inevitably expand the move overseas along with the liberalization of trade and capital, but that requires skill in international enterprise operations. In that case as well, for the time being it is only big business which can be the nucleus. Therefore it can be said that the role which big business should perform even more now than in the past will become greater, and the responsibility it has toward the national economy will become all the greater. Moderation is demanded along with the continuation of the industrialist enthusiasm.

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Finally, let me present the profiles of four big businesses.

Hyundai Group

Different from many of Korea's big businesses which made their core light industry, such as textiles, the Hyundai Group started with a move into the construction business. It undertook the construction of airports and construction for the U.S. military during the Korean disturbance, by and large consolidating its operation base, and after the conflict, it rode the crest of the country's recovery boom and worked on the expansion of its operations, such as cement and concrete; and in the 1960's it participated to a large extent in the major highway construction for the entire country in accordance with the nation's development plan. In this process, it built up a firm position in the industry. During that time, it contracted to construct Thailand's highways in 1966; it was the first to carry out overseas construction.

Besides construction, it advanced into the machinery and trade business in 1962, established Hyundai Motor Company with Ford Motor Company in 1967 and established Hyundai Heavy Industries Company in the 1970's; and thus is seen the birth of its four major strategic industries of construction, machinery automobiles and shipbuilding. However, until that time, Hyundai's total strength ranked low in comparison with Sam Sung, Lucky and others.

After that, it joined the government promoted heavy chemical industry line and worked closely with the Pak government; and the strengthening of its organization became conspicuous. In particular, its advance into Middle East construction with the oil crisis as the opportunity was the motive force for the business expansion of the group's various companies. The extensive growth of the four major main force industries established affiliated enterprises in such areas as engines, ship paint, welding rods, carbide, furniture, cars, automobile parts and service, electric power generation, engineering, building management and shipping. Its unending spread with construction and heavy industry as the core became a topic of conservation with the purchase in 1978 of Inchon Steel Company, a major steel company.

As a result, the number of affiliated enterprises reached 60 and it changed from a construction plutocracy into an enterprise group representing the image of an industrialized Korea. Great hope is placed on this group in the future rebuilding of the economy. The international competitive power of foreign construction and shipbuilding is highly assessed from actual results and it can be said that a high added value is hoped for through raw materials and production of intermediary businesses.

Lucky Group

The Lucky Group which holds a place among the four major big businesses is a conservation topic since announcing its move into the United States with color televisions, but its starting point was Lucky Chemicals Company, manufacturer of pomade, established in 1947. Afterwards, it spread its hands into plastics, soaps and toothpowder. The process whereby it attained its present greatness from the general merchandise business world crowded with many minor businesses

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is somewhat different from the other big businesses' modus vivendi, but it had the same character as other big businesses in laying the groundwork by relying on system financing.

In 1959, it started Kum Sung Company, a wall and desk clock company, and then it was first to arrive in the home electric appliance field, such as radios. It acquired a monopolistic profit, riding the crest of the home electric appliance boom, and in 1967 it launched into oil refining with the establishment of Honam Oil Refinery Company in joint partnership with Caltex. It became Korea's largest oil refinery with a current daily production capacity of 380,000 barrels.

With the three main force enterprises of chemical products, oil refining and electric appliance as the scaffolding, in the field of electrical equipment, it established Kum Sung Communications Company in 1969, jointly with Semens for the production of telephones; it established Kum Sung Alps Company, a manufacturer of tuners and Kum Sung Electric Company, manufacturer of microwaves; and in 1974, it set up Kum Sung Instruments Company, manufacturing meters and instruments in joint partnership with Fuji Electric Machinery Company, Ltd. Then in 1978, it purchased Shin Yong Electric Company, manufacturer of elevators, which was a joint venture enterprise with Mitsubishi; and it accomplished a move into the computer field by setting up Kum Sung Semiconductor Company in 1979.

In the petrochemical field, it set up Lucky Petrochemical Company, a naphtha cracking company, in 1978, and Lucky Polychemical Company, manufacturing polyethylene, in 1979. These and its comprehensive trading company. Bando Trading Company, and Lucky Development Company in the construction field are the major enterprise groups comprising the Lucky Group.

In a situation where big businesses which had invested huge amounts of money into the heavy machinery field in a period of high level growth agonized over raising funds, Lucky's burden there was small, and it seems its special character is that it aimed at an expansion of its business in cooperation with foreign capital.

On the one hand it aims at being a worldwide synthetic chemical manufacturer in the future, and on the other hand it throws all its power into strengthening the rearing of its semiconductor industry.

