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## Further Reflections on the Alaska Relationship with East Asia

Over the past two decades, a new international order has emerged in East Asia. Composed of twelve nations with market economies, fringed by four nations with socialist, or command economies, and one nation, China, moving from a command to a market economy, the order has at its center Japan and the United States.

The basis of the international order is mutual economic benefit. Each member nation hopes to stimulate its growth through economic cooperation. At present, trade is the most developed tie. Each East Asian nation trades more with the other East Asian nations than it does with nations outside of East Asia. Led by Japan and the United States, investment between the nation-states is also starting. Japan seems most interested in the developing nations; the United States seems most interested in the newly industrialized states.

The growth rates of developing and newly industrialized states is high, with some East Asian nations having growth rates in the double digits. Clearly, East Asia will be at the forefront of the world's economic activity in the years ahead.

Alaska, by both geographic and economic logic, belongs to this new international order. Yet, at the present time,

none of the other nations in the international order recognize the relationship. Alaska is seen as part of the United States, its fate immutably hooked to that of the United States, the articulation of its interests emanating from Washington.

Alaska's greatest task, then, is to demonstrate that it is part of this new international order. While part of the United States, its interests are not necessarily identical to the interests of the lower forty-eight states. It does not rely on Washington for the articulation of its interests. It can speak for itself. Alaska has much to contribute to the development of the other East Asian and Southeast Asian states. Alaska has much to gain from this contribution.

If the international order is cooperative, it is also competitive. Alaska belongs to the resource rich nations. Indonesia, Malaysia, Australia, and Thailand are other examples. It must compete with them. And, in many respects, Alaska is behind the power curve.

Political philosophy is a case in point. Alaska has derived its rules of governance from early American and European experience. It believes that the state should participate in business only to the extent of regulating it. The East Asian states, on the other hand, derive their rules of governance from the Japanese experience, the last of the big powers to modernize. They believe, and the Japanese believe, that the state has the responsibility of fostering development. Government should be a partner of business.

The developmental state is not a socialist state. In a socialist state, the authorities control all the factors of production, are relatively indifferent to price and to competition. In the developmental state, the authorities are most selective about where they intervene. They protect if not strengthen the terms of competition. They accept the discipline imposed by cutthroat pricing.

The East Asian nations have development strategies. These strategies are delineated in plans. These plans are important for two reasons. First, their preparation requires both government officials and businessmen to come together to establish goals and set priorities. Dreams are made real and practical. Second, the plans serve as advertisements. They inform other nations what will be happening. The other nations can shape their plans to make best use of their advantages. The other nations can learn whether or not they wish to invest in the plan-writing nation. There have been many instances where the plans have served as the basis for international cooperation.

The East Asian nations push their interests overseas. They do this three ways: through international organizations-- ASEAN is a case in point; through the rigorous training of its officials in diplomacy and developmental economics; and through the establishment of large embassies.

Each East Asian nation has representation in the capital of every other Asian nation as well as in the capitals of each industrialized state. These embassies report on the developments, show the flag, develop friendships, and encourage trade and investment. They are worth every penny invested in them.

What should Alaska be doing?

First of all, Alaska should look to its governing mechanisms. Should the Alaskan government reflect America at the time of the Civil War, should it remain in its philosophy a regulatory state? Or should the Alaskan government look overseas to late nineteenth century German, to postwar Japan, and now to South Korea, Singapore, and Taiwan to become a developmental state?

Second, Alaska should figure out where it is going. There are lots of tested but different developmental strategies to review. And there is plenty of room to argue over how detailed and who should actually undertake and participate in these reviews. But there is little question that some sort of a strategy set down is some sort of a plan is needed.

Finally, Alaska needs a foreign service. Currently, Alaska has a small office in Tokyo. Its personnel are of high quality. Its manager is politically savvy. They represent Alaska well. But the office is miniscule compared to the embassies of the other Asian states, many of whom have staffs that number in the hundreds, all aggressively pushing their nation's interests.

So much for broad statements. Now let me offer some detailed comments.

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Alaska has comparative advantage over the other energy states in two respects: It has short lines of supply not easily subject to interdiction unless the interdicting state wishes to mess with the U.S. Navy. And political conditions in Alaska are such that politics will not disrupt production.

But Alaskans should aggressively start to push their other resources--fish, lumber, minerals, and hydro-electric power. Japanese and Korean companies are beginning to peddle Alaskan resources in the other countries of East Asia and in the United States. They should not be discouraged. But the Alaskans should do more themselves.

Finally, Alaska should try to take advantage of conditions in the other Asian nations. Two examples immediately come to mind. Because of high power costs, the Japanese aluminum industry is no longer internationally competitive. It is declining and the Japanese government is prepared to look to foreign sources for its aluminum ingots. Why shouldn't this industry move to Alaska, where power is cheap?

A second example is cement. During the trip, we heard the officials of the DAE LIM Company boast that they had built and were running the world's largest cement plant. That plant with its other plants may supply the domestic needs of Korea as well as the needs of the Korean construction firms overseas. But certainly, DAE LIM wishes to further profit by exporting its cement technology, too. Should it not be invited to look at conditions in Alaska to determine if there is room for a cement industry?

Finally, during the trip we heard frequently businessmen, politicians, and officials say that they often transited Alaska. I have come to conclude that most of the world's leaders have at one time or another stood around in the international lounge in the Fairbank or Anchorage airport for an hour or so, waiting for their plane to be fueled for an ongoing flight. Shouldn't these airports have small theaters where the Alaskan government could show films, with sound tracks in several languages, extolling what Alaska has and what Alaska can do?

In terms of target nations, Alaska should concentrate on Japan. It is the world's second largest economy. Its appetite for natural resources is voracious. It has a substantial and growing imbalance of trade with the United States and it has an impatient and complaining American government leaning on it to correct this imbalance. These factors suggest that Japan should be willing to buy Alaskan products.

But not all factors favor Alaska. For over a century, the Japanese have said that they have the responsibility for leading Asia, for developing conditions of peace and prosperity in the other Asian nations. That means that the Japanese look more favorably south than they do north. Secondly, Japan has spent much time and treasure developing resources in Southeast Asia and Australia. It will not put aside this investment readily. Thirdly, Asians have the ties to and know how to sell to the Japanese, something that the Alaskans cannot do, yet.

Finally, the Japanese have become accustomed to and know how to deflect Washington complaints. They are aware that both Japan and the United States have again entered an upward phase of the business cycle and during these upward thrusts, Washington officials do not push their economic interests vigorously.

These negative factors lead me to conclude that Alaska will first be able to succeed in its overseas efforts in Korea. It has a booming economy. It has government officials in other states and these officials are favorably disposed towards the United States. It has an unfavorable balance of trade with the United States and both its businessmen and officials want to correct that. Korea does not have any political goals in Southeast Asia, though it is dallying with the idea of helping the Chinese develop Manchuria and the Russians to develop Siberia with the aim of outflanking the North Koreans. Finally, Korea has a healthy appetite for raw materials, particularly energy.

Alaska should not overlook Taiwan. It, too, is short of energy and raw materials and favorably disposed, for political reasons, to purchases from the United States. The Philippines are presently in political turmoil. But that will pass. Although rich in some resources, it is short of energy. It is another potential market for Alaska. Finally, Alaska should be extending feelers to Hong Kong and Singapore. They, too, have high growth rates, resource shortages, and want to establish closer ties with the United States.

February 8, 1984

The Honorable John Cowdery  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

Dear Representative Cowdery:

Jim Clark has urged me to propose that you consider my continued association with the State to assist in making Alaska the focal point of a resource relationship with the Pacific Rim countries. As you know, these countries have historically looked to Southeast Asia and the South Pacific for their resources. The notion of looking north is something that they have really only recently considered.

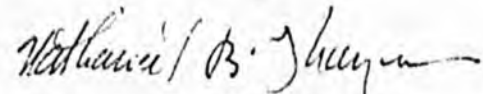
The exchange of legislative missions has created awareness among some Japanese political leaders of Alaska's potential, not only for supplying resources, but also for enhancing Japan's security relationship with the U.S. The same can be said for Korean political leaders. Efforts such as the legislative mission need to be continued and accelerated within these political establishments to broaden support for the concept.

This is a matter about which I feel very strongly. I share Ambassador Mike Mansfield's view that the United States' bilateral relationship with Japan is the most important in the world and I would like to do everything I can to enhance it. Korea is also important. Enhancing and protecting these relationships by the sale of Alaska's resources to the Pacific Rim and by Japanese and Korean investment in Alaska are obvious things we can do.

I am going to be in Japan for a good deal of this year working on a book. I believe that I would be in a good position to attempt to explain Alaska's potential within Japanese political circles, at the highest levels. Moreover, since it would be appropriate to include Bill Overstreet in these efforts, I believe we could create a mechanism to cause Alaska's viewpoint to be made known with these people on a continuing basis.

If you feel this warrants further discussion, please let me know.

Very truly yours,



Dr. Nathaniel Thayer

**School of Advanced International Studies**  
The Johns Hopkins University

13 February 1984

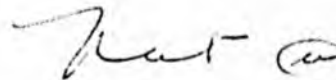
Representative John Cowdery  
Pouch V  
Juneau, Alaska 99811

Dear John,

I enclose a copy of my trip report. For some unknown reason, the hotel never cabled it to you, though I instructed them to do so.

I look forward to testifying tomorrow.

Sincerely,



Nathaniel B. Thayer  
Director of Asian Studies

Enclosure

(202) 785-6267

セイヤー

PROF. NATHANIEL B. THAYER  
DIRECTOR OF ASIAN STUDIES

SCHOOL OF ADVANCED INTERNATIONAL STUDIES  
THE JOHNS HOPKINS UNIVERSITY  
1740 MASSACHUSETTS AVENUE, N.W. WASHINGTON, D.C. 20036

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FEASABILITY STUDY:  
ESTABLISHING A SEPARATE  
ALASKAN TRADE OFFICE IN KOREA

Submitted To: The Honorable Joe Hayes,  
Speaker of the House of Representatives  
of the State of Alaska

Submitted By: Michael M. Gay  
6917 Old Seward Highway  
Anchorage, Alaska 99502  
(907) 276-2733

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## I - PURPOSE AND METHODOLOGY

### A. Purpose and Scope.

The primary purpose of this report is to provide the Alaska House of Representatives with a feasibility study for the establishment of an Alaska trade office in Korea, as well as a set of guidelines and recommendations, including proposed goals and objectives, for the establishment, staffing and operation of such an office.

The scope of this feasibility study is limited to the following specifically requested topics and areas:

1. Outlining the current structure of the Alaska State Asian Office (ASAO) in Tokyo, including staffing and costs of operation;
2. Analyzing the operation and functions of the ASAO; evaluating its effectiveness and examining the option of extending its operation to include the rapidly increasing trade relations and activities in Korea;
3. Reviewing the activities of other states that have established trade offices in Korea;
4. Providing a history of Alaska-Korean trade efforts and activities;
5. Outlining the strongest areas of Korean interest in Alaska and examining the potential economic benefits to the state from increased trade with Korea and from increased Korean investment in Alaska;
6. Synthesizing the materials and information gathered from Korean business people and governmental officials, especially information regarding Korean government and business practices and protocol; and
7. Setting forth and discussing the main reasons for the desirability and feasibility of establishing a separate Alaska trade office in Korea and outlining a plan for the setting up, staffing and operation of such an office.

## B. PROCEDURES FOLLOWED

This study was accomplished in three phases. The first was aimed at obtaining ideas and information from various Alaskan business people and public officials regarding the establishment, functions, goals and policies of an Alaskan trade office in Korea. The organizations contacted in this regard included the Alaska-Korea Business Council (AKBC), and the Anchorage offices of the U.S. Department of Commerce, the International Trade Administration, and the Resource Development Council for Alaska, Inc. Numerous Alaskans presently involved or contemplating being involved in trade with Korea were also interviewed.

The second phase was conducted in Seoul, Korea. Interviews were held with Korean government and business leaders to obtain their ideas and information regarding the establishment of an Alaskan trade office in their country.

Among the government agencies, trade associations and business groups contacted were the following:

- Korean Foreign Ministry;
- Korean Ministry of Commerce and Industry;
- Economic Planning Board;
- National Tax Administration;
- Korea-U.S. Economic Council;
- Korea Trade Association (KOTRA);
- Samsung Company, Ltd.;
- Hyundai Company, Ltd.;
- Kukge-ICC Corporation;
- Daewoo Corporation;
- Kolon Corporation;
- Namju Development Corporation;
- Various middle-sized and smaller Korean business entities;
- Seoul office of the U.S. Embassy, Commercial Section;
- Seoul office of the U.S. Chamber of Commerce.

The third and final phase of this study involved the synthesizing of all the data collected in the first two phases, focusing on the areas specifically requested by the Alaska State House of Representatives and as set forth in the preceding subsection.

C. General Results.

The contacts that were made and the interviews that were conducted in both Alaska and Korea revealed a remarkable degree of interest from all sources. The amount of candid and positive input from Alaskan and Korean business people and government officials was very encouraging, but somewhat unexpected in light of what appears to have been a very limited amount of communication and sharing of detailed business and trade information between Alaska and Korea in the past.

## II - HISTORY OF ALASKA-KOREAN TRADE

### A. Limitations.

There is very little documentation available that specifically deals with past and current trade activities between Korea and Alaska. Most of the information obtained for this study was the product of interviews with individuals familiar with , or was derived from publications that addressed only small portions of the overall picture or included information on Korea that was only incidental to other topics. As a result, it is impossible to present an accurate, comprehensive and up to date summary of Alaska-Korea trade activities. Thus, what follows is only a general overview with a capsule history and figures on the recent level of trade, as to which some examples and statistics were available.

### B. Capsule History.

Until very recently direct trade between Alaska and Korea has been relatively sparse compared to trade activities between Alaska and Japan, for example.

