

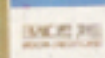
KOREA BusinessWorld

3,000 Won or US\$4.50

FEBRUARY 1989, VOL. 5 NO. 2

MONTHLY ECONOMIC JOURNAL

CHARGE IT!



HEARTLIST DESIGN

HEARTLIST DESIGN

Inside:

Tax Scandal

Pacific Age

KOREA BusinessWorld

MONTHLY ECONOMIC JOURNAL

Mailing Address: Yoido P.O. Box 720 Seoul, Korea

Tel: 782-3648, 783-9431/2, Fax: 829839 KBWORLD

FAX: (02) 783-7621

Publisher/President Leo Kie-Hong

Board Directors Lee Hahn-Beon,
Kim Seung-Jin, Han Pyo-Wook, Lee Soon-Jo

Editor Lee Kie-Hong

Editorial Board Han Seung-Soo,
Han Sung-Joo, Kim Young-Woo, Oh Kwan-Chi,
Park Ung-Suh, Suh Sang-Mok

Executive Director Lee Ranghi Colasto

Managing Editor Arnold Stoddard

Economics Editor Shin Sang-Kap

Finance Editor Lee Kwang-Hoo

Associate Editor Lho Joo-Hyung

Reporters Jeong Man-Seok, David Riddle, Lucia Kim,
John Song, Park Hyeon-Suk, Lee Chang-Suk

Copy Editor John Huston

Contributors Richard K. Bank, Jong Sang-Hyon,
Chi Chang-Hyun

Production

Manager Kim Song-Kie

Assistant Cho Hee-Eyoung

Layout & Graphics Maeng Myung-Suk

Photographer Jung Jong-Sul

Proofreader Chi So Hyun

Public Relations

Advisor Kim Choon-Ho

Administration Department

Director Kim Young-Ja

Assistant Oh Sung-Gyo

Executive Assistant Park Jung-Sook

Accounting Choi Yong-Ille

Circulation Staff Chung Hye-Seung

Administrative Assistant Yang Min-Jung

Advertising Agents

KOREA

World Media Inc.

President Jeon Min-Hee

Associate Manager Lee Kwang-Seo

Assistant Managers Cho Young-Joon, Lee Sang-Mon

Staff Cheon Do-Je, Lee Joann-Ok

Advertorial Writers Cherie Song, Jini Mung

Add: Suite 108 Shinsoong Bldg.

25-4 Yoido-dong, Yongdeungpo-gu, Seoul, Korea

Tel: 783-6438 FAX: (02) 780-0737

JAPAN

Fumiko Terada, President, Shinwa International, Inc.

Azabaka Futaba Bldg., 1-6-14 Azabaka, Minato-ku, Tokyo

Tel: (03) (284) 6400 Telex: 5294W002 JIPESE FAX: (03) 595-9628

SINGAPORE & MALAYSIA

Peter Cheong, Managing Director

Asia Pacific Media House Pte Ltd., 188 Beach Road #24-02

Shaw Tower, Singapore 078

Tel: 290254, 290250 Telex: 85 8828 MCEPY MAL 290268

USA

Roma/38

New York: Cynthia Tsao

20 Madison Ave., NY, NY 10037

Tel: (212) 953-2121 FAX: (212) 953-2128

Chicago: Bob Sherman

Tel: (312) 674-1100 FAX: (312) 679-9808

Los Angeles: Ruth Looney

Tel: (213) 463-3708 FAX: (213) 463-0544

U.K., MIDDLE EAST

Vivienne Davidson, Managing Director, Intermedia Ltd

London House, 25-40 Rensington High St.

London AB 4FF, England

Tel: (01) 928-2222 FAX: (01) 928-0678

Telex: 26840 NETMAK G

CANADA

Edward W. Bush, President

International Advertising Consultants Ltd.

2 Carlton Street, Suite 130, Toronto, Canada, M5B 1L1

Tel: (416) 977-6204, Cable Address: Intercon, Tx: 06-23484

FRANCE

Kathrin Elm Agency Oyster Elm.

41 av. Montaigne 75008 Paris

Tel: (1) 47 23 32 67 Telex: 290263 FAX: (1) 47 23 64 67

Distribution Agents (Japan)

Japan

Masahiro Frank Yokoyama, President YOKOHAMA Western

Publications Distribution Agency 14-F Okubo 3-chome,

Shinjuku-ky Tokyo 160 Japan

Tel: 206-0881 Telex: 222481J

USA

Sung-Joo Kim (Goldard), President KONA America, Inc.