Sam Sung Group

After liberation, Sam Sung's departure point was Sam Sung Corporation which formed the plan for a trading business established within the ruins of the Korean conflict. After the ceasefire, it set up Jeil Sugar Company and Jeil Wool Manufacturing Company which were Korea's first sugar producer and woolen manufacturer. In 1958, the flour milling division took its place alongside of sugar production at Jeil Sugar; and in the 1950's, the "three whites" industry was complete. The aim in which the foundation of the industry was the substitute for the import of the essential goods for life was on target, and it leaped to the top of Korea's big businesses. After that, in the 1960's, starting with

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the fertilizer plant mentioned earlier, and besides moving into the field of paper manufacturing, department stores, insurance, electrical equipment and electronics, Sam Sung Corporation was organized, and under its banner, it set up institutions for the public good, such as Koryo Hospital, CHUNGANG NEWS, and Tongyang Broadcasting Company, which was taken over by the government in accordance with the centralization of the media under the Chun government.

As for principal companies, in the 1970's it set up Jeil Synthetics Company, manufacturer of polyester, Sam Sung Heavy Industries Company, a machinery plant and a joint venture with Ishikawajima-Harima Heavy Industries Co., Ltd., Sam Sung Petrochemical Company, a three company joint venture with the U.S. Acom Company and Mistui Petrochemical Industries, Ltd., and Hotel Sinra; and in the later half of the 1970's it established a semiconductor and precision instrument company, and undertook to set up Sam Sung Shipbuilding Company and Sam Sung Comprehensive Construction Company.

Sam Sung Group's special characteristic within such diversified operations is that there are many enterprises that have a high earnings and a high share of sales. In a situation where the industry structure changed rapidly in the 1970's, many of the so-called preferential treatment big businesses which were said to have received the patronage of the former Lee Sung-man (Syngman Rhee) government fell, and the domain of big business changed greatly. The reason Sam Sung maintained its position even while being out of favor with the Pak government was that it diluted the nature of family controlled operations and provided a system adaptable to changes in the export environment and the industrialization of heavy chemicals.

The ratio of both food products and textiles, which was in excess of 50 percent of sales and assets in the 1960's, has fallen to 10 percent at present, and the relative importance of heavy chemicals has risen. And the expansion of the electronics field, centered in televisions which exceeded a cumulative production of 10 million sets seems especially remarkable.

Because it is facing a period where investments in the field of electronics, shipbuilding, plants, precision machines and petrochemicals reach fruition, the role this group should play in the Korean economy, which has entered a period of stable growth, is great. It will be the enterprise's activity to reach an international level and promise prosperity for the national economy.

Daewoo Group

Daewoo Group symbolizes Korea, an export state. Since starting the export of textile business with five employees in 1967, it has become Korea's first \$1 billion export business in 1979. Looking at its growth process, it adopted a business expansion centered in the light industries with textiles at the core until the mid 1970's, but after that, it developed operations emphasizing heavy industries.

On account of that, the affiliated enterprises extended over many industrial fields, but the main pillars are Daewoo Corporation, the parent company which has many textile plants, Daewoo Shipbuilding Company, Daewoo Heavy Industries Company, manufacturer of industrial machinery and the like, Sehan Motor Company,

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a joint venture with GM, and Daewoo Development Company, a construction firm. With these five core enterprises as the axis, some 40 companies, such as electronics, leather, cosmetics, footwear, musical instruments and general merchandise, are linked as affiliated enterprises.

Getting out of textiles in the mid 1970's was its intent in common with other big businesses. Rather than establishing a new enterprise, the purchase of an existing enterprise and expanding it was more advantageous in an environment where rapid completion was required. In that sense, Daewoo's takeover of Shinjin Group's main enterprises was the greatest factor making development possible in a short period of time.

Daewoo Heavy Industries Company, which was undertaken in 1976, was Korea's machinery industry previously transferred from government management to the Shinjin Group, and Sehan Motor Company which was taken over in 1977 was GM-Korea under the management of the Industrial Bank of Korea due to a slump in operations at that time and was the former Shinjin Motor Company. Likewise, Daewoo Shipbuilding Company, taken over in 1978, was the Shipbuilding Public Corporation's Okpo shipyard. It is a famous story that it competed with Sam Sung over the takeover. Besides that, there are many examples of Daewoo's takeover of existing enterprises and there are few core enterprises which it established itself.

In this way, Daewoo, receiving the support of the Pak government, incorporated heavy chemical industry plants into its own projects by means of takeovers.

It has been reported that Daewoo, while planning the stabilization of its operation base by means of amalgamation of main force enterprises in the future, plans to strengthen even more its overseas advance; it may be said that the expectation not only of the Chun government but also of the people relies on the rapid progress of Daewoo which performs the role representing Korea, an export state.