Alaska-Korean trade activities have generally involved exporting Alaskan natural resource products, particularly fish, timber and coal, to Korea. In addition, some Korean firms have supplied industrial materials for Alaskan capital projects, and in a few cases Korean firms have been awarded contracts to construct all or substantial portions of such projects. In more recent years, Korean firms have participated and shown a strong interest in continuing to

participate in joint ventures with Alaskan businesses, especially those involved in natural resource extraction and development.

### C. Level of Trade.

As to the specific level of Alaska-Korean trade activities, according to a table in the 1980 Alaska Statistical Review listing the value of Alaskan imports and exports by nation for selected years between 1970 and 1979, in 1970 Korea ranked 4th as a recipient of Alaskan exports, behind Japan, India and Canada. In 1979, Korea again ranked 4th, this time behind Japan, India, and the People's Republic of China. Japan was clearly the dominant export market for Alaska, receiving over 80% of all Alaskan exports, while Korea does not appear to have been a significant market during the 1970's.

According to statistics from the Alaska Department of Commerce and Economic Development on, Alaskan exports to East Asian markets for the years 1978 through 1982, Korea was consistently ranked behind Japan and the People's Republic of China until 1982, when it surpassed the latter. However, it should be noted that in 1982 the sale of 2 reconditioned jet aircraft to Korea accounted for over half the total yearly figure.

It should further be noted that the statistics mentioned above reflect only exports that were shipped directly to Korea from Alaska. Many Alaskan products have been and are being exported to Japan, whose trading companies then sell

them to Korea. Furthermore, some Alaskan products have been and are being transported to the contiguous United States before being shipped to Korea, and no statistics are available for all these types of transactions.

### III - OTHER STATES' TRADE OFFICES<sup>1</sup>

According to a 1980 survey, 33 states were represented in that year by trade offices in 66 foreign countries. This had increased from 20 states in 1977.<sup>2</sup> While some states may have added or closed foreign trade offices in the last three years, international trade staff for such national organizations as the National Association of State Development Agencies (NASDA), the National Conference of State Legislators (NCSL), and the Council of State Governments (CSG) indicated that the level of activity is about the same currently. NASDA is in the process of compiling an updated list of state foreign trade offices, which should be available later this year.

In almost all cases, the foreign trade offices are associated with their state's economic development agency. In a few cases, the office represents the state's agriculture agency, and in some states different agencies share an office. In some cases, rather than representing a state, an office will represent a port authority or some other regional entity. For the purposes of our discussion, we have not included any state offices which are limited to promoting tourism, although some state trade offices do serve this function in addition to other duties.

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<sup>1</sup>This section of the study was provided by Jonathan Sherwood of the House Research Agency.

<sup>2</sup>National Governors' Association, Export Development and Foreign Investment; The Role of States and its Linkage to Federal Action, 1981, p. 22.

Foreign trade offices are most frequently staffed by personnel employed directly by state government, as is the case with Alaska. In many cases, these are regular employees of the parent agency, who are routinely rotated to their home state. However, some states contract with one or more foreign consultants to represent their state. In addition, several western states operate the Old West Commission, which has had joint trade offices in both Europe and Asia.

Foreign trade--and consequently the activities of state foreign offices--is often classified into two broad categories: (1) investment; and (2) trade. Investment, also called reverse investment or foreign investment, refers to business transactions in which foreign companies invest capital in the state, frequently by opening a manufacturing plant.

Trade, the second kind of activity, involves the exporting of goods to foreign markets. According to Marsha Clarke, with NASDA, state foreign trade office activity is fairly evenly divided between the promotion of these two functions, at least on the global scale. State offices in developed countries like Japan may place a higher priority on encouraging investment; in developing nations, state offices may place a greater priority on expanding markets, as these countries are less likely to have firms interested in developing operations in the U.S.

The trade offices of other states also collect trade intelligence for their state. However, according to Ms. Clarke, it is difficult to identify how much time is devoted to this activity, as it tends to be performed in conjunction with the office's promotional activities.

According to a 1983 study prepared for the Alaska Legislature by Dupere and Associates, once a state foreign office has made contact with a foreign firm interested in doing business with the U.S., the state's home office provides the U.S. business contact.

The Dupere report and other articles on foreign trade offices emphasize the importance of strong direction and support for state foreign offices from their parent agency. The home office must be able to identify the appropriate business contacts for foreign business interests who contact the state's foreign office, and to identify which in-state businesses expressing interest in exporting their products are serious candidates for foreign trade.

Ms. Clarke stated that the typical cost for a foreign trade office would be between \$100,000 and \$300,000. She noted that the upper limit generally provides for a large operation, but also cautioned that Tokyo was substantially more expensive than other locations. A 1982 survey indicated that the number of employees per office varied from 1 to 8, with 2 or 3 employees being the most common

staffing pattern. The largest number of employees in the Japanese offices surveyed was six.

Asian Offices.

According to Marsha Clarke, her most recent information shows that 19 states now have foreign trade offices in Japan.<sup>3</sup> In addition, California, which does not have a state office there, has several port authorities, including Long Beach and Oakland, which operate offices in Japan. Most of these offices are regional in scope; however, some of the offices are intended to deal strictly with Japan. States which currently have offices in Japan are listed below:

Alabama	Indiana	Michigan	Pennsylvania
Alaska	Kentucky	Missouri	South Carolina
Florida	Louisiana	New York	Virginia
Georgia	Maryland	North Carolina	Washington
Illinois	Massachussettes	Ohio	

In addition, Illinois has an office in Hong Kong and Missouri has an agriculture representative in Singapore. None of the individuals we contacted was aware of any state with an office in Korea.<sup>4</sup>

According to Ms. Clarke, state foreign offices in Japan usually place much more emphasis on encouraging foreign investment and little emphasis on increasing exports. Ms. Clarke explained that this is a result of Japan's long-

<sup>3</sup>-----  
<sup>3</sup>This compares with 14 states in 1980.

<sup>4</sup>We received an excerpt of a recently published book on foreign trade office activity which refers to a possible office in Korea. The excerpt does not provide detail on the status of the office; it is not clear whether an office has been opened or was merely planned.

standing trade restrictions on the importation of manufactured goods and agricultural products. Traditionally, these have made it very difficult for the U.S. businesses to export goods to Japan. While some of these restrictions have been lifted in recent years, Ms. Clarke stated that the direction of states' trade office activities in Japan have not changed significantly. The Dupere study also found that most state offices in Japan devote more time to promoting Japanese investment in the U.S. than to promote trade.

## IV - KOREAN GOVERNMENT, BUSINESS AND CULTURAL PRACTICES AND PROTOCOL

### A. Interrelationship.

There is a very close interrelationship between Korean governmental, business and cultural practices and protocol, the degree and extent of which is completely foreign to most Americans. This chiefly stems from the fact that modern Korean industrial society is founded on close cooperation between government and private sectors. Government agencies are responsible for establishing and implementing short and long term goals that set the tone for the private sector<sup>1</sup>, and government agencies then openly and freely provide broad, efficient assistance to private enterprises willing and able to help pursue and fulfill the chosen goals.

The closely knit ties between government and private sectors regarding economic and industrial matters is interwoven, overlapped and, in essence, held together by unique cultural practices and rules of protocol and etiquette.

### B. Basic Principles.

Like all other countries, and even specific regions within a country, in Korea there are many peculiarities and practices that have come to be recognized as proper and correct etiquette in the business community, as well as in governmental and social circles. And although they may differ in form and vary with specific circumstances, Korean

<sup>1</sup>-----  
The economic Planning Board (EPB), an agency within the Ministry of Commerce and Industry, sets and implements the economic and commercial plans, goals and policies for the entire country.

governmental, business and cultural practices and protocol are essentially based on certain fundamental principles which, to most effectively, efficiently and profitably conduct business in Korea, must be acknowledged, learned and adhered to.

The strongest and most basic principles of proper Korean etiquette and protocol are respect, courtesy and seniority. These are universal norms, but nowhere are they more strongly ingrained and adhered to than in Korea.

Furthermore, the concept of seniority does not merely refer to age, although that certainly is a valid consideration, but also applies to rank, status and relative position, with which Koreans are intensely concerned. Thus, it is equally improper to be overly courteous to someone of lesser social status, job position and age as it is to be curt and inattentive to someone of greater seniority.

For obvious reasons, this study cannot deal with all, or even most, of the specific practices and rules that apply to even the most basic of situations. The examples that follow, however, can serve as a general introduction and guide in this area.

### C. Specific Customs.

Korean business people and government officials are very modern and westernized in their attire. They tend to dress formally and conservatively, wearing suits that are of traditional colors and muted patterns, with white shirts and subdued ties. The wearing of loud colored, leisure type

clothing and accessories is generally considered in poor taste when attending to business and governmental affairs, even if after normal business hours.

Koreans have an extremely strong work ethic that they are very proud and conscious of. It is bad form, even in jest, to condone the wasting of working time and resources. Long lunches or work breaks are frowned upon unless warranted by a special occasion or at the insistence of a higher ranking host, and it is equally frowned upon to show up too early for a business appointment, as it is considered rude and insulting to be more than a few minutes late.<sup>2</sup>

Normal handshakes are the accepted form of greeting. Bowing is usually reserved for greetings between Koreans themselves and westerners are not required or expected to engage in that particular custom.

The traditional Korean way of writing names is to place the family (or last) name first, followed by the first and then the middle name. This tradition is slowly changing, however, and many Koreans now use the western method of first, middle and then last name. It is proper etiquette to refer to an individual by his or her family (last) name preceded by Mr. or Mrs. It is not appropriate to use first names unless specifically requested by the individual involved.

<sup>2</sup>-----  
Actually, if one has a choice in the matter, it is better to be a few minutes late than early because this is apt to waste less of your Korean host's time.

At the first meeting with a Korean business person or government official, it is appropriate and expected to let the host initiate and lead the conversation and the meeting. First meetings are usually short and the Korean host will most often focus on non-essential matters. In-depth discussions about vital topics are normally reserved for later meetings, but even then it is not at all unusual for a Korean host to somewhat abruptly change the subject. This normally indicates that the former topic of discussion is closed for that meeting, and it is best not to insist on discussing that particular matter further.

As a general rule, Korean business people and government officials will not complete a transaction of any significance at the first meeting. The main reason for this is that they put a great deal more emphasis than Americans on establishing a personal rapport with the other party before entering into serious or final discussions and negotiations.

#### D. Culture and Arts.

A recent (December, 1982) publication of the Korean Ministry of Culture and Information titled Looking Ahead contains (at pages 56 and 57) the following colorful description of Korean culture and arts:

Korean culture has a special flavor all its own, a unique blending of change with traditions stretching back some 5000 years into the mists of mystery and myth, of animistic, Buddhist, and Confucian beliefs. Korea is a kaleidoscope of sights and its unique taste can be found in the resplendent rainbows of "tanchong" that color the palaces

and temples throughout the country; the lively motions of an ageless farmers dance; the richly vibrant sounds of exotic musical instruments; the slow, subtle movements of the shoulders, hands, and neck of the court dancers; and the soft, curving roof lines floating ever so gently heavenward.

Each dynasty produced its own unique artistic forms, not to mention the world's first moveable metal printing types some 220 years before the Guttenberg invention, and the Hangul alphabet, perhaps the most scientific system of writing in general use in any language.

Korea's arts are colored with symbolism reflecting a people who wanted to be happy, have progeny, live long, and enjoy good luck. Even today, furniture, linens, clothes, all accessories including hairpins, outside walls, gates, chimneys, etc., are adorned with the five elements, ten symbols of longevity, four directional animals, twelve animals of the oriental zodiac and propitious adeographs; a spicy mixing of shamanistic, Taoist, and Buddhist beliefs.

Much pottery and many paintings, especially folk paintings, are rather whimsical, reflecting the artist's own sense of humor and playfulness. While academic painters tended towards almost monochromatic landscapes conveying an impression of serenity and oneness with nature, the charmingly naive and unpretentious folk paintings reflect the actual life of the people.

Ceramics, especially the blue-green Koryo celadons produced more than a thousand years ago, are by far the most famous class of the nation's art objects. The Yi Dynasty forsook the delicate and intricate to produce simple, robust forms of an unpretentious and spontaneous style. No matter which of nature's shapes are suggested. Korean potters created some of the most beautiful elongated curves ceramic history has known, curvaceous lines soaring with energy, lines that were perfected and made more approachable and warm.

So too is Korean dance warm, earthy and alive with a character all its own. Unlike other Asian dances, the dance in and of itself never tells a story but strives only to communicate a mood. Stepped by silk-clad court ladies the ancient court dances are characterized by dignity and grace. Not so the folk dances farmers improvised

during planting and harvest times, a slithering of airborne paper streamers from the crown of gyrating headdress, while acrobatics mounting in a crescendo of frenzy, a fleeting flash of straw sandals, shuffling in the dust, competing with complex cross rhythms of drum, gong and bugle.

Music, especially court music, is both nasal and shrill; slow long-held notes dissolving into lacy arabesques punctuated by the single thump of a drum, one pungent stroke of gong, chime or cymbal. Outlining vast arching melodies, the tones sound strangely piquant.

Musical events, especially folk ones, are often punctuated by boisterous cries of delight and encouragement from the audience as traditionally, the enjoyment of these art forms is in the participation and not merely the watching.

#### E. Sense of National Identity.

Modern Koreans are extremely conscious of and concerned with projecting, maintaining, enhancing and getting outsiders to acknowledge and accept their unique national identity. To say that Koreans are not pleased or even that they are insulted when associated or stereotyped or analogized with other oriental cultures, especially the Japanese, is to vastly understate the matter. At the very least, such behavior is considered a serious breach of etiquette and to most Koreans signifies a disrespectful and insulting ignorance of oriental cultures and history.

This is a very important point for any American who desires to have smooth, successful and profitable dealings with Korea to constantly keep in mind. Its significance cannot be overly emphasized.

