

SGS STRATEGIC OPTIONS IN KOREA

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PRINCIPAL FINDINGS

THE KOREAN MARKET PROBABLY REPRESENTS THE GREATEST SINGLE GLOBAL OPPORTUNITY FOR SGS

--UNDER ONE REASONABLE SCENARIO, REVENUES BY YEAR 2000 COULD EQUAL OR EXCEED CURRENT GLOBAL REVENUES OF SGS SIMPLY BY MAINTAINING CURRENT MARKET SHARE

UNDER ALMOST ANY MANAGEMENT STRUCTURE, SGS WILL MAKE MONEY IN INCREASING AMOUNTS

UNDER CURRENT ORGANIZATIONAL STRUCTURE, IT WILL BE DIFFICULT TO KEEP PACE WITH THE MARKET

SGS'S CENTRAL MANAGEMENT NEEDS ARE:

AN INTEGRATED ORGANIZATIONAL STRUCTURE SO THAT RESPONSES TO OPPORTUNITIES AND COST PROBLEMS ARE COHERENT

SGS ABILITY TO ESTABLISH STRATEGIC DIRECTION, SET PRIORITIES, ENSURE QUALITY OF PERSONNEL, TECHNOLOGY, PERFORMANCE

KOREAN OPERATIONS MANAGEMENT TO ENSURE EFFECTIVE FUNCTIONING IN UNIQUE KOREAN ENVIRONMENT

MOVES TO A DIFFERENT MANAGEMENT STRUCTURE CARRY RISKS OF FAILING AND RISKS OF DISRUPTION OF CURRENT BUSINESS

A BID FOR A WHOLLY OWNED SUBSIDIARY COULD SUCCEED, BUT WOULD HAVE HIGH RISK OF FAILING TO WIN APPROVAL

A 50:50 JOINT VENTURE WOULD HAVE HIGHER CHANCE OF APPROVAL, LESS RISK OF DISRUPTION TO CURRENT BUSINESS

THE KOREAN MARKET I

SOUTH KOREA IS THIS GENERATION'S OUTSTANDING ECONOMIC PERFORMER

COMPOUND REAL GROWTH IN EXCESS OF 8% FOR OVER 20 YEARS

--1965-86: 8.6%

--1970-86: 8.1%

--1980-86: 8.2%

--ONLY ONE YEAR OF NEGATIVE GROWTH IN THAT PERIOD

EXTREMELY DIVERSIFIED INDUSTRIAL ECONOMY

--TEXTILES

--WORLD'S LARGEST STEEL MILL

--WORLD'S MOST COMPETITIVE SHIPBUILDER

--AUTO INDUSTRY HUMBLING JAPANESE COMPETITORS IN CANADA
IN SINGLE YEAR, ACHIEVED SIGNIFICANT ROLE IN US
MARKET IN SINGLE YEAR

EXTRAORDINARY TECHNOLOGICAL PROGRESS

--ADVANCED SEMICONDUCTORS (E.G., 256K SRAMs)

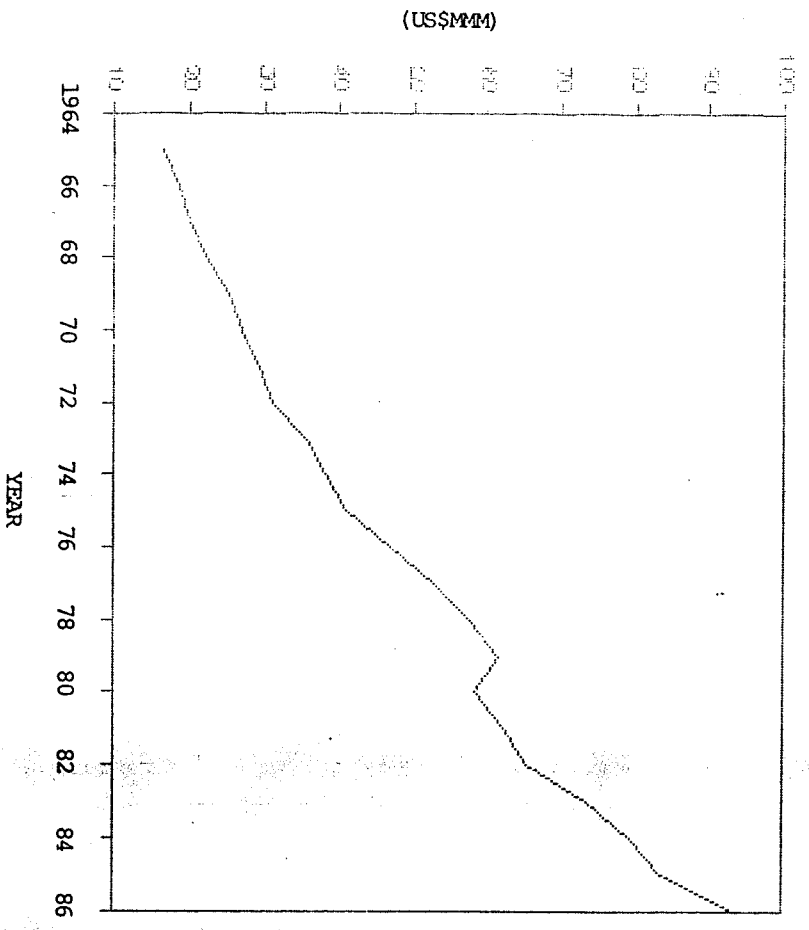
EGALITARIAN INCOME DISTRIBUTION COMPARABLE TO SWEDEN

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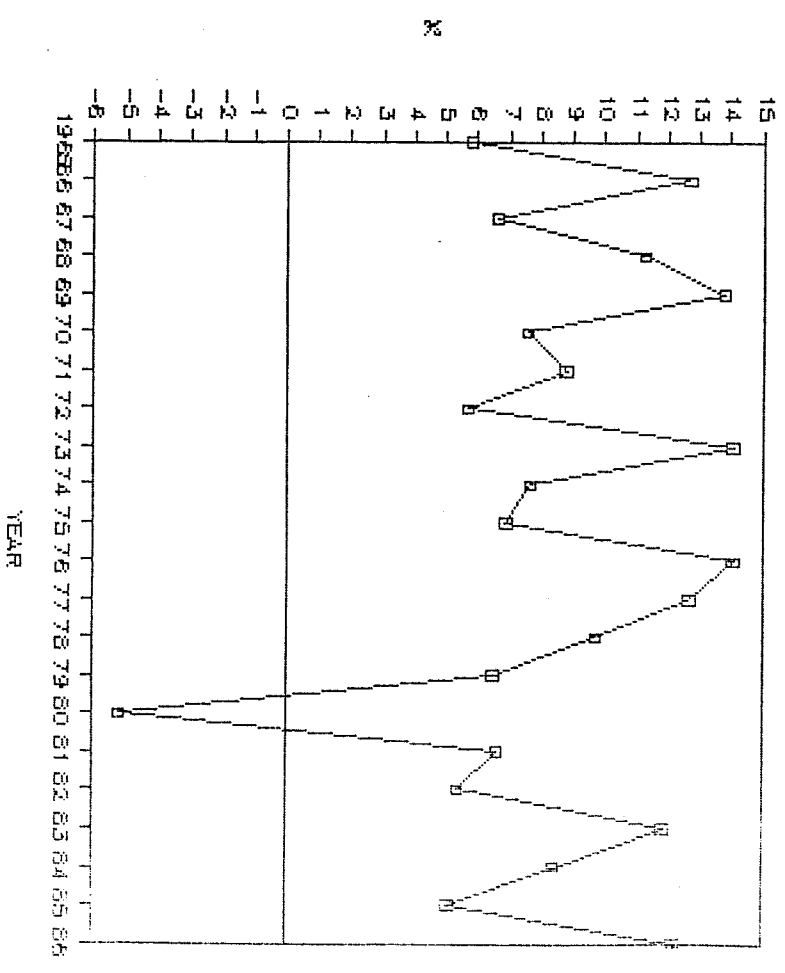
Year	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
REAL GNP (\$MM)	16.59	18.69	19.93	22.18	25.24	27.16	29.55	31.23	35.64	38.38	41.03	46.81	52.76	57.88	61.64	58.43	62.29	65.65	73.47	79.64	83.7	93.91
GROWTH RATE (%)	5.8	12.7	6.6	11.3	13.8	7.6	8.8	5.7	14.1	7.7	6.9	14.1	12.7	9.7	6.5	-5.2	6.6	5.4	11.9	8.4	5.1	12.2