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SECOND STEEL MILL CONSTRUCTION REPORTED

Tokyo EKONOMISTO in Japanese 24 Nov 81 p 6

[Article: "Korea Plans Second Steel Mill Construction at Kwangyang Bay; First Period Completion Expected in 1978, With 40 Percent Foreign Capital"]

[Text] Korea's second steel mill construction site has been finally decided: Kwangyang Bay, Yochu County, South Cholla Province. Situated in its vicinity is the Yochu Petrochemical Complex. This steel mill is going to be a large-scale industrial base second only in size to the petroleum complex in Cholla Province. This decision was revealed on the 5th by the minister of construction, Kim Chu-nam, during a talk with the members of the construction committee of the National Assembly.

Asan Bay Reduced to White Paper

Construction of the second steel mill was once decided in July 1979 under the Pak regime to be at Asan Bay on the border between Kyonggi Province and Ch'ungch'ong Province. According to the plan then, a plant site at Asan Bay, 990 million square meters in area, was to be prepared; 13.2 million square meters of which were to be used for the construction of a steel mill and a harbor facility capable of accommodating 200,000-ton class ships together with water and railroad facilities necessary for the steel mill. However, further study revealed that the range of the tide was considerably large at Asan Bay so that a dock type construction was necessary if a harbor was to be constructed there. Moreover, the capital required was huge and a construction period of 6 years would be required.

Therefore, a total of seven bays in the vicinity of Kwangyang Bay and P'ohang were investigated as the candidate sites. Finally, by February this year, the original plan was completely scrapped and the candidates were narrowed down to Asan Bay and Kwangyang Bay and a feasibility study was carried out. Of these two sites, the Ministry of Construction preferred Asan Bay from the viewpoint of effective national land utilization by a consolidated general development, while the Consolidated Steel Mill preferred Kwangyang Bay because the required development cost would be less. The Korean Government hired a French consulting firm to carry out the study and, as a result, Kwangyang Bay was recommended because of more favorable harbor conditions and lower

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construction cost. The Korean Government further took into consideration the security factor in addition to the recommendation and finally decided upon Kwangyang Bay as the site after obtaining the approval of President Chon Tu-hwan.

According to the plan, the work related to reclamation of 8,925,660 square meters of plant site will begin in 1983, and by July 1987, the first period construction including the construction of a crude steel mill with an annual capacity of 3 million tons is expected to be completed. By July 1989, the second period construction will be completed and the annual crude steel production capacity will have been increased to 6 million tons; by January 1992, to 9 million tons, and further by January 1994, to 12 million tons. Moreover, the harbor facility will be expanded to accommodate ships of 250,000-ton class. The capital required for the first period construction is approximately 2 trillion won (\$2.7 billion) including the harbor construction cost of 1.434 trillion won. Forty percent of the total capital is said to be foreign capital.

The second consolidated steel mill construction plan was studied by both government and the private financial circles as early as the spring of 1970, and a plan for the first period construction consisting of construction of a plant having an annual crude steel production capacity of 5 million tons to be started in 1976 was drafted in the summer of 1973. However, this plan had turned into a white paper due in part to the difficulties encountered in raising the capital and it was decided to expand the P'ohang Steel Mill after all.

The fourth period construction at P'ohang began in April 1979 and the work was finished in February this year. As a result, the crude steel production has been raised to 8.5 million tons a year. However, further expansion cannot be expected. Therefore, Korea's steel self-support rate was considered to decrease rapidly toward the middle of the 1980's if the status quo was maintained, and the second steel mill construction plan surfaced once more in the summer of 1977. The plan was brought to a conclusion in 1979. Although the Ministry of Commerce under the Chon Tu-hwan regime insisted that the plan be finished during the Fifth Five-Year Plan (1982-1986), the economic planning agency insisted that it be postponed to the next plan period because of the enormously large capital requirement. Finally, it was decided that the construction be started in 1985 in the later part of the Fifth Five-Year Plan period and finished in 1988 during the Sixth Five-Year Plan period.

A Symbol of Chon Regime's Success

In February this year, at the firing ceremony of the No 4 blast furnace at P'ohang, President Chon Tu-hwan stated: "When construction of the second steel mill is successfully completed, Korea will come one step closer to the ranks of advanced nations both in name and reality." Just as P'ohang was the symbol of economic growth under the Pak regime, the second steel mill shall be the symbol of economic success under the Chon regime, it appears.

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According to a Korean source, in addition to the purely economic reasons, there was also political reason as to why South Cholla Province was chosen as the construction site. Namely, South Cholla Province has long been treated indifferently so that anti-establishment sentiment is very strong there. This act is, therefore, considered to be a conciliatory measure.

The source further pointed out that political consideration toward the tragedy that took place in Kwangju, South Cholla Province in May last year was also at work.

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