For example, in the course of conducting this study in Korea, it was extremely difficult to even raise, much less

seriously discuss, the option of extending the operation of the ASAO office in Tokyo as a viable alternative to establishing a separate trade office in Korea. That particular notion of having to deal with outsiders through the Japanese carries a strong and extremely negative stigma among Korean business people and government officials who unanimously share in the goal of reversing the virtually complete economic control and exploitation that Japanese trading companies exerted for so many years over the Koreans.<sup>3</sup>

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<sup>3</sup>This strong sense of national identity and feverish need to disassociate themselves from Japanese dominance underlies the Koreans' notorious aggressiveness and competitiveness in the area of international trade, which in turn provides the basis for their dramatic successes in that area.

## V - KOREAN INTERESTS IN ALASKA

### A. Korean Interests Generally.

Because of Korea's lack of natural resources, it must secure stable and longterm supply sources elsewhere. Thus, Alaska's natural resources are considered a prime source of acquisition by the Koreans, who are also interested in marketing their goods and services in Alaska. This study will highlight the most serious areas of interest the Koreans have in Alaska, which are as follows:

#### 1. Potential Acquisitions in Alaska:

- a. Coal and hardrock minerals;
- b. Oil and petroleum products;
- c. Liquified natural gas (LNG);
- d. Fisheries;
- e. Timber resources;
- f. Agriculture.

#### 2. Potential goods and services to be provided to Alaska:

- a. Heavy industrial machinery, equipment, tools and materials;
- b. Construction and infrastructure development projects;
- c. Joint ventures in various areas, especially those involving natural resource development;
- d. Airline passenger and cargo services.

### B. Governmental Policy.

The Korean Ministry of Energy and Resources strongly encourages private businesses to get involved in the development and purchase of natural resources from foreign countries with which, as a part of the general plan, trade and commerce can also be implemented or increased. To the Koreans, the key to resource development abroad lies in securing a stable supply of energy sources on a long term

basis. Since this requires a great deal of capital, it is the recommendation of the Korean Ministry of Energy and Resources that energy exploring and consuming firms engage in natural resource development in foreign countries by way of consortiums and joint ventures.

### C. Coal and Strategic Minerals.

Because of the oil shocks of 1972 and 1979, Korea has undertaken an aggressive program of increasing the uses of coal and nuclear power to supply its energy needs. Furthermore, the most recent trend has been to rely more heavily on coal than nuclear power, which has fallen into disfavor due to the escalating costs of nuclear power plant construction and the increased safety regulations and standards that must be established and implemented.<sup>1</sup>

In 1980, a Korean corporation, the Sun Eel Shipping Company, Ltd., signed a long term (10 years) contract to purchase 7 million metric tons of coal from the Usibelli Coal Mine near Healy. In 1983, Sun Eel and another Korean company, the Korean Electric Power Corporation, further agreed to export 800,000 metric tons of coal annually from the Usibelli Coal Mine through the coal loading facilities that are presently being constructed in Seward.

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<sup>1</sup>This information was obtained primarily from interviews and discussions with various Korean Government officials, including: the director of the American Division of the Foreign Ministry, J.J. Ryung, and his subordinate in charge of the North American sector, S.H. Kim; and the director of the American Trade Division of the Ministry of Commerce and Industry, S.H. Chang.

The Koreans are also involved in another coal development project through a joint venture between a consortium of Korean corporations called the Korea Alaska Development Corporation (KADCO) and Chugach Natives Corporation, Inc., who are the owners of the coal field being developed near Cordova. This Alaskan-Korean joint venture is named the Bering River Development Corporation and it has very promising prospects because the coal to be extracted is of higher quality, and value, than that from the Usibelli Coal Mine. However, the joint venture faces and has been dealing with a major problem in that the coal fields are located approximately 30 miles from the ocean and transportation and loading facilities need to be constructed.

D. Oil and Petroleum Products.

Even though, as previously mentioned, Korea is gearing up to decrease her oil dependency, it will be some time before her oil imports are substantially reduced. Korea currently purchases a little over \$6 billion worth of oil annually from the Middle East, which is a highly unstable and distant market. Thus, in terms of stability and logistics, it is very clear that Alaska would be a much better source of crude oil for the Koreans, who have consistently expressed an interest in purchasing, and becoming involved in the development of, Alaskan crude, and who are also very interested in being allowed to explore that possibility if and when the federal export restrictions are removed.

If a gas line is constructed, and if existing federal restrictions are removed, Korea would also be an ideal potential consumer of Alaskan LNG. Of course, the level of LNG, as well as crude oil, imports by Korea depends on a host of other factors, especially price. But the interest is certainly there,<sup>2</sup> and the Koreans' entry as a competitor among potential buyers and investors would be of obvious benefit to Alaska.

As to other petroleum products, several Korean corporations are presently considering importing various items such as unleaded gasoline, reformate and residual fuel oil.<sup>3</sup>

In conclusion, although Alaska-Korean trade in oil and petroleum products has not yet gotten off the ground, it clearly appears that Korea is a potentially good customer who is willing and able to participate in the infrastructure development that is necessary to market those resources.

#### E. Fisheries.

<sup>2</sup>-----  
<sup>2</sup>Although there appears to be some question about Korea's potential as an Alaskan crude oil and LNG purchaser due to its long term commitments to obtain those resources from other countries, virtually all of the corporate and government officials contacted in Korea expressed a keen interest in these areas. In this regard, see the notes of interviews conducted in Korea Attachment D hereto; and also see the January 10, 1984 letter from Samsung President J.H. Kyong, in Attachment C hereto, which states: "we have expressed our keen interests in the Alaskan LNG and petrochemical project when Mr. Hickel visited Seoul (sic.) last December. To facilitate our efforts, Samsung is opening Anchorage offices (sic.), beginning this January."

<sup>3</sup>This information was obtained from two officials of the Alaska-Korea Business Council (AKBC), Loren Lounsbury and Robert Breeze.

The export of Alaskan seafood products to Korea has been one of the largest items of trade in the past several years.

As far as fisheries and fish processing activities are concerned, until very recently foreign entities, including Korea, conducted entirely self-sufficient operations. The more recent trend, however, has been the formation of joint ventures between American trawlers and foreign processors. Korea has been very active in this trend and there is every indication that it will continue to do so and that the number of Korean-Alaskan joint ventures will rapidly increase.<sup>4</sup>

#### F. Agriculture.

Although in the past there has not been much agricultural trade between Alaska and Korea, there is an existing beef exporting operation near Homer and two large Korean firms have initiated a project in the Kenai area that entails the leasing of University of Alaska land for the raising and slaughter of cattle to be shipped to Korea.<sup>5</sup>

Some work is presently being done in the area of growing and exporting grain products from the Mat-Su Valley to Korea and other Pacific Rim countries. It appears that the success of this project largely depends on experimental research being

<sup>4</sup>-----  
Thus, according to a memorandum dated January 17, 1984, from House Research agency analyst Jonathan Sherwood to Speaker Hayes' office, 8 of the 17 joint ventures approved by the North Pacific Fisheries Management Council in December, 1983, involved Korean firms.

<sup>5</sup>This information was also obtained from AKBC members Lounsbury and Breeze.

done at and in conjunction with the University of Alaska on the development of new types of grains capable of being produced in large quantities here in Alaska. Due to its high demand and needs, Korea is an ideal potential market for the export of these grain products, and if successful the venture promises to be very beneficial, in terms of jobs and revenue, to Alaska.<sup>6</sup>

G. Korean Investments in and Goods/Services Provided to Alaska.

As previously discussed, Korean investment in Alaska presently consists of joint ventures in coal, timber, fisheries and the raising of reindeer.<sup>7</sup> The current level of this investment is significant, rapidly increasing and, as further discussed below, there is very strong Korean interest in its continued expansion.<sup>8</sup>

Korean firms have provided and are providing a large and increasing amount of heavy industrial products, materials and services to Alaska. Although there are no available

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<sup>6</sup>This information was obtained from interviews with Hyung "Henry" Kim, the president of Topex Industries, Inc., an Alaskan corporation with offices in Anchorage that is involved in the project discussed.

<sup>7</sup>The Nana Regional Native Corporation in Kotzebue is engaged in a Korean joint venture that involves raising and maintaining a herd of 6,000 reindeers, with the horns of slaughtered animals being exported to Korea and the meat being consumed by local Eskimos.

<sup>8</sup>In addition to the other specific joint ventures and projects mentioned in this report, AKBC member Robert Breeze recently indicated that a large Korean company, the Korea Ship Building and Engineering Corporation, has made serious and detailed proposals to build a modern ship repair and building facility at Seward.

figures as to the dollar level of these transactions, they include the following:

1. An \$118.4 million saltwater treatment plant that the Korean firm, Daewoo, constructed and delivered to ARCO on the North Slope in 1983;
2. The Hyundai Corporation, the largest in Korea, provided the structural steel for the new Sohio building in Anchorage; and
3. Hyundai is also erecting the transmission towers for a section of the Anchorage-Fairbanks power intertie.

The Koreans are especially interested in expanding the goods and services that have been and are being provided to Alaska. In terms of their potential to do so, it should be noted that in the last decade Korea has made a dramatic emergence in the world community as a heavily industrialized nation that does not need to take a back seat to anyone, with specific areas of expertise in the manufacturing of steel products; pipe; plant construction; heavy equipment; petrochemical industries; ship building and repairing; and general construction services.<sup>9</sup>

Because the Koreans are highly modernized and technologically sophisticated, and because they have a highly skilled and low priced labor force, they are very competitive in all the above areas, which has been and will be of substantial benefit to Alaska as Korean involvement in

<sup>9</sup>-----  
This information was obtained from interviews with officials of the largest Korean Corporations, or conglomerates, whose annual sales figures and diversity of interest, expertise and projects are extremely impressive, as indicated in the brochures found in Attachment "C" hereto.

construction and infrastructure development projects continues and expands.

#### H. Potential for Future Trade .

Most Alaskans who are involved or contemplating being involved in trade with Korea unanimously agree that there is vast potential for increased trade, with the export of Alaskan natural resources as the most promising area. Of course, the major drawbacks of inadequate infrastructure and governmental regulations are usually also focused on by both Alaskans and Koreans interested in seeing trade in this area expand.

In general, Koreans view Alaska as an ideal trading partner because of its wealth of natural resources; its proximity to Korea; and its political stability compared to other sources of vital natural resources.

All of the major Korean corporations and government agencies contacted as part of this study expressed a keen interest in initiating or expanding their trade with Alaska.

For example, Director K.S. Choo, speaking for himself and on behalf of president M.J. Chung of Hyundai Heavy Industry, the largest private business entity in Korea, stated that his group of companies is interested in the following areas of trade with Alaska: steel; pipe; coal; timber; heavy industrial products; construction machinery and materials; and red meat.<sup>10</sup>

<sup>10</sup>-----  
See notes on 1/11/84 interview with Mr. Choo in Attachment B hereto.

Mr. S.N. Sonh, the manager of natural resources of the Daewood Corporation, Korea's second largest private business entity, stated that his companies are interested in pre-cast cement; rolling stocks; LNG; coal; oil; ship building and repair; and textiles.<sup>11</sup>

Mr. J.H. Kyong, the president of Samsung Corporation, the third largest private business entity in Korea with annual gross revenues of approximately \$2.5 billion, stated that his group of companies are interested in coal; timber; LNG; steel; heavy industrial products; oil and petroleum products; steel structures; pipe; heavy construction machinery, vehicles and tools; and joint ventures with Alaskan native corporations and other Alaskan entities, especially those involved in natural resource development.<sup>12</sup>

Mr. J.J. Kim, the executive vice-president of Kukje-ICC Corporation, the fourth largest private business entity in Korea with annual gross revenues of approximately \$2.2 billion, stated that his group of companies are interested in LNG; coal; timber; oil and petroleum products; heavy component parts; heavy equipment; and joint ventures with Alaskan native coporations and other Alaskan entities, especially those involved in natural resource development.<sup>13</sup>

<sup>11</sup>-----  
<sup>11</sup> See notes on 1/13/84 interview with Mr. Sonh in Attachment B hereto.

<sup>12</sup> See notes on 1/9/84 interview with Mr. Kyong in Attachment B hereto.

<sup>13</sup> See notes on 1/9/84 interview with Mr. Kim in Attachment B hereto.

The contacts undertaken for this study in Alaska and Korea leave little doubt that the potential for future trade is extremely promising. Indeed, given the strong interest and enthusiasm, and considering the mutually compatible needs and desires, on both sides, it appears to be inevitable that Alaska-Korean trade will continue and will expand. And it seems quite possible that this expansion will take place at an unprecedented rate, with obvious and potentially substantial benefits to both trading partners. Furthermore, it is also obvious that the Alaska state government can be of great assistance in fostering and enhancing this fruitful climate. Thus, the establishment and maintenance of an Alaskan trade office in Korea which can provide, as part of its functions, information about business and investment opportunities to both groups, and can serve as a contact point for Alaskan and Korean businesses, seems to be a logical and appropriate step in the right direction at this time.<sup>14</sup>

<sup>14</sup>-----  
The major drawbacks to the rapid expansion of Alaska-Korea trade, as expressed by business and government leaders on both sides, are Alaska's lack of adequate infrastructure for resource development; the lack of sophistication and expertise in international trade among Alaskan businesses; the lack of consistent and positive governmental policies regarding resource development; and state and federal governmental restrictions and requirements. Of course, the Alaska state government can also be of major assistance in mitigating or removing some of these obstacles.

## VI. - POTENTIAL ECONOMIC BENEFITS TO ALASKA

### A. Generally.

As a general proposition, it is obvious that Alaska will reap economic benefits from increased trade with Korea, and from increased Korean investments in the state.

### B. Level and Frequency.

As to the level and frequency of those benefits, there is inadequate, up to date information available on which to base any detailed estimates, other than to say that, as reflected in other sections of this report, there are various factors indicating that they are apt to be substantial, frequent and capable of rapidly increasing.