COMPOUND GROWTH RATE (%) : 1965-86 8.6 1970-86 8.1 1980-86 8.2

GNP



GNP GROWTH RATE



THE KOREAN MARKET II:

CRISIS RESILIENCE

1973 OIL SHOCK IMPACT ON TOTALLY DEPENDENT OIL IMPORTER:

THROUGH CONSTRUCTION PROJECTS, ACHIEVED CURRENT ACCOUNT SURPLUS WITH MIDDLE EAST IN 2 YEARS

1975/1982 GLOBAL RECESSION IMPACT ON TRADE-DEPENDENT ECONOMY:

EXPORTS GREW 13.9% IN 1975, 2.8% IN 1982

IMPACT OF PROTECTIONISM ON TEXTILE EXPORTER:

IN LATE 1970s, KOREA, STILL HEAVILY DEPENDENT ON TEXTILE EXPORTS, FACED SEVERE QUOTAS. IT INCREASED QUALITY OF GOODS SUFFICIENTLY THAT REVENUE ACCELERATION CONTINUE.

CURRENT PROTECTIONISM RISK

MAXIMUM PROTECTIONISM IMPACT WOULD BE \$2 BILLION, LEAVING A CURRENT ACCOUNT SURPLUS EVEN BEFORE KOREA'S COMPENSATORY MEASURES

1980s DEBT CRISIS

NUMBER 1,2,4,5 DEBTORS (BRAZIL, MEXICO, ARGENTINA, PHILIPPINES) WENT UNDER

KOREA, NUMBER 3, REDUCED DEBT SERVICE RATIO; TOTAL DEBT DECLINING

NORTH KOREA

REPEATED INCIDENTS HAVE NOT DAMPENED GROWTH, EVEN INCLUDING 1983 RANGOON ASSASSINATION OF MANY OF SOUTH'S SENIOR LEADERS

POLITICAL DISRUPTIONS

1980 POLITICAL STRUGGLE, ECONOMIC SHAKEOUT PRODUCED ONLY NEGATIVE GROWTH IN 20 YEARS

POLITICAL DISJUNCTURE COULD RECUR AS EARLY AS THIS SPRING;
--ECONOMY MUCH STRONGER NOW
--EFFECTS WOULD BE TEMPORARY

BASIS OF THIS RESILIENCE

EXTREMELY MERITOCRATIC, DISCIPLINED MILITARY & CIVIL SERVICE

HIGHLY COMPETITIVE, EFFICIENT ECONOMY

BROAD PUBLIC CONSENSUS ON ABOVE DESPITE POLITICAL CONFLICTS

KOREAN MARKET III: PROSPECTS

LONG TERM GROWTH OF EXPORTS:

1960: \$50.4 Million

1970: \$5.1 Billion

1980: \$17.5 Billion

1986: \$38.5 Billion

COMPOUND GROWTH RATES:

1970-86: 27.1% ANNUAL RATE COMPOUNDED

1980-86: 14.1% ANNUAL RATE COMPOUNDED

The 1960s and 1970s presented unusual opportunities, including the opportunities to follow Japan, to exploit a relatively buoyant and open world economy, and to expand using known technologies. The expansion was from a relatively low base. Therefore the 27.1% annual growth rate is unlikely to be repeated over long periods in the future.

Except for the single year 1986, the 1980s have been an extraordinarily difficult environment for Korea. Political upheaval in 1980, recession, contraction of world trade, global debt crisis, collapse of Korea's huge Middle East construction market, and heightened protectionism have successively damaged Korean prospects.

In this context 14.1% compounded growth of exports is a reasonable basis for projection into the future. This balances off the peculiar difficulties of recent years against the difficulties of continuing spectacular growth from a larger base. This would imply:

EXPORTS

1985 \$30.3 BILLION

1990 \$65.3 BILLION

1995 \$126.3 BILLION

2000 \$244.3 BILLION

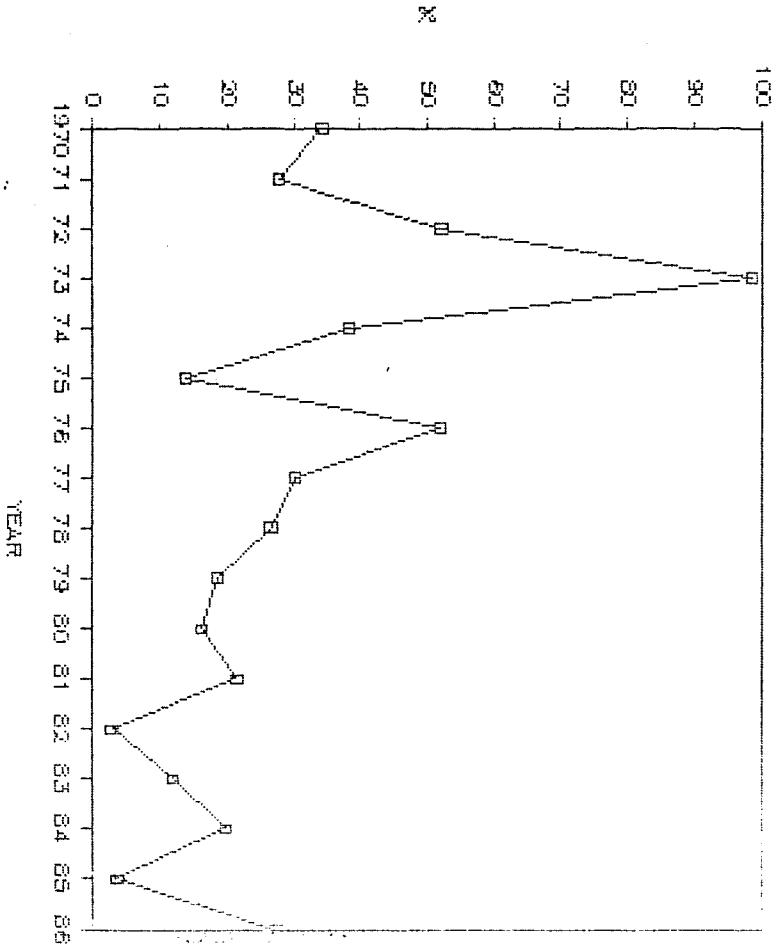
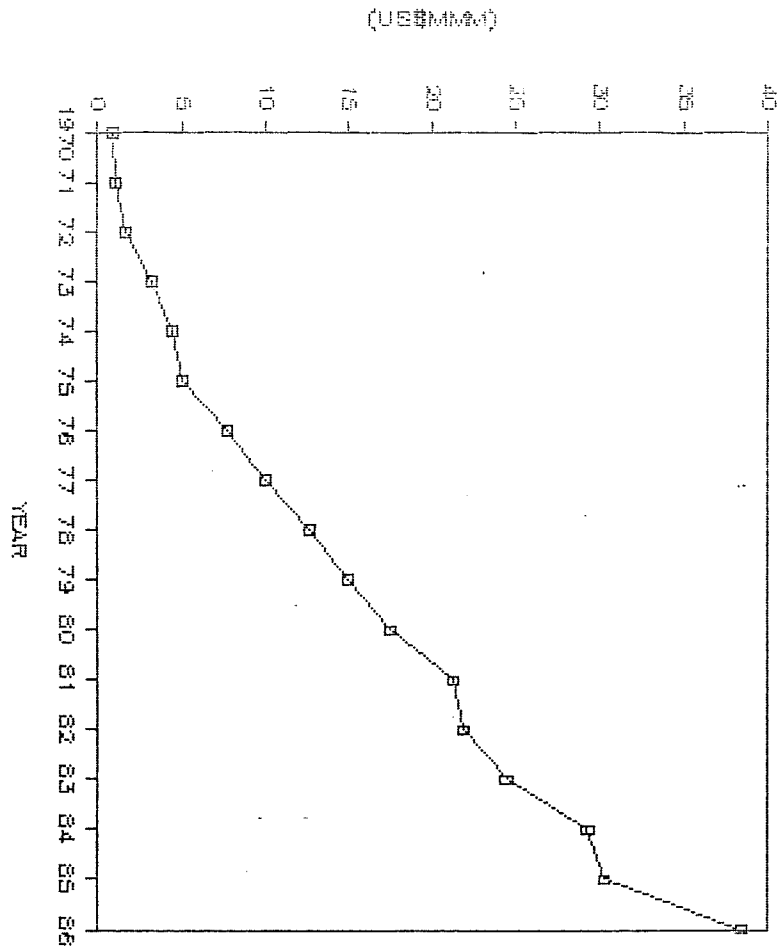
Although imports have grown far more slowly in the 1980s, this reflects the extraordinary import compression efforts necessary to control debt. After perhaps two years more, world commodity prices are likely to revive, and trade negotiations will revive imports. Thus total trade would reach about half a trillion dollars by the year 2000, barring extreme protectionism.

EXPORTS

EXPORTS (\$MM)	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
835.2	1,067.6	1,624.1	3,225.0	4,460.4	5,081.0	7,715.1	10,046.5	12,710.6	15,455.5	17,504.9	21,253.8	21,853.4	24,445.1	29,244.9	30,283.1	38,542.1	
34.2	27.8	52.1	98.6	38.3	13.9	51.8	30.2	26.5	18.4	16.3	21.4	2.8	11.9	19.6	5.6	27.3	
COMPOUND GROWTH RATE (%) :		1970-86	1980-86														
		27.1	14.1														