357 Rector Place, Suite 4H New York, NY 10002 USA

Tel: (212) 948-0546

Published monthly by Korea BusinessWorld Ltd.

Suite 302 Shinsoong Bldg.

25-4 Yoido-dong, Yongdeungpo-gu, Seoul, Korea

Government Registration No. 84-3088

Registration approval date: June 14, 1985

Typesetting by Youjin Compugraphic (073-7402, 2028)

Printing by Cheokwang Printing Co. (078-8381/2)

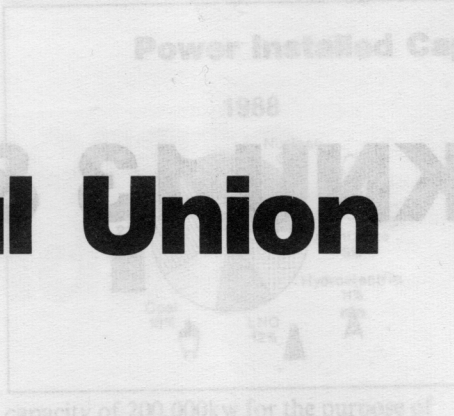
ISSN: 1013-7722

will drop to 26.26 won and 27.99 won, respectively.

Despite the efficient production capability and cost superiority, the 2nd unit still faces numerous problems. First and foremost is unfavorable

A Fruitful Union

on the part of the government. For instance, the cost of nuclear waste disposal has not been included in the power generation cost. Third is the existence of an exclusive contractual relationship with AECL, a Canadian government corporation. The final problem is dif-



Shinsung Packard stays on course.

The joint-venture between Shinsung Tong Sang, associated with Daewoo, and Packard Electric, a division of General Motors Corporation, has been one of increasing growth and understanding. Bick Lesser, executive vice president at Shinsung Packard Co., Ltd. (SSP) says that it took him awhile to understand that "I could not run the company myself and my Korean counterparts to come to understand that the way they had done things in the past was not always right." Although the Plant start-up was very successful and exceeded expectations, it seemed like at first there was "one relationship crisis after another, but now we have a very good working relationship."

This is a comment from a man who is not new to doing business internationally. Before coming to Korea two and a half years ago he was the engineering manager at Packard's Portuguese operation for almost three years and before that he assisted in the start-up of Packard's Mexican operation in the US-Mexico border towns of El Paso, Texas, and Juarez, Mexico, spending six years there in various engineering assignments.

His new position is to provide management and technical expertise and to oversee Packard Electric's interests in their 50-50 venture with Shinsung Tong Sang company. Daewoo Corporation owned approximately 13 percent of Shinsung Tong Sang at the time the joint-venture was consummated but currently has no ownership stake in the company. It was through this relationship with Daewoo along with the insistence of Pontiac (General Motors division) that Packard Electric be involved in the supply of any wiring sets coming to them, that SSP obtained the contract to supply electrical harnesses for all Daewoo



Motors Lemans automobiles, both domestic and export versions, and about half of the Daewoo Royales.

According to Packard Electric, SSP provided wiring harness sets for about 130,000 cars in 1988. This year they are projecting that sales will approach 180,000 wiring harness sets. As Daewoo Motors continues to expand, SSP will continue to grow with them.

Lesser said that in order to meet this growth, a new facility is being constructed. In addition to gaining more floor space to accommodate growth, the new plant will increase the company's ability to service customers as well as give them access to the new port being built on Korea's west coast. Shinsung Packard expects to be awarded the contract to supply harnesses for the new J-car in 1990 and hopes to become a supplier for the minicar facility that Daewoo Corporation is planning to build near Pusan.

One of SSP's biggest dreams is to begin breaking down barriers that exist in doing business cross-Chaebol. SSP will actively pursue business opportunities outside of the Daewoo group companies. In addition to manufacturing world-class automotive wiring harnesses, SSP is now acting as a distributor for Packard and Reinshagen components. SSP is also planning to begin the manufacture of automotive ignition sets in a few months and would like to develop non-automotive wiring harness customers as well in such areas as appliances and electronics. Another

goal is to pursue related business opportunities in Japan, hopefully benefiting from G.M.'s interest in both Isuzu and Suzuki.