Those factors include but are not limited to the following:

1. The vast natural resources that Alaska possesses;
2. The great and increasing needs that Korea has for those resources;
3. Alaska's acute need to develop infrastructure to successfully and profitably market its resources;
4. Korea's willingness and ability to invest and participate in the development of Alaskan infrastructure;
5. Korea's rapidly growing capability and expertise in providing high quality goods and services at highly competitive prices; and
6. Korea's commercial and industrial aggressiveness and the healthy competitive affect this will have among potential providers of goods and services to Alaska, and among potential purchasers of Alaska's exports.

### C. Nature and Extent.

As to the nature and extent of the benefits, the immediate benefit will be a broadening of Alaska's economic base stemming from the steady, thoughtful development of its

natural resources.<sup>1</sup> This should result in more jobs for Alaskans and a broader tax base as the infrastructure needed to market the resources is expanded and refined.

Just as success breeds success, a strong economy will breed a stronger economic base to sustain and benefit future generations of Alaskans. The long-term view shows that the potential for development of Alaska's resources, and the infrastructure necessary to market them, has barely begun, and that the process now under way can be controlled and guided in the proper direction, so as to make the Alaskan economy steadier and safer in the coming years.

For example, the imminent purchase of the Alaska Railroad will need to be coupled with private investments in further infrastructure development before the state can reap the maximum benefits. And the continuing expansion of the petroleum industry also needs to be tied to further infrastructure development so as to assure that the diversification necessary to stabilize and thoughtfully expand the Alaskan economy will occur.

The Korean business and government officials interviewed for this study understand and are more than willing to participate in fulfilling these Alaskan goals. And they openly acknowledge that it is in their best, long range interest to do so, as part of the price they are willing and

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<sup>1</sup>Of course, it is the Alaska legislature's function to make sure that the development of the state's natural resources takes place in a steady and thoughtful manner.

able to pay to obtain the vital natural resources so desperately needed by their country.

## VII. - FUNCTIONS, OBJECTIVES AND

### EFFECTIVENESS OF ASAO

#### A. ASAO's Primary Area of Service.

The Alaskan State Asian Office (ASAO) located in Tokyo, Japan, has an interesting and intriguing history dating back to its founding in 1965 that was detailed in a recent study<sup>1</sup> and clearly indicates that despite its recently changed name, the ASAO has been and is primarily, if not solely, involved in providing contacts and services with and regarding Japan, rather than any other Asian country. This conclusion is further supported by an examination of pertinent documents and an interview conducted for this study by House Research Agency analyst Jonathan Sherwood with Vince O'Reilly, Deputy Commissioner of Commerce and Economic Development,<sup>2</sup> which indicates that the ASAO has devoted very little, if any, time or resources to Korea or the two other countries--Taiwan and China--that it is supposed to service.<sup>3</sup>

<sup>1</sup> Alaskan State Asian Office Study, January, 1982, submitted by Agritrade International, Inc. to the Department of Commerce and Economic Development, at pages 10-14.

<sup>2</sup> See January 17, 1984, memorandum from Mr. Sherwood to House Speaker Hayes' office, at pages 2-3.

<sup>3</sup> For examples, Mr. O'Reilly stated that the contacts and activities of the ASAO with Asian countries other than Japan is so negligible that virtually no records thereof are kept and no estimates can be made; and the 2 ASAO monthly reports detailing activities in September and October of 1983, which are in Attachment "D" hereto, show that the only contact with Korea during the 2 month period involved was a trip on October 12, 1983, to attend a funeral of the Korean government officials killed in the Rangoon bombing.

## B. FUNCTIONS AND OBJECTIVES.

As mandated in the appropriate executive budget documents, the primary purposes and functions of the ASAO are to:

1. Provide the Alaska business community with pertinent intelligence on market prices and conditions, product utilization, etc.;
2. Locate and establish business contacts which are interested in Alaskan products and investments;
3. Act as a catalyst to assist Alaska and foreign business persons to meet and conduct business;
4. Establish foreign government contacts which are important to Alaska, and introduce them to the state's economic trade and development policies; and
5. Establish a favorable image of Alaska in foreign countries.<sup>4</sup>

As previously mentioned, it is quite clear that the ASAO is only exercising the functions and fulfilling the objectives listed above in regard to Japan. For example, as to the first function and objective, it is obvious that the ASAO cannot provide "pertinent intelligence on market prices and conditions" in Korea if its only contacts with that country in a 2 month period is a single trip there to attend a funeral.<sup>5</sup>

## C. Effectiveness.

It is difficult, if not impossible, to evaluate the effectiveness of the ASAO without some measurable and meaningful criteria. However, during its years of operation Alaskan exports to Japan have risen dramatically and it is predicted that they will reach the \$1 billion mark

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4See footnote 2, above, and accompanying text.

5See footnote 3, above, and accompanying text.

in the next year or two,<sup>6</sup> and this is in itself an indication of the ASAO's strong effectiveness.

However, once again it must be pointed out that the ASAO's effectiveness is only in relation to Alaskan trade with Japan. Certainly, based on the previously mentioned information, it would be unwarranted to attribute the dramatic recent rise in Alaskan exports to Korea<sup>7</sup> to the ASAO.

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6A U.S. Department of Commerce, Division of International Trade, study listing the level of Alaska exports to Asian countries through November, 1982, indicated that in 1981 the total exports to Japan were approximately \$934 million. This decreased in 1982 to approximately \$888 million, but the director of the U.S. Department of Commerce's Anchorage office, Richard Lenahan, concurs with the \$1 billion in the next year or two prediction.

<sup>4</sup>The same study mentioned in footnote 6, above, shows that exports to Korea rose from approximately \$20 million in 1981 to around \$95 million through November of 1982.

## VIII. - EXPANDING THE ASAO TO SERVICE KOREA

### A. Only Protocol Functions and Objectives Being Provided Re Korea.

As pointed out in the previous section of this report, the ASAO is not, in any meaningful sense, providing any services in regard to Korea.

The ASAO is not, in any meaningful sense, providing the Alaska business community with pertinent intelligence on market prices and conditions, product utilization, etc., in regard to Korea. It is not and it cannot perform this function because to do so would require a presence or representation in Korea, and that has not occurred and is not occurring.

The ASAO is not and cannot locate and establish business contacts in Korea which are interested in Alaska products and investments because to do so would require a presence or representation in that country, and that has not occurred and is not occurring.

The ASAO is not and cannot act as a catalyst to assist Alaska and Korea business persons to meet and conduct business because to do so would require a presence or representation in Korea, and that has not occurred and is not occurring.

However, the ASAO is apparently making some effort, and planning to increase those efforts,<sup>1</sup> to establish government

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<sup>1</sup>This information was obtained by House Research Agency analyst Jonathan Sherwood through interviews with Alaska state officials and review of applicable documents for this study.

contacts which are important to Alaska, and introduce them to the state's economic trade and developmental policies, and to establish a favorable image of Alaska in Korea.

It should be noted that the latter activities being performed and contemplated by the ASAO in regard to Korea are in the nature of a liason or protocol function and objective.

#### B. Feasability.

The question of whether it is feasible for the ASAO to expand its present or contemplated functions and objectives so as to perform and fulfill them in regard to Korea, has already been answered in the negative, for obvious reasons.

The gathering of pertinent, or useable, intelligence on market prices, conditions, product utilization, etc., in Korea is a function that cannot conceivably be performed without being present or represented in that country. And the same is true for locating and establishing business contacts and acting as a catalyst for business transactions. These are activities that require virtually day to day attention and cannot be performed in any meaningful sense from another country.

#### C. Other Considerations.

Thus, the only way to expand the ASAO to service Korea is to limit its activities in that country to those it is already performing or contemplating, which is mainly a liaison or protocol function. Increasing the contacts the ASAO has with Korea will not substantially alter the nature of that

function unless those contacts are increased to the point where it becomes practical and necessary to have a representative permanently stationed in Korea, and to establish a permanent ASAO branch office there.

However, there are reasons that such an alternative to establishing a separate Alaskan trade office in Korea is ill-advised and should be rejected.

As previously mentioned and discussed in this report Koreans have a strong sense of national identity and they are very sensitive about being rated second to Japan.<sup>2</sup> Indeed, all the Korean business and government officials interviewed for this study pointed this out, and some of them expressly stated that they would consider the expansion of the ASAO in Tokyo to service Korea as relegating Korea to the position of being a second class citizen.<sup>3</sup>

Other Koreans interviewed for this study had more practical objections. Thus, Mr. Rhim, the executive director of the Korea-U.S. Economic Council (KUSEC) pointed out that to be effective, an Alaskan representative in Korea must be knowledgeable of Korean business protocol and must have an understanding of Korean business practices and their ramifications.<sup>4</sup> Mr. Kyong, the president of Samsung Corporation, stated that a Tokyo liaison office would not be efficient because of the amount of time lost due to travel,

<sup>2</sup>See section IV, subsection E, above.

<sup>3</sup>See notes on 1/11/84 interview with Mr. Choo, the director of the Hyundai Corporation, in Attachment B hereto.

<sup>4</sup>See notes of 1/31/84 interview with Mr. Rhim in Attachment B hereto.

reporting and follow up. He also pointed out that his company had experienced these very difficulties with their own corporate branch office structure in other parts of the world.<sup>5</sup>

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<sup>5</sup>See notes on 1/9/84 interview with Mr. Kyong in Attachment B hereto.

IX - PROS AND CONS OF ESTABLISHING A SEPERATE

ALASKA TRADE OFFICE IN KOREA

A. The Pros Among Koreans.

Virtually all of the Korean business people and government officials interviewed as part of this study agreed that the establishment of a seperate Alaska trade office in Korea would not only be of great potential benefit to both Koreans and Alaskans, but would also constitute a positive and much needed step in the direction of fostering better trade relations that might have immediate, practical results.

The Koreans were sophisticated and realistic enough to understand that although Alaska is a wealthy state in many respects, like most other governmental bodies throughout the world, it also has limitations on the amount of public funds it can devote to business promotional activities such as the establishment, staffing and operation of a foreign trade office. Nevertheless, virtually all of them seemed to have a very difficult time understanding why the Alaska state government doesn't already recognize that the tremendous potential economic benefits to be derived from fostering trade relations with Korea at this time far outweigh the

costs of establishing, staffing and operating a modest trade office in their country.<sup>1</sup>

Koreans are very aware and proud of the fact that their country is presently the United States' 12th largest trading partner; that Korea is one of the largest importers of U.S. grain products and livestock; and that Korea has incurred and continues to incur a substantial trade deficit in its dealings with the United States.

Koreans are also very keenly aware of the rapid, unprecedented increase in trade with Alaska during the past few years, and they generally view the opening of an Alaskan trade office in Korea as an ideal way to encourage Korean businesses, who can usually obtain extensive cooperation and assistance from the Korean government, to actively get involved in trade activities with Alaska.

As indicated in the notes of the interviews conducted in Korea contained in Attachment D hereto, virtually all the Korean business and government leaders contacted felt that an Alaskan trade office in their country could fulfill the vital and necessary functions of providing detailed information about Alaska and being a point of contact for Korean and Alaskan business entities. Furthermore, there

<sup>1</sup> Attachment "C" hereto contains letters from three of the major Korean corporations contacted whose expression of support for the proposed trade office are representative of all the other business and government leaders interviewed. Furthermore, one of those letters, from Jung Ju Kim, Executive Vice President of the Kukje - ICC Corporation, expresses the widespread desire and need for detailed information about Alaska, which is a perceived function of an Alaskan trade office in Korea.

was widespread interest in being provided access to information about government regulations affecting trade, and other technical matters necessary to engage in or expand business activities in and with Alaska.

B. The Pros Among Alaskans.

The view among Alaskan business persons and officials interviewed was equally one-sided in favor of establishing a separate trade office in Korea, and virtually all the Alaskans who are presently involved or contemplate being involved in trade with Korea emphasize the strong need for such a source of detailed information about Korean groups, opportunities, procedures and other factors vital to efficient and profitable trade with that country.

C. The Cons.

From the Korean side there were not any objections to the proposed Alaskan trade office, and from the Alaskan side the only negative point to the establishment, staffing and operation of a separate trade office in Korea was its cost. In this regard, although it can be said that setting up an office the size of the ASAO in Tokyo is prohibitive and perhaps unjustifiable at this time, virtually everyone will agree that a smaller office in Korea, with a small staff, does not seem excessive in light of the substantial potential benefits to be derived by fostering trade with Korea at the present time.

## X - CONCLUSIONS AND RECOMMENDATIONS

### A. Conclusions.

Based on the information obtained in this study, the conclusion that is not only feasible but appropriate and even necessary to establish a separate Alaskan trade office in Korea is inescapable.

In just the past few years, the level of Alaskan exports to Korea has dramatically increased<sup>1</sup> and there has been an increase in Korean investment in Alaska, with every indication that these trends will continue and rapidly expand in the future, thus providing substantial potential economic benefits to Alaska.<sup>2</sup>

All these things, and more, indicate that the state should endeavor to realize these potential economic benefits, and that the establishment of a separate trade office in Korea that can fully perform and fulfill all the functions and objectives of the ASAO in Tokyo will be a significant, positive step in that direction. In this regard, the option of expanding the ASAO to adequately service Korea is unfeasible and, insofar as the Koreans themselves are concerned, unthinkable, demeaning and thus inherently contradictory to the basic objective of improving Alaska's image in that country.

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<sup>1</sup>See section V, subsection F, and section VII, subsection C, footnote 7, above. The latter refers to a study showing that the level of Alaskan exports to Korea rose from \$20 million in 1981 to \$95 million in 1982..

<sup>2</sup>See section VI, subsection B, above, for a list of factors responsible for this trend.