EXPORTS

EXPORTS GROWTH RATE

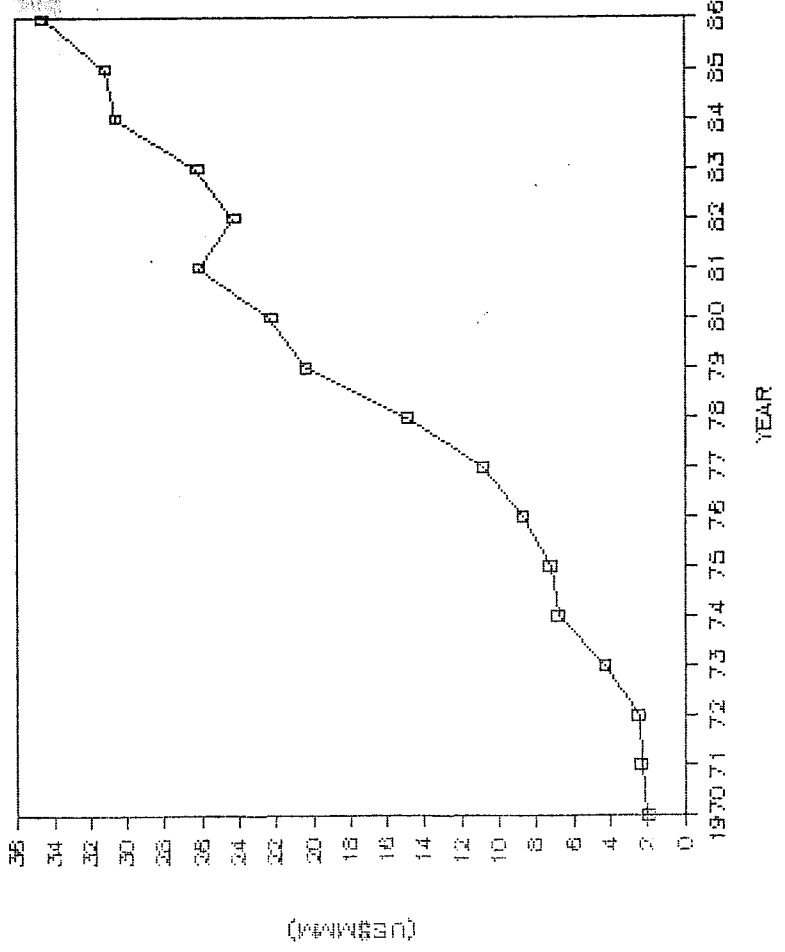


IMPORTS

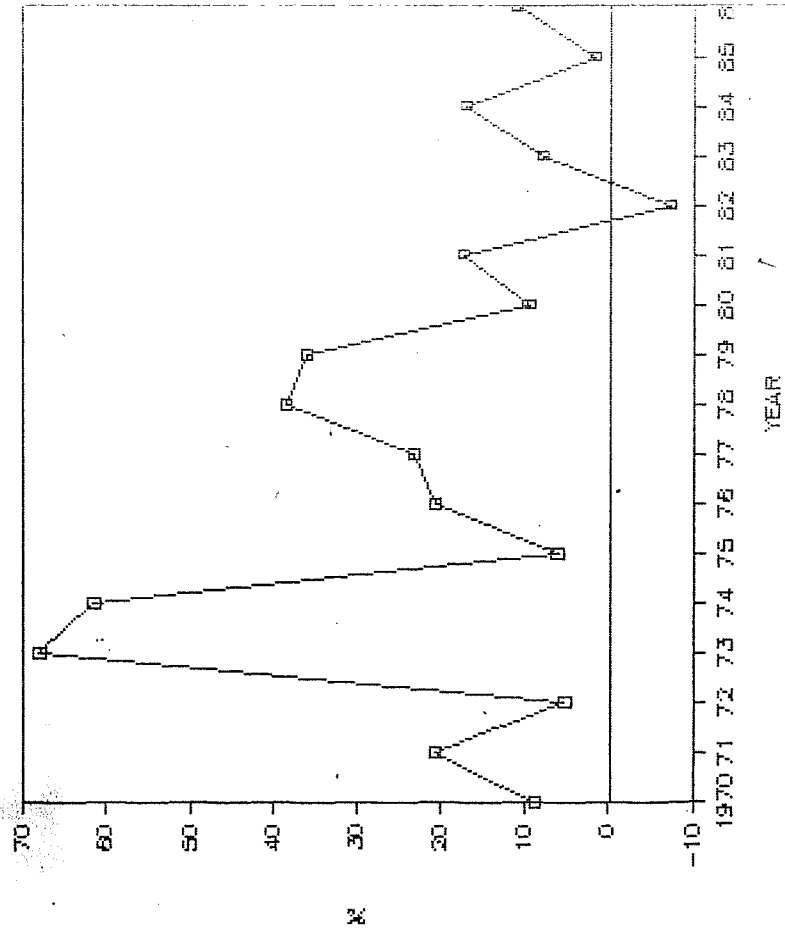
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
IMPORTS (US\$M)	1,984.0	2,394.3	2,522.0	4,240.3	6,851.8	7,274.4	8,773.6	10,810.5	14,971.9	20,338.6	22,291.7	26,131.4	24,250.8	26,192.2	30,631.4	31,135.7	34,555.9
GROWTH RATE (%)	8.8	20.7	5.3	68.1	61.6	6.2	20.6	23.2	38.5	35.8	9.6	17.2	-7.2	8.0	16.9	1.6	11.0

COMPOUND GROWTH RATE (%) :
 1970-86 19.6
 1980-86 7.6

IMPORTS



IMPORTS GROWTH RATE



(MILLION)

ROUGH ESTIMATES OF SGS REVENUE POTENTIAL FROM TRADE INSPECTION

ASSUMPTIONS:

SGS RETAINS CURRENT MARKET SHARE

REVENUES PROPORTIONATE TO TODAY'S AS FRACTION OF TRADE

1986 REVENUES SET AT \$5 MILLION SINCE EXACT FIGURES UNKNOWN

PROPORTION OF MARKET INSPECTED GRADUALLY QUADRUPLES BY 2001

RESULTING SCENARIO:

1986	\$5,000,000
1991	\$14,400,000
1996	\$55,600,000
2001	\$161,300,000

These figures are deliberately rough. SGS executives can change the assumptions to arrive at their own estimates, or, preferably, range of estimates.

It is nonetheless noteworthy that even if the proportion of goods inspected only doubles and the total trade achieves only half the growth estimated here, the resulting revenues would approximate half of SGS's 1986 global revenues.

The vital assumption is that SGS retains market share. In principle, SGS could gain market share. In practice, with its current Korean structure it would be unable to manage even a significant fraction of such revenues.

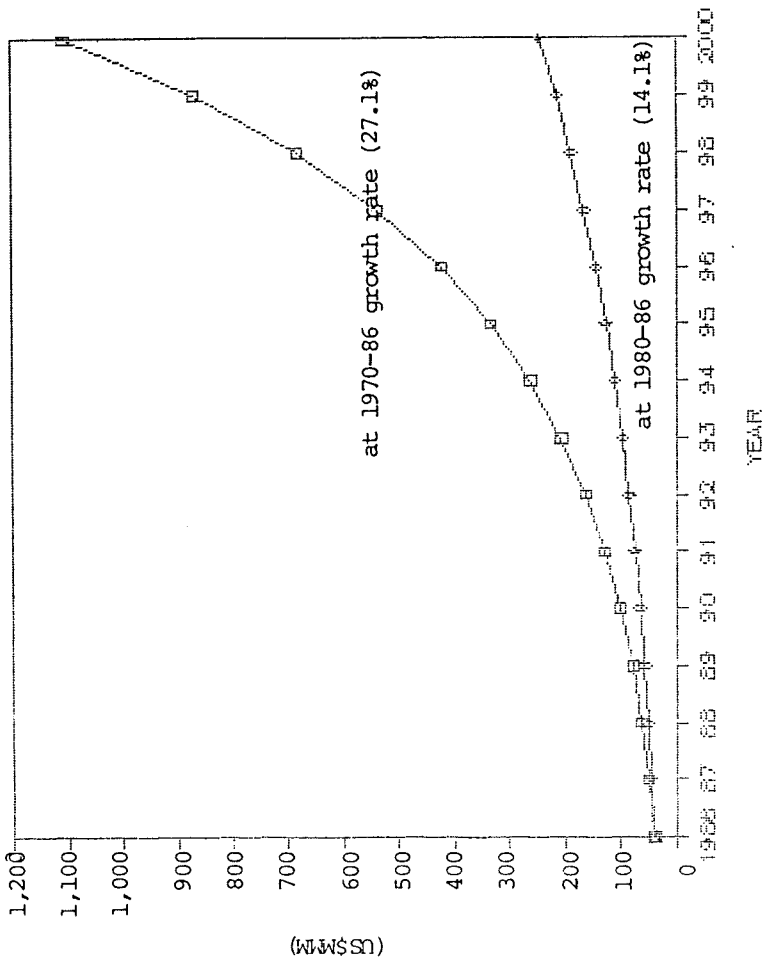
These estimates are extremely rough macro-calculations, not detailed market estimates. Detailed market studies could easily vary by a factor of five from such estimates. But even within such extreme variations, the results establish the following:

ANY ESTIMATE OF KOREAN MARKET POTENTIAL OVER THE NEXT DECADE INDICATES THAT IT IS ALMOST CERTAINLY SGS'S PREMIER OPPORTUNITY WORLDWIDE.

THE KEY FOR SGS IS TO ORGANIZE ITSELF SO AS TO BE ABLE TO ACHIEVE AT LEAST A MAJOR FRACTION OF THAT POTENTIAL.