When the venture was started-up, SSP imported about 75 percent of its raw materials (dollar-value), primarily from West Germany and the United States. By increasing the localization of items such as plastic connectors, rubber parts and metal terminals they have been able to cut imports by about 20 percent, and they hope to increase this by more than ten percent per year on a percentage basis over the next few years.

An area of major concern with overseas manufacturing in general, and wiring harness manufacturing in particular, according to Lesser, is quality. This is the reason for Pontiac's insistence that Packard Electric be involved with the Lemans' wiring manufacturing as a precondition for importing and selling the vehicles. To insure a smooth start-up, eight SSP employees were sent to Packard's Portuguese operation to receive intensive training, especially in the area of quality. In addition, training and support has been provided by other Packard technical personnel. SSP has also used quality training and support resources available in Korea. To date more than 20 SSP personnel have attended the quality training program at the Korean Standards Association (KSA).

This emphasis has apparently paid off. The quality level of SSP harnesses at the Daewoo assembly plant has been very high. Currently the harness rejection rate at the factory is less than 0.2 percent. According to a recent product evaluation study, the product quality level from the Shinsung Packard facility is comparable to the best of Packard Electric's North American or European plants.

While Shinsung Packard is price competitive, it is counting on gaining additional business based on quality, delivery and service. In the future the company hopes to become a full-service supplier as opposed to its current status as a build-to-order manufacturer. To pursue this goal, they have sent two engineers on a six-month program to Packard Electric's Warren, Ohio headquarters. When they return to Korea, a Packard engineer will accompany them in order to continue their training.

Shinsung Packard is an example of a company that overcame initial problems of start-up and is definitely headed in the right direction. A direction that signals continued learning, growth and expansion. **W**

That Phone Away From Home (and the Office)

A new toy that is quickly becoming a "must have" for status conscious businessmen in this growing city of commerce is the mobile cellular telephone.

No longer is the busy executive out of contact with his office just because he is stuck in one of Seoul's eternal traffic jams. If a high-powered executive needs to get in touch with a client or is expecting an important call from a customer, this modern executive can take the call from the comfort of his automobile or, with some phones, while he is walking down the street. The innovation of the cellular telephone means that businessmen do not need to stay tied to their desks in order to conduct business.

Firms such as Samsung, Hyundai, GoldStar and Motorola supply a variety of phones that can meet their customers' needs. Yoo Ho-hyun, general manager for cellular subscriber operations at Motorola, said that his company currently offers two models.

The cheapest model that Motorola offers is their model 3000. This model is mounted in the customer's car and sells for 950,000 won including VAT. The most expensive model that Motorola currently offers is the 8000S which sells for a staggering sum of 2.45 million won. The 8000S is a truly mobile telephone that does not need to be connected to an external power source, except to recharge its batteries. Sometime toward the middle of June 1989, Motorola will begin to offer their Convertible Vehicle Communications system (CVC) which will allow the user to have the benefits of both models currently offered.

In some of the wealthier residential and business sections of Seoul, salesmen litter neighborhood cars with advertisements for mobile telephones shoved under the windshield wipers.

The phenomenon of commercial mobile cellular communications in Korea is a fairly recent occurrence. The popularity of cellular phones has quickly grown to the point that it is commonplace to see cellular antennas sprouting from cars all over the city.

Until fairly recently, cellular telephone communications capabilities were only offered in the greater Seoul and Pusan metropolitan areas. By the end of January 1989, service is supposed to be extended to the cities of Taejon, Kwangju, Taegu and Cheju. Lee Byung-hee, business department director for the mobile telephone business group at Korea Mobile Telephone Corporation, said that "service will be extended to Incheon and some other areas by 1991."

The cost of this service does not come cheap. After the initial outlay for the telephone, the user will find that there are many other fees. To subscribe to the service the user will be faced with an equipment cost of 650,000 won and an installation fee of 30,000 won.

User fees are set at 27,000 won per month. The cost of a call depends on the distance to the place being called. Up to 50km, the call is 25 won every 10 seconds. A call further than 50km but less than 101km is 25 won for 5 seconds. Calls that exceed 101km cost 25 won every 3.5 seconds.