## B. Recommendations.

In addition to recommending that a separate trade office in Korea be established as soon as possible, the following recommendations are also offered:

1. Location: as suggested and explained by the executive director of KUSEC<sup>3</sup> and the vice-president of the US Chamber of Commerce in Korea,<sup>4</sup> the Alaskan trade office should be located in the central business district of Seoul, close to the United Government Building and the U.S. Embassy, not only because of easier access to government and business headquarters, but also because such a location is perceived by Koreans as a status symbol of which they are extremely conscious.
2. Staffing: the Alaskan trade office should have, as a minimum staff, an executive director, a deputy director and a secretary. It is important to have a deputy director because there should always be someone in the office of sufficient rank to host important visitors while the executive director is attending important functions.
3. Qualifications: either the executive or deputy director must be fluent in Korean and be able to read and write the language. In general, these individuals should be business oriented professionals, preferably with experience in Korean-Alaskan trade, rather than dignitary types. This is in keeping with the tenor of the office, which should be oriented more toward the business functions than

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3See notes on 1/10/84 interview with Mr. Rhim in Attachment D hereto.

4See notes on 1/10/84 interview with Brigadier General (retired) Frederick C. Krause in Attachment D hereto.

5See section IV, subsection B, above, where the basic principles of seniority, courtesy and respect and discussed, pursuant to which, having an office in an inferior location would be a breach of Korean business etiquette.

the liaison or protocol functions.<sup>6</sup>

4. Duties and Goals: The Alaskan trade office should have the same basic functions and objectives that are presently mandated for the ASAO in Tokyo, which are to:

- a. Provide the Alaska business community with pertinent intelligence on Korean market prices, conditions, product utilization and related matters;
- b. Locate and establish Korean business contacts which are interested in Alaska products and investments;
- c. Act as a catalyst to assist Alaskan and Korean business persons to meet and conduct business;
- d. Establish Korean government contacts which are important to Alaska, and introduce them to the State's economic trade and development policies; and
- e. Establish a favorable image of Alaska in Korea.

5. Proposed Annual Budget.<sup>7</sup>

Executive Director	\$ 60,000.
Deputy Director	40,000.
Secretary	10,000.
Office Rent	24,000.
Office Equipment	10,000.
Office Expenses	12,000.
Office Supplies	1,200.
Printing	1,200.
Entertainment	12,000.
Misc. Costs (licenses, etc.)	10,000.
Total	<u>\$180,400.</u>

<sup>6</sup> As previously discussed in section VI, subsection B, above, this is in recognition of and in compliance with the strong Korean work ethic, pursuant to which the appointment of dignitary-type individuals with no prior experience in or detailed knowledge of Korean-Alaskan trade would be viewed as inefficient and unwise. This is not to say, however, that the protocol or liaison function and objective should be ignored.

<sup>7</sup> Detailed estimated costs of office space, housing, transportation, schooling and other expenses were provided by the vice president of the U.S. Chamber of Commerce in Korea. See notes on 1/10/84 interview with Brigadier General (retired) Frederick C. Krause in Attachment B hereto.

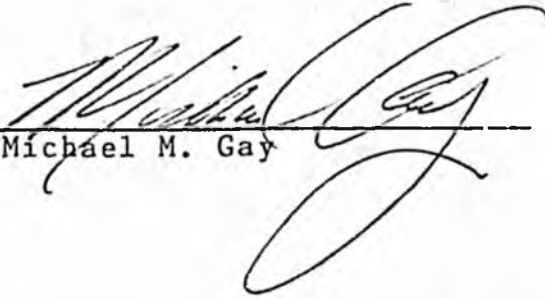
6. Placement.<sup>8</sup>

The Alaskan trade office in Korea should be placed under the jurisdiction of the Department of Commerce and Economic Development, where the ASAO in Tokyo is presently placed. This is consistent with the practice followed by virtually all states that have foreign trade offices.<sup>9</sup>

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<sup>8</sup>Detailed estimated cost of office space, housing, transportation, schooling and other expenses were provided by the vice president of the U.S. Chamber of Commerce in Korea. See notes no 1/10/84 interview with Brigadier General (retired) Fredrick C. Krause in Attachment B hereto.  
<sup>9</sup>See section III, above, containing the following statement: "In almost all cases, the foreign trade offices are associated with their state's economic development agency."

SUBMITTAL

This report is being respectfully submitted on the 14th day  
of February, 1984, to Alaska House of Representatives  
Speaker Joe Hayes by

  
Michael M. Gay

ATTACHMENT "A"

Letters from Korean business leaders.



# KOLON INTERNATIONAL CORP

C P O BOX 1052 SEOUL KOLON BLDG 45 MUGYO-DONG JUNG-GU, SEOUL, REPUBLIC OF K  
TEL: 771-57 / CABLE ADD: KKK TRADE SEOUL / TLX: KKK TRDG K23226, KKK TRDG K2  
KOLONT K26591

Mr. Joe L. Hayes  
Speaker of the House of Representatives.  
Alaska State Legislature

January 16, 1984

Dear Sir,

It is an honor for us to express our sincere gratitude to you for Alaska State's intention to open a trade office in Seoul. We firmly believe this planned office will do much to increase trade and business relations between Alaska and Korea.

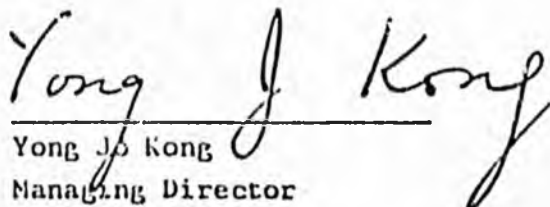
We, Kolon International Corp., very much welcome your proposal, and as an importer-exporter and investor, will be foremost to use this planned-office in the future. And we sincerely hope that we may be able to offer you any assistance in the establishment and functioning of this office.

We hope that sometime in the near future your plan will include a trip to Korea and at that time you will offer us the opportunity of receiving you at our main offices.

We send you our best regards and intentions both to you and entire state of Alaska.

Sincerely Yours,

KOLON INTERNATIONAL CORP.

  
Yong Jo Kong  
Managing Director

CC: Mr. Michael M. Gay

# SAMSUNG CO., LTD.

C. P. O. BOX. 1144, SEOUL, KOREA. TEL : 771 33, TLX : STARS K2385/77130/77116/9

Jan 10, 1984

Mr. Joe L. Hayes  
Speaker of The House  
Pouch V  
State Capital  
Juneau, Alaska 99811

Dear Mr. Hayes :

It is my great pleasure to take this opportunity to give our ~~whole-hearted welcome and support to your initiating a feasibility~~ study of opening a trade office in Seoul.

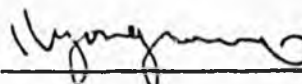
Samsung Co., Ltd. is already participating in the Bering coal field development project through our KADCO consortium since 1981 and now we are also studying timber development project with Soulaska corp.

Moreover, we have expressed our keen interests in the Alaskan LNG and petrochemical project when Mr. Hinkel visited Seoul last December. To facilitate our efforts, Samsung is opening an Anchorage offices, beginning this January.

If your trade office would be established in Seoul, reciprocating our Korean efforts as soon as possible, we are sure a bilateral trade between Alaska and Korea can be tangibly activated. Economic cooperation, especially in the fields of natural resources, agriculture, construction and plants for Alaska based industry etc., would be something to watch with great expectations.

We hope your wise vision would bring success and good results.

Sincerely,

  
Joo Hyon Kyong  
President  
Samsung Co., Ltd.

CC : Mr. M. Gay



**KUKJE-ICC  
CORPORATION**

TRADE & MANAGEMENT  
C. P. O. BOX 707 Seoul, Korea  
CABLE : KUKJECC SEUL  
TELEX : KUKJECC K 2234 - 6, K 26548, K 27251, K 27262  
PHONE : 771-61771-81

CONSTRUCTION  
C. P. O. BOX 638 Seoul, Korea  
CABLE : "IGECOM SEUL"  
TELEX : IGECOM K 2631  
PHONE : 740-8151-9/755-7461-8

Date: January 15, 1984

His Excellency  
Mr. Joe L. Hayes  
Speaker of the House  
Alaska ~~State~~ Legislature

Your Excellency :

Few days ago, I had an opportunity of meeting Mr. Michael M. Gay who was introduced to me by Mr. Pio Y. Park. At this meeting we discussed many interesting topics regarding the Korea-Alaska business potentials and possibility of establishing a Alaskan office here in Korea.

As I am in the position of developing oversea businesses within our corporation, I am keenly aware of the fact that overall informations about the state of Alaska or lack of them may influence significant future business decisions. Most of the Korean business men, including myself, have very romatic notions about the Alaska but see few business potentialities. To be more specific, we do not know the details of the natives and Alaskan State, the commercial laws, the labor relationships and other federal laws that may govern the Korean side involvements.



**KUKJE-ICC  
CORPORATION**

TRADE & MANAGEMENT  
C. P. O. BOX 767 Seoul, Korea  
CABLE: KUKJECO SEIKIL  
TELEX: KUKJECO K 2251-6, K 2644, K 7751, K 2174  
PHONE: 771-4771-81

CONSTRUCTION  
C. P. O. BOX 638 Seoul, Korea  
CABLE: "ICECON SEUL"  
TELEX: ICECON K 2611  
PHONE: 720-8151-9/720-741-5

By establishing the Alaskan office in Korea will solve and clear all of these questions. What is more important in my opinion is that it will create both Alaska and Korean exposures that are both beneficial to each other.

In our judgement, the timing is right and hope that you will set up such an office in Korea.

Very truly yours,



Jung Ju Kim  
Executive Vice President  
Kukje-ICC Corporation

STATE OF ALASKA 1984 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST

Bill/Resolution No.: HB 654  
 Title: "An Act relating to Alaska Foreign Offices ...."  
 Sponsor: Hayes  
 Requestor: House Labor/Commerce  
 Date of Request: \_\_\_\_\_

FISCAL DETAIL

Agency Affected: Commerce & Economic Development  
 Program Category Affected: Economic Development  
 BRU, Program or Subprogram(s) Affected: Economic Development Advocates BRU  
International Trade Component

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
<u>OPERATING</u>						
100 PERSONAL SERVICES		101.1	106.2	111.5	117.1	123.0
200 TRAVEL		25.0	26.3	27.6	29.0	30.5
300 CONTRACTUAL		293.9	308.6	324.0	340.2	357.2
400 SUPPLIES		14.0	14.7	15.4	16.2	17.0
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
<u>TOTAL OPERATING</u>		434.0	455.8	478.5	502.5	527.7
<u>CAPITAL</u>						
<u>REVENUE</u>						

FUNDING: (Thousands of Dollars)

GENERAL FUND		434.0	455.8	478.5	502.5	527.7
FEDERAL FUNDS						
OTHER						
<u>TOTAL</u>						

POSITIONS:

FULL-TIME		1.0	1.0	1.0	1.0	1.0
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Lois Cook, Director Phone: 465-2505  
 Division: Administrative Services Date: \_\_\_\_\_  
 Approved by Commissioner: Richard A. Lyon Date: 2/22/84  
 Agency: Commerce & Economic Development

Distribution (by Agency preparing fiscal note):

Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

12/1/83

Personal Services - 101.1 - One Far East Representative

Travel - 25.0

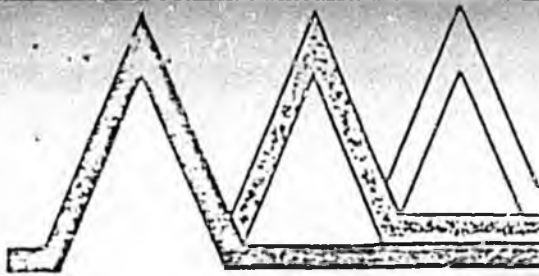
Contractual - 293.9

Communications -	35.0
Printing & Advertising -	13.0
Space Expense & Fees -	90.0
Repair & Maintenance -	2.0
Equipment Rental -	4.0
3 Contract Nationals -	78.0
Contractual Funds -	17.9
Hospitality -	37.3
Miscellaneous -	16.7

Commodities - 14.0

ATTACHMENT C

State Foreign Trade Offices



# WESTERN CONFERENCE

THE COUNCIL OF STATE GOVERNMENTS

720 SACRAMENTO STREET, 3RD FLOOR SAN FRANCISCO, CALIFORNIA 94108 (415) 986-3760

December 19, 1983

John Sherwood  
Alaska House Research Agency  
Pouch Y  
Juneau, AK 99811

Dear John:

Enclosed are the materials I found on states' foreign trade promotion offices.

Enclosure 1 is from a publication that the Council of State Governments (CSG) did earlier this year, Economic Development: A Survey of State Activities. The information from the study was gathered in a survey sent in September of 1982. Bob Reinshuttle, the contact person at CSC that I gave you, produced the finished report.

Enclosure 2 is from a report produced by the National Governors' Association in 1981. The report, Export Development and Foreign Investment: The Role of States and its Linkage to Federal Action, was developed using information NGA gathered through a survey of state officials.

Enclosure 3 is excerpted from a book written by John Kline, State Government Influence in U.S. International Economic Policy (Lexington Books, 1983). The chapter I have sent you provides more detailed background on state export promotional activities, including foreign trade offices. I recommend the entire book if you are looking for information on other aspects of state foreign-trade activities.

The National Association for State development Agencies (NASDA) did its own survey on states' export promotion activities (I gave you Marsha Clarke as a contact there). The NASDA survey is probably the most recent work in that area.

I hope all of this is helpful to you. Call me if you have any questions if our office can provide you with further assistance.

Sincerely,

Mark Klender  
Policy Analyst

MKsk/WC10a-01

Council of Legislators - representing the following States

Alaska • American Samoa • Arizona • California • Colorado • Commonwealth of the Northern Mariana Islands  
Guam • Hawaii • Idaho • Montana • Nevada • New Mexico • Oregon • Utah • Washington • Wyoming

## INDUSTRIAL DEVELOPMENT: ADVERTISING, MEDIA PROMOTION AND PUBLICATIONS

Comparison between expenditures for non-tourist advertising and promotion in fiscal 1932 shows a striking contrast. Six states spent nothing, while 11 spent over \$500,000. The largest expenditures for advertising and promotion were by New York (\$6.95 million), Maryland (\$1.2 million), and Kentucky (\$1 million). Other significant expenditures were by Florida, Louisiana, Massachusetts and Pennsylvania.