DATA SOURCE: Bank of Korea Monthly Bulletin, Jan. 1985-Dec.1986

EXPORTS PROJECTION 1,2



SGS OPTIONS: INSPECTION BUSINESS

BUSINESS AS USUAL: HYOPSUNG

PURCHASE MANAGEMENT CONTROL OF HYOPSUNG

MANAGEMENT CONTRACT: OTHER CURRENT LICENSE HOLDER

--AGENCY

--MINORITY JOINT VENTURE (JV)

--MAJORITY JOINT VENTURE

MANAGEMENT CONTRACT: NEW JV PARTNER BUYS LICENSE HOLDER

--SAME SUB-OPTIONS

KOSAMI JOINT VENTURE

WHOLLY OWNED SUBSIDIARY

COMBINATIONS OF ABOVE WITH KOREAN BRANCH

SGS OPTIONS: LABORATORY

WHOLLY OWNED LAB

---PREFERRED OPTION IF SGS:

NEEDS LEVERAGE OVER PARTNER;

OR DOES NOT TRUST PARTNER;

OR INTENDS TO SHIFT AT LATER TIME TO WHOLLY OWNED
SUBSIDIARY FOR INSPECTION BUSINESS

---WOULD REQUIRE LICENSE

---KOREAN GOVERNMENT HAS A GENERAL POLICY OF PRESERVING THE
SERVICE INDUSTRY TO KOREAN FIRMS

---THIS POLICY IS CHANGING, UNDER PRESSURE FROM U.S., BUT
SLOWLY AND RELUCTANTLY

---HENCE SGS WOULD HAVE SUBSTANTIAL CHANCE OF GETTING
PERMISSION, BUT CONSIDERABLE NEGOTIATION WOULD BE
NECESSARY

SUBSUME IN JOINT VENTURE

---MOST DESIRABLE OPTION IF SGS SHIFTS TO A JOINT VENTURE
WITH A TRUSTED PARTNER AND WISHES TO HAVE A STRONG KOREAN
OPERATION WITH UNITY OF COMMAND

BUSINESS AS USUAL WITH HYOPSUNG

PRINCIPAL ATTRACTION: MINIMIZES RISK OF DISRUPTING CURRENT OPERATIONS

--ALSO AVERTS NEED TO BUILD NEW ORGANIZATION

PRINCIPAL SHORTCOMING: LOSS OF OPPORTUNITY DUE TO:

--MANAGEMENT FRICTIONS

--INADEQUATE INVESTMENT

--INADEQUATE MODERNIZATION OF ORGANIZATION

THESE SHORTCOMINGS RESULT FROM:

--DEVELOPMENTS WHILE WANG WAS NEGLECTING ORGANIZATION

--WANG PERSONALITY

--CULTURAL FRICTIONS

--STRUCTURAL DISJUNCTION: SGS INTERESTED IN REVENUES
HYOPSUNG INTERESTED IN COSTS

OTHER OBSERVERS CONFIRM WANG NATIONALISTIC, TOUCHY ABOUT THREATS TO HIS AUTHORITY

--HENCE NOT FULLY RESPONSIVE TO FINANCIAL INCENTIVES, BUYOUT OFFERS

DESPITE THIS, SGS MAY WISH TO CONSIDER WHETHER RESOLVING THE STRUCTURAL DISJUNCTION MIGHT NOT GREATLY IMPROVE RELATIONSHIP

--CURRENT STRUCTURE CREATES DISINCENTIVES FOR HIM TO INVEST IN MODERN EQUIPMENT OR HIGHLY TRAINED PERSONNEL

--MAY CREATE INCENTIVES TO PAD PAYROLL OR TRANSFER COSTS FROM OTHER ENTERPRISES

--WANG'S OTHER BUSINESSES MAY BE CREATING CASH FLOW PROBLEMS THAT MAKE HIM ESPECIALLY SENSITIVE TO COSTS, BUT PERHAPS ESPECIALLY INTERESTED IN ASSURED RISE OF REVENUES

STRUCTURAL DISJUNCTION COULD BE RESOLVED THROUGH A JOINT VENTURE

--WANG'S NATIONALISM MIGHT PREVENT

--KEY REQUIREMENT WOULD BE THOROUGHGOING SGS ACCESS TO ACCOUNTS, PERSONNEL RECORDS, DIRECT KNOWLEDGE OF WORK ACTIVITIES; OTHERWISE, RISING SCALE OF BUSINESS WILL CREATE POSSIBILITY OF FAILURES OF QUALITY, INTEGRITY, CONTINUITY WITH IMPLICATIONS BEYOND KOREA

WANG SANG-EUN

BORN 31 MARCH 1920

EDUCATION: DOSHISHA UNIVERSITY, KYOTO, JAPAN

POLITICAL TIES:

HAS ALWAYS BEEN CLOSELY ASSOCIATED WITH PARTY IN POWER

JOINED CHUN'S DEMOCRATIC JUSTICE PARTY EARLY

HELPED CREATE DJP ORGANIZATION IN PUSAN

ASSUMED TO HAVE HELPED PARTY FINANCIALLY

BRIEFLY HELD TITLE:CHAIRMAN, CENTRAL COMMITTEE, DJP

--PROBABLY MAINLY A SYMBOLIC TITLE LIKE MINISTER FOR
POLITICS

ELECTED NATIONAL ASSEMBLY MEMBER IN EARLIER DAYS

CURRENTLY AN APPOINTED MEMBER

--USUALLY APPOINTMENTS DERIVE FROM FINANCIAL
CONTRIBUTIONS

BUSINESS: SEE ATTACHED FOR DETAILS

EXCELLENT REPUTATION: ENTERED SHIPPING BUSINESS IN 1950S,
REFUTED TO HAVE SUCCEEDED THROUGH INTELLIGENCE & HARD WORK

--NOTHING SCANDALOUS OR UNDERHANDED IN THE RECORD

MR. WANG IS WELL-CONNECTED IN POLITICS AND BUSINESS AND RETAINS
SIGNIFICANT INFLUENCE. HE IS WELL REGARDED IN BUSINESS AND
POLITICS AND BY FOREIGNERS

--HONORARY BRITISH CONSUL

--WELL REGARDED BY AMERICANS

--LUFTHANSA AGENT

HE IS NOT ONE OF THE NATION'S TOP LEADERS. DESPITE HIS FORMER
NATIONAL TITLE, CHAIRMAN OF THE CENTRAL COMMITTEE OF THE
DEMOCRATIC JUSTICE PARTY, HE IS MORE OF A REGIONAL FIGURE THAN A
NATIONAL POWER.

HIS INFLUENCE IS A SIGNIFICANT COMPLICATION IN ANY STRATEGY, BUT
NOT NECESSARILY A DECISIVE ONE.

WANG SANG-EUN'S COMPANIES

HYOPSUNG SHIPPING CORP.

ESTABLISHED MARCH 24, 1965

BUSINESS: MARINE TRANSPORTATION

EMPLOYEES: 88

PAID IN CAPITAL: 960 MILLION WON (\$1.1 MILLION)

ASSETS: 4,625 MILLION WON (\$5.4 MILLION)

SALES: 1,945 MILLION WON (\$2.3 MILLION)

NET INCOME: 93 MILLION WON (\$109,000)

NET WORTH: 1,776 MILLION WON (\$2.1 MILLION)

HYOPSUNG SURVEYORS & SWORN MEASURERS CORP.