These fees mean that to purchase, install and make the first call on the cheapest model will cost a minimum of 1,695,840 won, or approximately \$2,516.



On top of these charges, the user is faced with obtaining permits to use the telephone. The application fee is 12,000 won and the inspection fee is 26,840 won.

These fees mean that to purchase, install and make the first call on the cheapest model will cost a minimum of 1,695,840 won, or approximately \$2,516. The cost of such a system must not be too prohibitive, though, since Motorola, which claims to "may be" have a 30 percent marketshare in Korea, has sold 2,000 units so far.

For those that cannot bear the cost of a real cellular telephone system, there is always the possibility of keeping up with the Joneses in looks only by purchasing a fake car phone and antenna. **W**

Signs of Things to Come



William D. Grossman, vice president-managing director for the Chicago Board of Trade's Asia-Pacific representative office, was in Seoul on January 19th to announce both the opening of the CBOT's Asia office, located in Tokyo, and the CBOT's acceptance of the first international membership in the Korea Futures Trading Association (KFTA).

According to Grossman, the CBOT is the largest institution for the trading of agricultural commodities and financial futures. The CBOT already receives hedging business from Koreans. This, coupled with the recent announcement that the Korean government will open the capital markets in 1992, convinced the CBOT that they needed to move toward closer ties with Korea. With the CBOT becoming the first foreign trade board to become a member of KFTA, they apparently have a leg up on their competition in encouraging Korean companies to hedge their markets on the CBOT's trading floor. Grossman said the CBOT "will emphasize the benefits of hedging."

Hedging is the process by which commodity futures are bought or sold in an attempt to protect against financial loss due to price fluctuations.

Another reason for Grossman's press conference was to announce the opening of the CBOT's new office in Tokyo. According to Grossman, this office will be responsible for all of the CBOT's activities in Asia.

Grossman said the CBOT will begin to increase its support to Korea following this announcement. The CBOT, accord-

ing to Grossman, does not view Asia in a homogenous context, but rather as needing a country by country approach. Although, when asked if the CBOT was considering opening a liaison office in Seoul Grossman said that the CBOT did not currently have any plans for such a step.

The CBOT's office in Tokyo will act as a clearinghouse of information for both the board in Chicago and for traders in Asia. Grossman says that since the Tokyo office will be in this time zone, it will be able to be more responsive to traders needs.

The CBOT controls 48 percent of the futures market in the United States and approximately 33 percent of the futures traded in the world. Grossman said that as Korea continues to grow it will need to take advantage of the CBOT's resources in hedging to offset price fluctuations in raw commodities.

According to Grossman, some Korean companies are reluctant to hedge on the commodities market because they view it as speculative and do not really understand the use of a hedging vehicle. Grossman said that "those who do not use hedging are open to price risks and are the ones who are speculative. Those who hedge are behaving prudently.

To help increase understanding of the hedging vehicle, the CBOT will send representatives to Korea this year to provide education about the futures trading market.

Grossman stated that the CBOT can provide an advantage for businessmen in that it has people who are willing to absorb the risk of price fluctuations, a risk that most businesses do not want to deal

with. Due to the technology that the CBOT has installed, order taking and order execution are faster and more reliable. According to Grossman, the CBOT is the cheapest trading floor in the world. Orders are two cents per transaction for member firms and 50 cents for non-member firms, Grossman said that the CBOT is "not there to make a profit, we are there for our member firms to make money."

Grossman hopes that the Korean government will study the U.S. model for futures trading regulation. In the U.S., the commodities markets are regulated by a single government commission. Grossman said that this format has been very effective.

Lee Hyun Yol, secretary general, KFTA expressed his association's happiness at having the oldest and largest trading board in the world become a member of his association.

Lee stated that currently KFTA has 85 members of which 27 are involved in the securities or banking business.

The concept of futures markets was first brought to Korea fifteen years ago by Merrill Lynch. The utilization of futures markets by Korean business has been growing slowly ever since.

Hopefully, with the addition of the CBOT and continued monetary liberalization by the government, the futures market will begin to grow dramatically here in Korea. Lee stressed what a big event this was for KFTA in having the CBOT join them and for the need of the government to encourage continued growth in the futures markets. **W**

The photographs above illustrate the finger signals for grain prices. They are, left-to-right, 1/4 cent, 1/2 cent, 3/4 cent and 1 full cent.