In fiscal 1983 budgets, the recession was reflected in nearly every state, and there was much debate in the legislatures and executive offices as to whether promotional budgets should be increased to attract more business and industry to the state, or reduced as part of an overall budget reduction plan. Eight states chose the latter by reducing expenditures (Arizona, Florida, Georgia, Hawaii, Kentucky, Mississippi, Montana, and Wisconsin). Most states, however, decided that a greater commitment should be made to promote their state as a good place to do business. As a result, five states will spend above a million dollars on that activity: New York (\$9.38 million requested), Michigan (\$1.5 million), Maryland (\$1.3 million), Massachusetts (\$1.05 million), and New Mexico (\$1.033 million).

Of the states whose budgets have received final approval, the largest percentage increases will take place in Illinois, Michigan, Oregon, Tennessee, Utah, Vermont, Washington and West Virginia. It is interesting to note that many of these states have suffered the most severe budgetary and economic difficulties during the past few years.

Caution should be used in making direct comparisons between state budgetary figures. States which spend very different dollar amounts for advertising and promotion may nevertheless be spending comparable percentages of their total budgets for that purpose, and in a few cases a special promotional effort may have swelled the promotion budget out of proportion to past expenditures.

Of the 45 states responding to this question, 24 indicated that the amount allocated for promotion and advertising is determined exclusively by the legislature, while 19 said expenditures are determined by administrative decision. In Nevada and Virginia, the decision is made by both legislative and administrative action. (See Table 13.)

### Advertising Media

Forty-four states indicated that they advertise through one or more of the following media: newspapers, magazines, radio, television, billboards and direct periodicals. California, Minnesota and New Hampshire do not advertise but produce their own publication. Colorado does not budget for advertising and promotion. (See Table 14.)

### Field Representatives

Field representatives cover two basic areas: in-state, to provide services to local industry, communities and development groups; and out-of-state, to make contact with industrial prospects, provide them with information on locations in state, and render location assistance to prospects once they move into the state. Overall, field representatives provide information, technical and coordinating services.

Twenty-four states employ in-state field representatives. Kansas has such a proposal under consideration, and Alabama uses regular line staff to meet these responsibilities. Eight states use field representatives for work outside the state, and 19 use field representatives outside the United States.

Seven states reported having information centers located outside their own jurisdiction. The two most popular locations are New York City and Washington, D.C. Centers there primarily provide industrial development and trade facility information to interested persons.

### Foreign Offices to Promote Industrial Development and Trade

Twenty-three states reported having at least one foreign office engaged in promoting state products, providing information, and assisting foreign corporations who may be interested in locating a plant within their state. Most states have their offices in Japan, Belgium and West Germany; however, other locations include England, China, Canada, Mexico, Brazil, Switzerland, France and The Netherlands. Most foreign offices focus on a region rather than merely concentrating their efforts on the country in which they are located. The exceptions are Michigan, whose office in Tokyo works only with Japanese repre-

similar posture in its foreign offices in Japan and Canada. Virginia employs the largest staff in its foreign offices (six in Japan and eight in Belgium). The average number of staff per foreign office is three; however, larger staffs are commonly placed in European offices.

Within the past five years, 10 states have expanded their foreign operations (Alabama, Florida, Georgia, Illinois, Maryland, Missouri, Nebraska, New York, North Carolina, Pennsylvania and Virginia), while two states have reduced their visibility in other parts of the world (Louisiana and Washington). Ohio recently shifted its West Germany office to Belgium. Three states (Maryland, Missouri and Ohio) plan to expand their foreign operations in 1983, and Illinois opened an office in Japan in January. (See Tables 15 and 16.)

Number of Employees

State	Regional Focus	Number of Employees									Office Changes in Last Five Years	Planned Changes in 1983		
		Japan	Belgium	West Germany	England	China	Canada	Mexico	Brazil	Switzerland			Netherlands	France
Alabama	Yes except Japan	4		1	2					2			Expand	None
Connecticut	Yes			2									None	None
Florida	Yes	•		2									Expand	None
Georgia	Yes	3	3					1					Expand	None
Illinois	Yes	1	7			2				5			Expand	Japan open 1/83
Indiana	Yes	1	2										None	None
Iowa	Yes			2									None	None
Kansas	...			•	•									
Louisiana	Yes			1									Reduction from 2 to 1	None
Maryland	Yes	2	3										Expand	Expand
Massachusetts	...	•	•											
Michigan	Yes except Japan	2	5.5										None	None
Missouri	Yes	2		3		1					1		Expand	Expand
Nebraska	Yes	•	•										Expand	None
New York	Yes except Japan /Canada	2		2	2		4						Expand	None
North Carolina	Yes	2		2									Expand, Japan opened	None
Ohio	Yes	3	4										W. Ger. replaced by Belg.	Expand
Pennsylvania	Yes	•	•	•	•								Expand	None
South Carolina	Yes		2										None	None
Texas	No								2				None	None
Vermont	No						2.5						None	None
Virginia	Yes	6	8										Expand	None
Washington		3	contract staff										Reduction	None

• Consultant on contract.

## Foreign Offices

2

An important part of trade organization for many states is the overseas offices. Although there has been some debate in the past over their utility and cost effectiveness, the continuing increase in the number of overseas offices indicate their importance to states' commercial interests overseas. Data compiled in 1976 show nineteen states with overseas offices. This survey, conducted in October 1980, indicates that thirty-three states are represented overseas and that there are sixty-six offices. Some of these offices (those organized by regional commissions) are shared by several states, while several states have more than one office to represent them around the world.

States have this kind of continuous representation in all parts of the world. Europe was the first target when states began to set up these offices more than a decade ago. Japan then became a focus of activity. Now seventeen different countries host state representatives. Most of these offices have regional responsibilities, making it clear that state economic activities reach into most parts of the world.

Our survey data showed that overseas offices could be categorized by the type of authority administering them. First, there are offices maintained by the state unit charged with primary responsibility for increasing international commerce (the economic development office or similar department) or by closely allied offices (such as those in charge of tourism). Secondly there are offices maintained by quasi-public, semi-autonomous state organs, such as port authorities. Finally, there are offices operated by regional organizations such as non-state port authorities or planning commissions. Some states, particularly in the West, work through this kind of office rather than

TABLE 11.4 - STATE OFFICES ABROAD

	BELGIUM	DENMARK	FED. REP. OF GERMANY	FRANCE	GREAT BRITAIN	GREECE	THE NETHERLANDS	SWITZERLAND	BRAZIL	COLUMBIA	MEXICO	PANAMA	AUSTRALIA	HONG KONG	JAPAN	SINGAPORE	CANADA
ALABAMA				X				X									
ALASKA		X	X														
ARIZONA																	
ARKANSAS	X																
CALIFORNIA																	
COLORADO																	
CONNECTICUT			X														
DELAWARE	*								*				*	*			
FLORIDA			X												X		
GEORGIA	X		*		*										X*		
HAWAII																	
IDAHO															**		
ILLINOIS	X							X						X			
INDIANA							X		X								
IOWA			X														
KANSAS																	
KENTUCKY	X																
LOUISIANA	X		X	X							X	X	X	X			
MAINE																	
MARYLAND	X				X								X	X			
MASSACHUSETTS	X														X		
MICHIGAN	X														X		
MINNESOTA																	
MISSISSIPPI																	
MISSOURI			X													X	
MONTANA			**												**		
NEBRASKA			**												**		
NEVADA																	
NEW HAMPSHIRE																	
NEW JERSEY	*				*		*	*	*						*		
NEW MEXICO																	
NEW YORK					X										X		
NORTH CAROLINA			X												X		
NORTH DAKOTA			**												**		
OHIO	X														X		
OKLAHOMA																	
OREGON															**		
PENNSYLVANIA			***												***		
RHODE ISLAND																	
SOUTH CAROLINA	X														X		
SOUTH DAKOTA			**												**		
TENNESSEE																	
TEXAS										X							
UTAH																	
VERMONT																	X
VIRGINIA	X							X							X		
WASHINGTON															X	X	
WEST VIRGINIA																	
WISCONSIN																	
WYOMING			**												**		

- X = one or more state offices  
 \* = Regional Ports Authority offices  
 \*\* = Regional Planning Commission offices  
 \*\*\* = Private state group offices

maintaining their own facilities abroad.<sup>10</sup> Appendix III lists state overseas offices of all types.

Staffing arrangements for overseas offices also varied. In some cases the staffs were employed by the state and solely represented the state. In other cases, the state retained only a consultant or business contact, either on its own or through a regional planning commission.

Different state departments, such as economic development offices and port authorities (or even the same) sometimes maintained separate offices in different foreign country. In other cases, different departments from the same state shared offices or consultants in the same foreign country. For a list of overseas representation by state and country, see Table II.4.

#### Policy Implications and Recommendations

This chapter outlines the continuing increase in foreign trade activities by states. Figures on overseas trade missions, the hosting of foreign delegations (whether or not visits are directly tied to commercial exchanges), and the proliferation of state offices overseas suggest the scope of the states' activity. Organizational developments also give expression to expanding overseas interests. Traditional bureaucratic organs have been given new responsibilities and in some cases specialized agencies have been created. The emergence of a substantial number of trade-related interests within states has required special mechanisms to foster cooperative relations between state governments and their trade communities. Advisory councils in which the entire trade community is represented have been organized by some governors to deal with this situation. In other states the proliferation of trade activities and interests remain to be

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<sup>10/</sup> A fourth type, unofficially representing the state of Pennsylvania, was operated by a private state regional economic development association.

area within the state. New Hampshire, which targeted both rural and economically depressed areas, noted that a labor market sufficient to meet an industry's needs was one of its basic criteria used in assisting firms wishing to relocate there. Table III.8 provides a summary of internal targeting by the states.

### Foreign Area Targeting

A look at where states choose to market state products or to seek overseas investors is instructive in several ways. It suggests the extensiveness of state-based commercial networks around the world. Foreign areas where state effort is most concentrated are identified, as is the presence of state activity in those international markets with the greatest potential.

Taken collectively, state overseas interests reach into most areas of the world. The major regions identified for market development are Europe, Asia and Latin America. It does not appear from the survey that states have given much attention to the trade opportunities available in Eastern Europe, Africa, or West Asia.

That states' export promotion efforts do give greater focus to well-established markets is apparent if we note those cases where specific countries are mentioned. In questionnaire responses, states tended to identify regions or continents rather than individual countries. The list of countries which were also specified includes only modern or rapidly modernizing countries. For the most part, specific countries within Third World markets were not identified.

The survey provides no surprises in the area of targeting investment. For most states the major sources of foreign investment are the developed countries. Western Europe, Canada, and Japan focus most state effort. A few states do look to the rapidly modernizing economies of Taiwan, Mexico, and South Korea.

A detailed breakdown of where states concentrate their overseas activities is provided in Table III.9. It illustrates the considerable diversity of states in their targeting of international business. Of the forty-four states from which data was collected regarding foreign targeting and export promotion,<sup>4</sup> thirty-one concentrated on particular geographical areas. Vermont, while not engaging in targeting per se, has participated in trade shows and missions held in West Europe and Latin America. Wyoming had no targeting policy; it confined its international business activities to participation in the Old West Regional Commission, leaving to that organization such policy decisions. The eleven states did not specify any specific region or country for export promotion include: Arizona, Colorado, Delaware, Georgia, Iowa, Nebraska, Nevada, North Carolina, Pennsylvania, South Dakota, and Utah.

Among the thirty-two states targeting foreign areas for export promotion, regions or continents were specified sixty-two times, particular countries twenty-four times. Preferences for European and Asian regions were equal (twenty each), followed closely by Latin America (eighteen). Two states identified the Pacific Rim countries. The particular countries mentioned as targets for export promotion were: Canada (by 5 states); Mexico (by 4 states); Japan (by 3 states); Germany (by 2 states); and Taiwan (by 2 states). Argentina, Australia, Brazil, China, Denmark, New Zealand, South Korea, and Venezuela were each mentioned by one state.

Of the forty-six states for which data was collected regarding foreign targeting and reverse investment, thirty-five concentrated on particular areas overseas. As in the case of export promotion, Wyoming leaves such targeting up to its regional commission. The twelve states that do not target specific foreign areas for attracting investment

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<sup>4</sup>/ Insufficient data for Louisiana, North Dakota, South Carolina, and West Virginia.