ESTABLISHED FEBRUARY 1976

BUSINESS: SURVEY & INSPECTION

EMPLOYEES: 41 (12 ADMINISTRATIVE, 29 TECHNICAL)

PAID IN CAPITAL: 100 MILLION WON (\$117,000)

ASSETS: 368 MILLION WON (\$430,000)

NET WORTH: 221 MILLION WON (\$258,000)

NET INCOME: 48 MILLION WON (\$56,000)

HYOPSUNG AIRWAYS CORP.

BUSINESS: AIR TRANSPORTATION AGENT

EMPLOYEES: 35

PAID IN CAPITAL: 50 MILLION WON (\$58,500)

ASSETS: 455 MILLION WON (\$532,000)

NET WORTH: 113 MILLION WON (\$132,0000)

NEW AGENCY WITH AN EXISTING LICENSE HOLDER

MIGHT FIND MORE COMPATIBLE PARTNER

OBVIOUS COMPANIES ARE SMALL, STRUGGLING, WOULD REQUIRE CONSIDERABLE BUILDING EFFORT

--BUT MIGHT BE ABLE TO TRANSFER PERSONNEL FROM HYOPSUNG

--HYOPSUNG WOULD COOPERATE TO AVOID SEVERANCE LIABILITIES

RISK OF RECURRENCE OF PROBLEMS THAT HAVE DOGGED PREVIOUS AGENCY AGREEMENTS

WOULD WANT YOUNGER, MORE MODERN, HOPEFULLY FOREIGN EDUCATED OR FOREIGN EXPERIENCED PARTNER

AGENCY SHOULD BE STRUCTURED FINANCIALLY AS IF IT WERE A JOINT VENTURE

--MUST NOT REPEAT STRUCTURAL DISJUNCTION THAT OCCURS WITH HYOPSUNG

BOTH SIDES SHOULD BENEFIT FROM INCREASED REVENUES & FROM EFFECTIVE COST CONTROLS

BOTH SIDES SHOULD HAVE FULL ACCESS TO BOOKS/PERSONNEL RECORDS/KNOWLEDGE OF PERSONNEL ACTIVITIES

THIS STRUCTURE MIGHT REDUCE SGS PROFITABILITY IN SHORT RUN, BUT WOULD INCREASE SOUNDNESS OF STRUCTURE, COMPETITIVENESS, LIKELIHOOD OF LARGE MARKET SHARE OVER THE YEARS

SGS SHOULD SEEK AN EFFECTIVE MANAGEMENT CONTRACT, EXPLICITLY OR IMPLICITLY, IN ORDER TO STRUCTURE BUSINESS SO AS TO FIT ITS GLOBAL NETWORK

--NEED RIGHT TO SET PERSONNEL STANDARDS...

PRINCIPAL RISK IS THAT KOREAN PARTNER WILL ALWAYS HAVE DECISIVE CONTROL, ALWAYS BE ABLE TO PUT SGS ROLE IN DOUBT; SGS WOULD HAVE TO OFFSET THIS BY RETAINING CONTROL OF OFFSHORE BUSINESS

GIVEN SIZE OF FIRMS, SGS WILL BEAR DISPROPORTIONATE CAPITAL BURDEN

SGS'S OBJECTIVES WILL BE STRUCTURALLY MORE DIFFICULT TO OBTAIN UNDER THE AGENCY STRUCTURE

PRINCIPAL ADVANTAGE IS THAT THE OPTION CAN BE IMPLEMENTED QUICKLY, WITH LIMITED DISRUPTION OF CURRENT OPERATIONS

WHOLLY OWNED SUBSIDIARY OPTION

PORT INSPECTIONS WOULD REQUIRE:

MINISTRY OF FINANCE LICENSE TO OPERATE A SERVICE FIRM
and
PORT AUTHORITY LICENSE FOR ACCESS TO PORT; OR
ACQUIESCENCE IN BUYOUT OF EXISTING KOREAN LICENSE HOLDER
and
BANK OF KOREA LICENSE TO REMIT FOREIGN EXCHANGE

IF ASKED, PORT AUTHORITY WOULD CURRENTLY BLOCK ALL THREE ON
POLICY (NOT LEGAL) GROUNDS

--STATED GROUNDS WOULD BE ADEQUACY OF EXISTING SERVICE

--REAL GROUNDS WOULD BE POLICY OF PROTECTING LOCAL FIRMS

NON-PORT INSPECTIONS WOULD REQUIRE

--BANK OF KOREA LICENSE AS ABOVE

--MINISTRY OF TRADE & INDUSTRY LICENSE TO OPERATE SERVICE
FIRM

--MINISTRY WOULD DENY LICENSE ON SAME POLICY GROUNDS

HENCE, DIRECT APPROACH TO DESIGNATED AUTHORITIES WOULD MEET QUICK
DEFEAT

BUT POLICY OF PROTECTING SERVICE INDUSTRIES IS GRADUALLY CHANGING

IN THIS CASE, THERE IS A COMPELLING ECONOMIC CASE (SEE LATER
PAGE) THAT KOREA WOULD BENEFIT FROM ACCEPTING SGS APPLICATION

THUS APPLICATION AT HIGHEST LEVEL MIGHT EVENTUALLY SUCCEED

--INFORMALLY APPROACH EPB OR DEPUTY PRIME MINISTER OFFICE

APPLICATION WOULD REQUIRE DIPLOMATIC INITIATIVE

--INFORMANTS BELIEVE US OR EEC COULD EASILY SUCCEED

--SWISS LEVERAGE MAY BE INHERENTLY WEAK

--SWISS EMBASSY SEEMS UNFAMILIAR WITH REQUIRED OPERATIONS

OPPOSITION WOULD COME FROM ORGANIZATION OF SURVEYORS, FROM WANG,
AND FROM TWO PRINCIPAL MINISTRIES INVOLVED

HENCE APPLICATION PROCESS WOULD BE INTENSE, CONTROVERSIAL,
PROLONGED, EXPENSIVE

SUCCESS WOULD YIELD FULL ACCESS TO WORLD'S MOST ATTRACTIVE MARKET

JOINT VENTURE WITH EXISTING LICENSE HOLDER

MINIMUM DISRUPTION TO CURRENT BUSINESS

ELIMINATE STRUCTURAL DISJUNCTURE THAT MAKES AGENCY RELATIONSHIPS UNRELIABLE & FRACTIOUS

WOULD REQUIRE OBTAINING PERMISSION FOR JOINT VENTURE TO CONTINUE HOLDING LICENSE

--PROBABLY POSSIBLE UP TO 50:50 OWNERSHIP

--SOME RISK OF DISRUPTION WHILE THIS IS BEING NEGOTIATED

GOOD OPTION ONLY IF SGS FINDS POTENTIAL PARTNERS SATISFACTORY

IF IT BUYS A SMALL & STRUGGLING COMPANY, SGS MIGHT OBTAIN A FREE HAND IN MANAGING THE COMPANY

--LONG-TERM MANAGEMENT CONTRACT WOULD BE DESIRABLE

--IF GOVERNMENT OBJECTED TO SUCH A CONTRACT, SAME OBJECTIVE MIGHT BE ACHIEVED THROUGH CONTINUED MONOPOLY OF CERTAIN KINDS OF EXPERTISE