TABLE III.9 - REGION/COUNTRY TARGETS OF STATE  
INTERNATIONAL BUSINESS ACTIVITY

	Export Promotion	Reverse Investment
ALABAMA	Central/South America, Far East, Europe	Europe, Far East
ALASKA	Japan, Germany Denmark, Taiwan	Germany, Denmark, Taiwan
ARIZONA	---NONE---	Japan, West Europe, Taiwan, South Korea
ARKANSAS	Europe, Far East	Europe, Japan
CALIFORNIA	Mexico, Canada Pacific Rim Countries, E.E.C., South America	Japan, E.E.C.
COLORADO	---NONE---	---NONE---
CONNECTICUT	Europe, South America, Asia	West Europe (Germany, Switzerland, England, Belgium, Netherlands), Scandinavia (Sweden, Denmark), Asia-Japan
DELAWARE	---NONE---	---NONE---
FLORIDA	Latin America, Europe, Far East	Canada, Europe, Japan
GEORGIA	---NONE---	Japan/Far East, Europe, Canada
HAWAII	Japan, Canada, Asia/Pacific	Japan, Canada
IDAHO	Latin America, Asia, Europe	---NONE---
ILLINOIS	E.E.C., Far East	---NONE---
INDIANA	South America, Europe, Far East	Europe, Japan
IOWA	---NONE---	Europe
KANSAS	South America, Far East, Europe	Europe
KENTUCKY	Europe, South America, Far East	Europe, Japan

TABLE III.9 (CONT)

	Export Promotion	Reverse Investment
LOUISIANA	(1)	(1)
MAINE	Europe, Canada, Far East	Europe, Canada, Far East
MARYLAND	Far East, West Europe	Far East/China, West Europe, Canada
MASSACHUSETTS	West Europe	West Europe, Japan, Canada
MICHIGAN	Latin America, Asia, Europe	Europe, Japan
MINNESOTA	Europe, Canada Latin America	---NONE---
MISSISSIPPI	Central America, South America	Germany, England, Canada
MISSOURI	West Europe, East and Southeast Asia, and Latin America	West Europe, East Asia, and Canada
MONTANA	Pacific Rim Countries, South America	---NONE---
NEBRASKA	---NONE---	---NONE---
NEVADA	---NONE---	---NONE---
NEW HAMPSHIRE	Europe (all countries), South America (Venezuela, Brazil, Argentina), Australia-Asia (Australia, New Zealand, Taiwan, South Korea, Japan, China)	Europe (England, France, Germany, Italy, Spain, Scandinavia), Canada, Australia, South Africa
NEW JERSEY	Latin America	West Europe, Japan
NEW MEXICO	Mexico	---NONE---
NEW YORK	(2)	North Europe, United Kingdom, Japan
NORTH CAROLINA	---NONE---	West Europe, Japan
NORTH DAKOTA	(1)	(1)
OHIO	Asia, Latin America, West Europe	West Europe, Japan
OKLAHOMA	Canada, Mexico West Germany	Canada, Mexico, West Germany, Japan

TABLE III.9 (CONT)

	Export Promotion	Reverse Investment
OREGON	Far East, Southeast Asia Western Latin America	Europe, Japan
PENNSYLVANIA	---NONE---	Japan, West Europe
RHODE ISLAND	E.E.C.	West Europe
SOUTH CAROLINA	(1)	(1)
SOUTH DAKOTA	---NONE---	---NONE---
TENNESSEE	Latin America, Asia, Europe	Japan, Germany, Other European Countries
TEXAS	Mexico	---NONE---
UTAH	---NONE---	---NONE---
VERMONT	(3)	Canada, Europe
VIRGINIA	Europe, Far East Latin America	West Europe, Japan
WASHINGTON	Asia-Pacific	Europe, Asia
WEST VIRGINIA	(1)	Japan, West Germany, England
WISCONSIN	South America, Far East	Europe, Far East
WYOMING	(4)	(4)

(1) Insufficient Data

(2) Target specific areas, but none listed

(3) No specific targeting, but have participated  
in trade missions/shows in West Europe and  
Latin America

(4) Left up to regional planning commission

include: Colorado, Delaware, Idaho, Illinois, Minnesota, Montana, Nebraska, Nevada, New Mexico, South Dakota, Texas, and Utah.

Europe and the Far East are, almost exclusively, the regions where states go to seek investment. A rank order of specific countries mentioned by number of states suggests what are regarded as the best sources of investment money. This pattern is illustrated in Table III.10.

TABLE III.10 - COUNTRIES TARGETED FOR STATE INVESTMENT  
PROMOTION BY NUMBER OF TIMES MENTIONED ON QUESTIONNAIRE

Country	No. Of Times Mentioned
JAPAN	20
CANADA	11
GERMANY/WEST GERMANY	7
ENGLAND/UNITED KINGDOM	5
DENMARK	2
TAIWAN	2
AUSTRALIA	1
BELGIUM	1
FRANCE	1
ITALY	1
MEXICO	1
NETHERLANDS	1
SOUTH AFRICA	1
SOUTH KOREA	1
SPAIN	1
SWEDEN	1
SWITZERLAND	1

Six states targeted specific foreign areas for export promotion, but not for reverse investment. These states include: Idaho, Illinois, Minnesota, Montana, New Mexico, and Texas. In terms of general policy, all of these states strongly encourage export promotion and strongly discourage, mildly discourage, or at least are neutral toward, reverse

foreign investment. Six states also targeted specific foreign areas for reverse investment, but not for export promotion. These states include: Arizona, Georgia, Iowa, North Carolina, Pennsylvania, and Vermont.

### Policy Implications and Recommendations

To speak of state trade policy is really only to refer to the collective activities that states perform in promoting international business. No state appears to have anything approximating an articulated policy relating to trade. A few states are so minimally involved in international trade it would be difficult to accurately identify a trade posture, much less a policy. Yet the idea of trade policy, and its development in the states, gives an instructive focus to the findings of this chapter.

From the collective activities of the typical state it is possible to derive the elements of a policy framework. Foreign investment and export promotion are both strongly encouraged. The longstanding interest of states in investment continues, although there is increasing interest in export promotion. The higher priority given exports is evident. Larger allocations of the state's international budget go for trade expansion. States offer a full range of export services in response to a whole range of needs within an expanding state trade network. It seems that states have generally rejected a strategy of making state exports more profitable. That approach would only serve one category of business within the state -- the experienced exporter. In providing a number of programs, the state reaches firms with no experience, those who might export but don't know how, those who want to but need assistance, and those who do export and want greater market opportunities. By sponsoring a variety of promotion programs, states assure that there is an appropriate program for most businesses in the expanding trade environment. This strategy is compatible with the finding that state programs are generally geared to small manufacturing firms with fewer than five years of experience in

see pg. 59 for foreign  
office activities

## 5

### State Trade-and- Investment Promotion

The most obvious manifestation of state-government involvement in international economic matters is the growth of state trade-and-investment promotion activities. These efforts have developed a structural dimension that demonstrates some of the organizational changes states experience in responding to international economic forces. While the national government encouraged initial state involvement in international promotional activities, this intergovernmental relationship has recently exhibited some competitive as well as cooperative aspects in both programmatic and policy terms.

State-government promotional efforts affect U.S. policy outcomes primarily through indirect means at the program-implementation level. Trade activities generally support the achievement of national export-expansion goals while state investment promotion can conflict with national policy regarding the use of public incentives. The growth of state promotional programs thus offers evidence of the overlapping government interests created by international-interdependence trends and resultant state influence on U.S. policy outcomes.

#### The State Economic Interest

The growth of state promotional activities, including their interface with national programs, can be understood only within the context of their importance to state economic interests. Chapter 3 detailed some of the broad impact of interdependence at the state level, but a clearer picture emerges when one considers the role international-market factors can play in a state's economic-development strategy.

A growing export sector, for example, can provide a dynamic base for the expansion of production and employment within a state. In case after case during the 1970s, states reported growth in production for exports running two or three times higher than general manufacturing production. Benefits to a state's economy from increased exports, especially when indirect and other "multiplier" effects are considered, can also go far beyond immediate production jobs into areas such as transportation, finance, insurance, and greater state tax revenues.

The particular experience of several states might help to illustrate both the economic importance and the organizational support now given to international trade as a central facet of a state's economy. Illinois became involved in

actively promoting exports in 1967, utilizing the Illinois Department of Business and Economic Development in which an International Marketing Department was established. By 1976 over 346,000 workers in Illinois were employed full time in manufacturing exports, which is 20 percent of the state's total work force earning all or part of their income from export activities. Exports jumped from 4.3 percent of the gross state product in 1972 to 10.2 percent in 1974. The following year, the state exported \$6.8 billion in manufactured goods, \$2.2 billion of agricultural products, and in the process collected \$680 million in taxes from this export production.

In the Chicago area, manufacturing employment declined from the mid-1960s to the mid-1970s, but jobs attributable to manufacturing exports almost doubled during this decline. The Chicago Association of Commerce and Industry estimated that the city's export growth had added 60,000 jobs in the area over this ten-year period. More dollar shipments of manufactured goods were sent out of Chicago than any other statistical metropolitan area.<sup>1</sup>

Florida is another state that consciously set out to tie its economic fortunes into the foreign-trade sector. The oil-price shocks in the early 1970s nearly decimated the tourism and construction industries that formed the backbone of Florida's economy. In response Florida conceived a strategy of aggressively promoting foreign trade, especially focusing on its port activities, which by 1978, had paid off handsomely. Exports from the Tampa and Miami areas alone generated \$4 billion annually in revenue and involved over 167,000 people. Statewide the export trade accounted for 8 percent of total personal income, double the proportion for the 1960s. State initiatives in terms of trade missions, information, establishment of foreign-trade zones, authorization of foreign-bank activity, and others helped link the state more securely into expanding world markets.<sup>2</sup>

While exports have provided a beneficial area for state business development, the importance of this role goes beyond its utility as a timely area of economic growth, as useful as that may be. Many other purely domestic sectors have also provided spurts of economic activity at different times. The export area, however, offers some additional benefits in terms of the countercyclical potential of foreign-market sales.

Countercyclical benefits of foreign trade stem from the normally different economic growth rates prevailing in various parts of the world at any given time. While there are occasions when the worst-case scenario of global recession sets in, it seldom occurs simultaneously, and the more normal pattern has been for some countries to be gearing up their economies while others are sliding into slower-growth periods. Exports can help stabilize U.S. employment if demand from abroad counters declining U.S. sales, while later U.S. economic recovery then could cushion a falloff in overseas economic activity.

The practical utility of ties to broader world markets became apparent in business experiences during the 1974-1975 U.S. recession. At a series of public

hearings around the country sponsored by the U.S. Commerce Department in 1976, numerous witnesses testified to the production and employment impact of export sales during the recession. Typical of the stories were these:

More than 6,000 employees (out of 31,000 total) at Dow Chemical Corporation were engaged in \$650 million of export business in 1975. Exports provided enough of a cushion during the recession that only 100 employees were laid off even though production volume declined 20 percent.<sup>3</sup>

Emerson Electric Company of St. Louis, Missouri concentrated on domestic growth until 1970, when international market development became a corporate objective. By the 1974-1975 recession, Emerson's international business was growing by 22 percent while domestic business declined by 5 percent, counterbalancing by some 900 jobs the employment loss brought on by the recession.<sup>4</sup>

The Executive Director of the Texas Industrial Commission (which includes the state's International Trade Division) testified that the state was one of the least affected during the recession due to involvement in the export sector. Information from major Texas companies showed that expansion of international sales had allowed them to maintain or even add to their labor forces during the recession.<sup>5</sup>

This last testimony pinpoints the direct interest of state governments in the countercyclical benefits of foreign trade—keeping people employed (and paying taxes rather than drawing state unemployment-compensation benefits). An international-trade base is best built, of course, during relatively good economic periods when time and resources are available to develop the strong export position needed to help counteract later cyclical downturns. Studies by the Indiana Department of Commerce showed a large number of small- to medium-sized companies interested in exporting that needed assistance to enter overseas markets. The state reportedly concluded that export-promotion efforts also offered the best avenue for increasing and diversifying the state's economic base in the face of declines in the domestic durable-goods market. As a result, a private nonprofit corporation, Indiana Export, Inc. (IEI), was created to provide specialized counseling to firms on how to expand into export operations. It is estimated that up to 20,000 jobs may be created over the next five years as a result of expected increases in export sales.<sup>6</sup>

International-trade ties thus help provide a better, broader "cushion" against hard times than business plans limited to intra- or even interstate economic expansion. Along with the positive benefits of normal industrial expansion from increased exports, this countercyclical potential helps provide an additional rationale for an active state-government role in trade promotion.

## Structuring State Promotional Activities

From rather modest beginnings, state promotional activities have expanded tremendously over the last decade. This section discusses the nature, growth, and current dimensions of these programs, using both aggregate measures and specific state examples. It should be noted, however, that the rapid changes occurring in this area quickly overtake specific, snapshot examples, which are therefore employed for illustrative purposes only. Descriptions of individual state programs and statistics would need to be updated almost continuously to retain their complete accuracy.

While foreign-trade promotion can be seen as an extension of traditional state business-development programs, the actual methods employed demonstrate a mix of both normal and rather unconventional state services. Programs include trade missions, information and training seminars, trade shows at home and abroad, export directories and newsletters, computerized distribution of trade leads, and other such aids, administered through international business departments and often with the assistance of overseas state offices.<sup>7</sup>

The organizational pattern for administration of state trade-promotion activities reflects the diversity one might expect given the fifty states' historical, geographic, economic, and policy priority differences. While most efforts seem to be coordinated out of international divisions within a state's commerce department, a significant and sometimes lead role is played in other states by the agriculture department. Other forms of public and sometimes private bodies can also serve as central directing, coordinating, and/or advisory devices. Linking mechanisms within a state are essential since many "partners" are often required to formulate an effective trade-promotion program, including port authorities, tourism agencies, foreign-trade-zone authorities, transportation and economic development departments, chambers of commerce, world-trade councils, and local governments. (For a more complete discussion including examples of several state organizational structures, see the 1981 NGA report on *Export Development and Foreign Investment: The Role of the States and Its Linkage to Federal Action*.)<sup>8</sup>

State expenditures on trade promotion have become very substantial in dollar amounts as well as in the establishment of specialized program mechanisms and state executive-time commitment. As shown in table S-1, the states in 1980 reported spending \$18,855,550 on export-promotion activities. Utah was the sole state with no direct expenditures, while nearly two-thirds of the states allocated \$100,000 or more to export promotion and four states (Ohio, Illinois, Virginia, and Maryland) spent over \$1 million.