FORM JOINT VENTURE WITH KOREAN COMPANY, THEN BUY A LICENSE HOLDER

WOULD ENABLE SGS TO CHOOSE ITS PARTNER CAREFULLY, STRUCTURE THE
PRECISE ARRANGEMENTS IT WANTS

MORE COMPLEX TO ORGANIZE INITIALLY

LIKELY EASIER THAN FORMING A JOINT VENTURE AND THEN TRYING TO
PERSUADE PORT AUTHORITY TO ISSUE A NEW LICENSE

IDEAL JOINT VENTURE PARTNER

MANAGEMENT STYLE COMPATIBLE WITH SGS

MODERN, COSMOPOLITAN, EXPERIENCE IN EUROPE OR US

STRONG ORIENTATION TOWARD PROFIT

VS. MANY NON-PROFIT ORGANIZATIONS

WILLING TO INVEST FOR LONG-TERM GROWTH

FINANCIALLY STABLE

IMAGE OF INDEPENDENCE, HONESTY

WILLING TO LET SGS SET STRATEGY, ESTABLISH BASIC STRUCTURE

ABLE TO MANAGE COMPANY DAY TO DAY

---PERSONNEL MANAGMENT PARTICULARLY IMPORTANT

BROAD ACCESS TO DOMESTIC MARKET

POLITICAL CLOUT

--TO OBTAIN & RETAIN LICENSES

--TO RESIST PRESSURES

"OTHER POTENTIAL JOINT VENTURE PARTNERS" DISCUSSED BELOW MAY MEET THESE CRITERIA REASONABLY WELL

POTENTIAL JV PARTNER: KOSAMI

STABLE PARTNER

GOVERNMENT SUPPORT

RESEARCH & TECHNICAL ARMS OF KOSAMI A VALUABLE ASSET

KOSAMI LIKELY TO DEVELOP A RANGE OF OVERSEAS CONTACTS
CONSTITUTING AN IMPORTANT MARKETING RESOURCE TO JOINT VENTURE

--MOST OTHER OPTIONS LACK THIS ADVANTAGE

PROBABLE ABILITY TO MAINTAIN OBJECTIVITY/IMAGE

--BUT NOTE PURPOSE OF GROUP IS TRADE PROMOTION

--POINTS TO CHECK:

WANT STRONG GOVERNMENT ROLE;

WANT VERY DIVERSIFIED CONTROL WITHIN KOSAMI

POTENTIAL RISKS

PARTNER COULD BECOME STRONG & ASSERTIVE WITH GOVERNMENT
SUPPORT

PROFIT (SGS) VS NON-PROFIT (KOSAMI) CHARTERS

BROAD (SGS: ALL GOODS) VS NARROW (KOSAMI: MACHINERY)
PRIORITIES

OPTION MAY BE FADING AS GOVERNMENT PROMOTES ALLIANCE OF KMRI/SIX
KOREAN INSPECTION FIRMS ALLIANCE TO PROMOTE MACHINERY
EXPORTS TO JAPAN

OTHER POTENTIAL JOINT VENTURE PARTNERS

BOTTLING COMPANY

RELATED TO MAJOR CONSTRUCTION GROUP

SMALL IMPORTER OF FOODSTUFFS (NEGLIGIBLE CONFLICT OF INTEREST)

FINANCIALLY SOLID

BASED IN BUSAN

SUBSTANTIAL POLITICAL CLOUT, ESPECIALLY IN BUSAN

FORM NEW COMPANY

PRINICIPAL OWNER: FORMER CABINET MINISTER

PRINCIPAL MANAGER: TOP EXEC OF MAJOR CONSTRUCTION COMPANY

BOTH EDUCATED IN US, GREAT EXPERIENCE ABROAD

POLITICAL CLOUT FACILITATES OBTAINING LICENSES

SGS TO HAVE A FREE HAND IN STRUCTURING COMPANY, SETTING POLICY

RANK ORDERING OF PREFERRED OUTCOMES

WHOLLY OWNED SUBSIDIARY

---BUT MAXIMUM RISK OF DISRUPTION, FAILURE

51:49 JOINT VENTURE WITH EXCELLENT KOREAN PARTNER

OR 50:50 JV AND LONG-TERM MANAGEMENT CONTRACT

---PROBABLY SERIOUS APPROVAL PROBLEMS

50:50 JOINT VENTURE WITH EXCELLENT KOREAN PARTNER

---RISK THAT PARTNER WILL SEEK CONTROL LATER

50:50 JOINT VENTURE WITH HYOPSONG

---SERIOUS RISK OF UNSUCCESSFUL TRANSITION TO SGS MANAGEMENT

AGENCY AGREEMENT WITH MORE COMPATIBLE PARTNER

---WITH STRUCTURAL DISJUNCTION RESOLVED

CURRENT AGENCY RELATIONSHIP

ONE PLAUSIBLE STRATEGY

GOAL: TO OBTAIN AN EFFECTIVE BASE FOR RAPIDLY EXPANDING BUSINESS WITHOUT EXCESSIVE RISK OF COMPROMISING CURRENT BUSINESS OR FAILING TO ACHIEVE GOAL

ABANDON WHOLLY OWNED SUBSIDIARY OPTION AS TOO RISKY

ENSURE THAT GOVERNMENT PREPARED TO ACCEPT A JOINT VENTURE HOLDING A PORT LICENSE

--USE ARGUMENTS DETAILED ON LATER PAGE

--MUST ABANDON STRICT CONFIDENTIALITY IN ORDER TO DO THIS

ACCEPT NECESSITY OF BEING GENEROUS TO MR. WANG

--AN ANGRY MR. WANG COULD BE EXTREMELY DAMAGING

--GIVEN POTENTIAL PROFITS OF SUCCESSFUL OPERATION, SGS COULD IN PRINCIPLE AFFORD TO GUARANTEE MR. WANG HIS CURRENT LEVEL OF PROFITABILITY TO THE END OF THE CENTURY AS A FEE IN RETURN FOR A COOPERATIVE ATTITUDE

FORM A JOINT VENTURE WITH AN ACCEPTABLE KOREAN FIRM

--PREFERABLY ONE TAILORED TO SGS REQUIREMENTS

HAVE THE KOREAN PARTNER IN THE JV OFFER MR. WANG A 50:50 JOINT VENTURE IN RETURN FOR A VERY GENEROUS FEE

--MAKE IT CLEAR THAT THE JV IS PURCHASING THE RIGHT TO MANAGE THE FIRM; THIS MUST NOT BE COMPROMISED

--MR. WANG WILL LIKELY REFUSE, BECAUSE OF THE ABOVE CONDITION, BUT IF HE ACCEPTS THE OUTCOME IS ACCEPTABLE

THE OFFER COULD BE MORE PALATABLE IF IT PURCHASES ONLY ONE OF MR. WANG'S LICENSES AND FACILITATES HIS REMAINING BUSINESS

IF HE ACCEPTS, THE OUTCOME IS ACCEPTABLE

IF HE DOES NOT ACCEPT, NEW JV PURCHASES ONE OF THE REMAINING SMALL FIRMS THAT ALREADY POSSESSES A LICENSE

--ENSURE IN ADVANCE THAT THIS CAN BE DONE

--TRANSFER ALL BUSINESS TO THE NEW VENTURE AS SOON AS AGENCY AGREEMENT WITH HYOPSUNG EXPIRES

--SEEK TRANSFER OF MOST EMPLOYEES FROM CURRENT AGENCY

WANG WILL HAVE LARGE SEVERANCE PAYMENTS IF HE REFUSES

DIPLOMACY OF APPLICATION FOR FULL OR PARTIAL OWNERSHIP POSITION

I: TIMING ISSUES

ARGUMENTS FOR DELAYING DECISION

--MR. WANG IS OLD; CURRENT PROBLEMS MAY RESOLVE THEMSELVES

--OPENING OF KOREAN SERVICE INDUSTRY JUST BEGINNING;
LATER LICENSE APPLICATIONS MIGHT BECOME EASIER

ARGUMENTS FOR EARLY DECISION

--WANG'S AGE COULD MAKE HIM MORE DIFFICULT FOR UP TO 20
YEARS

--MARKET IS MOVING FAST

OTHER COMPETITORS ARE CONSOLIDATING POSITIONS QUICKLY

KOREAN GOVERNMENT HAS ORGANIZED CONSORTIUM TO HANDLE
INSPECTIONS OF MACHINERY FOR EXPORT TO JAPAN DURING TIME WHEN SGS
HAS BEEN DISCUSSING THIS ISSUE WITH KOSAMI

--DELAYS THREATEN LOSS OF MARKET SHARE

COSTS OF EVEN SMALL LOSS OF MARKET SHARE ARE ENORMOUS

RISK OF MARKET SHARE LOSS RISES QUICKLY OVER TIME

ON BALANCE, EARLY DECISION IS URGENT

DIPLOMACY OF APPLICATION FOR FULL OR PARTIAL OWNERSHIP POSITION

II. GENERAL POLITICAL CONTEXT

OPPOSITION

GENERAL PAST GOVERNMENT OPPOSITION TO FOREIGNERS IN SERVICE INDUSTRIES

PORT AUTHORITY, MINISTRY OF TRADE & INDUSTRY TAKE NARROW, PROTECTIONIST VIEW

THERE IS A KOREAN SURVEYORS ASSOCIATION, AN EFFECTIVE LOBBY

MR. WANG WILL LIKELY OPPOSE

FAVORABLE FACTORS

STRONG FOREIGN PRESSURE ON KOREA TO LIBERALIZE SERVICE INDUSTRIES

LEADING EDGE OF KOREAN OPINION CONCURS WITH THAT VIEW

SGS HAS STRONG ECONOMIC ARGUMENTS THAT A STRONG SGS WILL ENHANCE KOREAN EXPORTS TO A DEGREE THAT WOULD OUTWEIGH ANY BENEFITS FROM A PROTECTED INSPECTION INDUSTRY

WHILE THERE ARE STRONG DOUBTS THAT A WHOLLY OWNED SUBSIDIARY WOULD BE LICENSED, THE BALANCE OF OPINION HOLDS THAT A JOINT VENTURE UP TO 50:50 COULD GAIN ACCEPTANCE

RECOMMENDATIONS

ANY STRATEGY BEGINS WITH A GENEROUS OFFER TO WANG

INITIAL CONTACTS WITH AUTHORITIES SHOULD BE INFORMAL & EXPLORATORY

--DO NOT LEAD WITH A FORMAL APPLICATION

SGS SHOULD UNDER NO CONDITIONS APPROACH PORT AUTHORITY OR MINISTRY OF TRADE & INDUSTRY DIRECTLY

--THEIR IMMEDIATE INSTINCT WOULD BE NEGATIVE, AND THEY MIGHT DIG IN TO DEFEND AN INITIAL REFUSAL

SGS SHOULD DEAL AT A HIGHER LEVEL, WITH DIPLOMATIC SUPPORT

--SWISS EMBASSY IS WEAK, INEXPERIENCED, LACKS AUTHORITY

--SGS SHOULD DISCUSS WITH MINISTRY OF PUBLIC ECONOMY IN SWITZERLAND

PARTNER WITH POLITICAL CLOUT COULD RESOLVE THESE PROBLEMS

DIPLOMACY OF APPLICATION FOR FULL OR PARTIAL OWNERSHIP POSITION
III: ARGUMENTS FOR WHOLE OR PARTIAL OWNERSHIP OF LICENSED COMPANY
(FOR PRESENTATION TO GOVERNMENT AS NEEDED)

SGS IS SERIOUSLY WEAKENED BY NECESSITY TO WORK THROUGH AN AGENT

--IN IMAGE OVERSEAS, E.G., INDONESIA

KOREAN ECONOMY CAN EXPECT MAJOR EXPORT GAINS FROM A STRONG SGS

FASTER EXPORT PENETRATION BY NEW FIRMS

FASTER EXPORT PENETRATION BY NEW PRODUCTS

FASTER EXPORT PENETRATION BY SMALL/MEDIUM SIZE INDUSTRIES

SPECIAL ADVANTAGES IN PENETRATING EUROPEAN MARKETS

ABOVE ARE HIGHEST ECONOMIC PRIORITIES OF KOREAN GOVERNMENT

SGS IS UNIQUE, AND BEING FOREIGN IS PART OF ITS UNIQUE ABILITY TO
ACHIEVE THE ABOVE ECONOMIC ADVANTAGES FOR KOREA

KOREA IS UNDER PRESSURE TO SHOW GOOD FAITH IN OPENING SERVICE
INDUSTRIES; MOST ADVANTAGEOUS WAY TO DO THIS IS AN OPENING THAT
ACTUALLY ENHANCES KOREAN TRADE PROSPECTS

OTHER COUNTRIES RECOGNIZE THE UNIQUE VALUE OF SGS, DO NOT EXCLUDE
SGS FROM OWNERSHIP

--PAKISTAN APPEARS TO BE THE ONLY COUNTRY IN ASIA WITH SUCH
SEVERE RESTRICTIONS

--NO AGENTS NECESSARY IN HONG KONG, SINGAPORE, JAPAN,
TAIWAN, PHILIPPINES, MALAYSIA, BRUNEI, BURMA, INDIA,
AUSTRALIA, NEW ZEALAND

--IN INDONESIA & PHILIPPINES, SGS HAS UNIQUE STATUS AS
CRITICAL PART OF OFFICIAL CUSTOMS SERVICE

GOVERNMENT WILL OBJECT THAT, IF IT ADMITS ONE FOREIGN COMPANY, IT
MUST ADMIT ALL

--NOT A PROBLEM IF SGS OR ITS JOINT VENTURE BUYS INTO AN
EXISTING LICENSE HOLDER & TOTAL NUMBER OF LICENSES DOES
NOT INCREASE