The allocation of state personnel to international business activities shows a similar impressive commitment. While the numbers include individuals working on investment promotion as well as trade activities, some

Table S-1  
State Expenditures on International Business Promotion

	Total International Business Expenditure	Export Promotion	Reverse- Investment Promotion	Other
Alabama	375,000	273,750	101,250	—
Alaska	745,000	372,500	372,500	—
Arizona	134,000	107,200	26,800	—
Arkansas	350,000	175,000	175,000	—
California	403,835	234,224	121,151	48,460
Colorado	132,000	120,120	11,880	—
Connecticut	250,000	75,000	150,000	25,000
Delaware	100,000	30,000	70,000	—
Florida	684,000	458,280	225,720	—
Georgia	795,000	310,050	484,950	—
Hawaii	195,000	107,250	27,300	60,450
Idaho	50,000	47,500	2,500	—
Illinois	1,642,000	1,527,060	114,940	—
Indiana	929,541	752,042	158,022	46,477
Iowa	358,616	240,273	118,343	—
Kansas	100,000	70,000	30,000	—
Kentucky	994,500	576,810	417,690	—
Louisiana	250,000	25,000	225,000	—
Maine	174,000	90,740	22,685	61,075
Maryland	1,580,491	1,287,319	693,172	—
Massachusetts	450,000	45,000	405,000	—
Michigan	1,100,000	652,000	418,000	—
Minnesota	200,000	188,000	12,000	—
Mississippi	300,000	150,000	120,000	30,000
Missouri	900,000	729,000	153,000	18,000
Montana	298,529	277,632	20,897	—
Nebraska	197,688	195,711	1,977	—
Nevada	5,000	5,000	—	—
New Hampshire	50,000	20,000	30,000	—
New Jersey	450,000	315,000	135,000	—
New Mexico	90,000	70,000	—	20,000
New York	1,300,000	845,000	455,000	—
North Carolina	950,000	503,500	446,500	—
North Dakota	102,000	99,960	2,040	—
Ohio	2,320,000	1,832,800	487,200	—
Oklahoma	334,600	247,604	80,301	6,692
Oregon	393,225	361,767	15,729	15,729
Pennsylvania	478,700	263,285	215,415	—
Rhode Island	45,000	11,250	33,750	—
South Carolina	500,000	100,000	400,000	—
South Dakota	145,000	139,200	5,800	—
Tennessee	440,100	193,644	290,466	—
Texas	795,477	739,794	47,729	7,955
Utah	0	0	0	0
Vermont	52,500	6,825	45,675	—
Virginia	2,564,115	1,487,187	1,076,928	—
Washington	370,000	333,000	7,400	29,600

Table 5-1 continued

	Total International Business Expenditure	Export Promotion	Reverse- Investment Promotion	Other
West Virginia	71,545	35,773	17,886	17,886
Wisconsin	110,000	82,500	27,500	—
Wyoming	15,000	15,000	—	—
* Totals	25,671,932	18,855,550	8,500,099	387,324

Source: Adapted from *Export Development and Foreign Investment: The Role of the State and its Linkage to Federal Action* (Washington, D.C.: National Governors' Association, 1981).

50 personnel were engaged in state international business activities in 1980. Only two states devoted less than a full-time position to these tasks while the average state designated eleven individuals to this function and Virginia topped the list with fifty-nine employees. While fully comparable data is not available from all states for preceding years, reported figures for at least one-half the states demonstrate a clear expansion in both personnel and budget expenditures from 1976 to 1980. New Mexico was the only state in twenty-four to show a decrease, while the average state quadrupled its expenditures and at least doubled its personnel commitment.<sup>9</sup>

Few states provide direct financial incentives for exports (in contrast to investment promotion, as will be discussed). New York offers an export tax incentive, Michigan subsidizes booth space in state-sponsored trade shows, and several states provide free product advertising through overseas export catalogs or other promotional devices. A few states are now exploring various export-financing aids. The recent NGA study speculates that this interest in state export incentives may expand in the future,<sup>10</sup> and indeed there is increasing evidence of such a development.

The primary objectives of state trade-promotion programs are to introduce new firms to the export market and to expand the overseas sales of companies already exporting, essentially matching up in-state firms with overseas buyers for their products. To this end the states employ trade missions, trade shows, overseas offices, catalogs and advertising, computerized information systems, how-to export seminars and virtually any other nonfinancial device used at the national level or elsewhere. Through coordination and referral with national-government agencies, the states can also link their clients up with other services, including such aids as the Export-Import Bank or now, the new Foreign Commercial Service.

While state programs are usually designed to handle a broad range of companies and products, in reality they are targeted more at medium- to smaller-sized companies, especially new-to-export firms that lack the experi-

ence and resources of major U.S. multinational corporations. In a survey response concerning their export-promotion programs, state agencies reported that nearly two-thirds of their export services are used by small businesses, over 30 percent by medium-sized firms and only 5 percent by large companies. The same essential distribution was maintained when services were apportioned by the length of a firm's experience in export markets, although a few states, most notably Alaska, seemingly focused on larger, experienced firms. Probably as a result of this relative inexperience in their usual clients, state export-promotion agencies also appear to target well-established markets abroad (Europe, Asia, and Latin America over Africa, West Asia, or Eastern Europe).<sup>11</sup>

These major export markets are also the logical site for overseas state offices—one of the most evident structural symbols of direct state involvement in the international marketplace. Trade missions abroad, often led by the governor or other top officials, have long been a useful device to open doors and facilitate trade contacts for local companies with potential foreign buyers. A permanent state presence abroad, however, is more novel.

The specific country location of state offices has tended to undergo periodic changes as experience is gained or shifts occur in functional objectives between export marketing and investment attraction. Change also occurs in the use of foreign-consultant representatives versus a full office structure, or the chosen configuration of individual state, regional, or port-authority sponsorship. A fully accurate picture of office locations would therefore require frequent updating, as would other elements of a state's promotional activity. A view of recent comparative growth was offered, however, by the NGA survey report released in 1981.

While about twenty states maintained overseas offices at the time of the 1977 Council of State Governments' study, the NGA data in table 5-2 shows that by October 1980 thirty-three states were represented by sixty-six offices, including some organized on a regional basis or through port authorities. While established European and Japanese markets were the initial locales for these offices, seventeen countries are now reported to host state representatives, including Mexico, Brazil, Panama, Colombia, Australia, Hong Kong, and Singapore.

Developments since the NGA survey have witnessed the opening of additional state offices in several countries, including Mexico and Canada, as well as a new venture in Korea. At the same time there has been a decrease in regionally funded representation efforts, partly due to a loss of financial support and partly to competitive allocation difficulties. Financing has been a particularly uncertain aspect of these state programs since the existence of an overseas office costing several hundred thousand dollars annually to operate can face funding difficulties in budget-conscious state legislatures.

For example, an office in Brussels, Belgium, operated by the Pennsylvania Commerce Department's Bureau of International Commerce (PENBIC) was

Table S-2  
State Offices Abroad

	Belgium	Denmark	Fed. Rep. of Germany	France	Great Britain	Greece	Netherlands	Switzerland	Brazil	Colombia	Mexico	Panama	Australia	Hong Kong	Japan	Singapore	Canada
Alabama					X		X										
Alaska		X	X														
Arkansas	X																
Connecticut			X														
Delaware	•									•				•	•		
Florida			X												X		
Georgia	X		•			•									X		
Idaho															•		
Illinois	X							X						X			
Indiana							X		X								
Iowa			X														
Kentucky	X																
Louisiana	X		X	X							X	X	X	X			
Maryland	X				X								X	X			
Massachusetts	X													X			
Michigan	X													X			
Missouri			X													X	
Montana			••											••			
Nebraska			••											••			
New Jersey	•				•		•	•						•			
New York					X										X		
North Carolina			X												X		
North Dakota			••												••		
Ohio	X														X		
Oregon															••		
Pennsylvania			•••												•••		
South Carolina	X														X		
South Dakota			••												••		
Texas										X							
Vermont																	X
Virginia	X							X							X		
Washington															X	X	
Wyoming			••												••		

Source: Adapted from *Export Development and Foreign Investment: The Role of the States and Its Linkage to Federal Action* (Washington, D.C.: National Governors' Association, 1981).

- X = one or more state offices.
- = Regional Ports Authority offices.
- = Regional Planning Commission offices.
- = Private state group offices.

closed in 1977 after the Pennsylvania General Assembly passed a general-appropriations act prohibiting the expenditure of money for offices outside the state. Two years later the Pennsylvania Secretary of Commerce was back

before the General Assembly's Appropriations Committees arguing for a state office in Europe to boost the state's economy and create more jobs.<sup>12</sup> The NGA report shows the state as operating through private offices abroad at the time of its survey, but by 1981 Pennsylvania offices were being established in multiple European locations, Japan, and later in Mexico.

Other states have been more successful in sustaining support for their foreign operations. The Illinois Department of Business and Economic Development operates three foreign offices (Brussels, Belgium; Hong Kong; and Sao Paulo, Brazil) to help Illinois manufacturers sell their goods overseas. This activity received bipartisan support from four governors and the state legislature<sup>13</sup> largely because the department has paid close attention to illustrating the practical benefits of such offices. A report, "On Selling Illinois South of the Border," noted that since the Sao Paulo office was established in May 1976, some 1,000 Illinois businesses had received assistance while firms participating in the department's trade shows had nearly \$20 million in estimated first-year sales.<sup>14</sup>

Other overseas-office programs claim similar cost-benefit successes. The director of Ohio's International Trade Division estimated that one dollar of expenditures generated approximately \$260 in export sales for the state's companies. New York state's representative in Tokyo reported about \$10 million worth of export business attributable to the office's operation there.<sup>15</sup>

Michigan's Office of Economic Expansion founded an International Division in 1972, which now maintains offices in Tokyo and Brussels. These offices offer the Exporter's Travel Assistance Program (EX-TAP), which helps arrange appointments, make reservations and, at times, accompany visiting state businessmen on their calls to potential foreign distributors.<sup>16</sup> Donald Hufford, President of Hufford Industries, Inc., a \$2-million company located in Charlevoix, Michigan, was reportedly one of the beneficiaries of such state assistance. He told of answering a state export advertiser in a local newspaper. The state office set up a trip for him to Europe, provided translators and screened possible distributors. Hufford Industries began exporting to Britain, West Germany, the Netherlands, and France and projects that one-half of its market may lie overseas.<sup>17</sup>

As is evident from table S-3, an overseas office is only one part of state export-promotion programs (and may actually be more useful for investment promotion, as will be discussed). For example, a number of states have developed computerized hookups that allow them access to general trade leads or even the capability to conduct searches tailored to the needs of specific state firms. New Jersey's International Trade Office, which utilizes a computerized information-matching system, also publishes an international trade directory listing all New Jersey firms engaging in international trade and sponsors workshops for small businesses seeking to break into the export market. The trade-promotion program in Illinois includes state subsidized

Table 5-3  
State International Business Programs and Activities

	Trade Missions	Trade Shows	Marketing Assistance	Market Development	Export Education	Investment Information	Investment Missions	Advertising	International Tourism	Port Development	Total Number of Programs or Activities
Alabama	X		X	X	X	X	X	X		X	8
Alaska	X	X	X	X	X		X	X		X	8
Arizona	X	X	X	X	X	X			X		7
Arkansas	X	X	X	X	X	X	X	X		X	9
California	X	X	X	X	X	X	X	X			8
Colorado		X	X	X	X	X		X			6
Connecticut	X	X	X	X	X	X	X				7
Delaware	X	X	X	X	X	X	X	X	X	X	10
Florida	X	X	X	X	X	X	X	X	X		9
Georgia	X	X	X	X	X	X	X	X	X	X	10
Hawaii	X	X	X	X	X	X	X	X	X		9
Idaho	X	X	X	X	X		X	X			6
Illinois	X	X	X	X	X	X	X	X	X	X	10
Indiana	X	X	X	X	X	X	X	X	X	X	10
Iowa	X	X	X	X	X	X	X	X			8
Kansas	X	X	X	X	X	X	X	X			8
Kentucky	X	X	X	X	X	X	X	X	X	X	10
Louisiana	X	X	X	X	X	X	X	X			8
Maine	X	X	X	X	X	X	X	X	X	X	10
Maryland	X	X	X	X	X	X	X	X	X	X	10
Massachusetts	X	X	X	X	X	X	X	X	X	X	9
Michigan	X	X	X	X	X	X	X	X			8
Minnesota	X	X	X	X	X	X	X	X			7
Mississippi	X	X	X	X	X	X	X	X	X	X	9
Missouri	X	X	X	X	X	X	X	X	X	X	10
Montana	X	X	X	X	X	X	X	X	X	X	10
Nebraska	X	X	X	X	X	X		X			7
Nevada			X								1
New Hampshire			X	X	X	X					5
New Jersey	X	X	X	X	X	X	X	X	X		9
New Mexico	X	X	X	X	X	X			X		7
New York	X	X	X	X	X	X	X	X	X		9
North Carolina	X	X	X		X	X	X	X	X	X	9
North Dakota	X	X	X								3
Ohio	X	X	X	X	X	X	X	X	X	X	10
Oklahoma	X	X	X	X	X	X	X	X	X	X	10
Oregon	X	X	X	X	X	X	X	X			7
Pennsylvania	X	X	X	X	X	X	X	X	X	X	10
Rhode Island	X	X	X	X	X	X	X	X	X	X	8
South Carolina	X	X			X	X	X				5
South Dakota	X	X	X	X	X	X		X			7
Tennessee	X	X	X	X	X	X	X				8
Texas	X	X	X	X	X	X	X				7
Utah			X	X	X			X			5
Vermont	X	X	X	X	X	X					6
Virginia	X	X	X	X	X	X	X	X	X	X	10
Washington	X	X	X	X	X	X		X	X	X	9

Table 5-3 continued

	Trade Missions	Trade Shows	Marketing Assistance	Market Development	Export Education	Investment Information	Investment Missions	Advertising	International Tourism	Port Development	Total Number of Programs or Activities
West Virginia	X		X		X	X	X	X			6
Wisconsin	X	X	X	X	X	X					6
Wyoming	X	X									2
Totals	46	45	48	41	46	44	35	35	25	22	Mean = 7.74

Source: *Export Development and Foreign Investment: The Role of the States and Its Linkage to Federal Action* (Washington, D.C.: National Governors' Association, 1981).

trade fairs, trade missions, and catalog shows, with companies charged fees ranging from \$400 to \$1,500 per firm for these services that the state claimed increases the average company's export sales by \$25,000.<sup>18</sup>

These examples are simply a few of the many active but diverse trade-promotion efforts being conducted by state governments and related instrumentalities. While legislated-funding authorizations have often been difficult to secure, the growing importance of international trade to the U.S. economy and the demonstrated success of some sister states in generating increased trade benefits have brought more and more states into active promotional programs.

The same basic promotional pattern has been followed in the area of foreign-investment programs. Just as the states started to gear up their trade activities in the early 1970s, the United States began to experience significant inflows of foreign direct investment, which added a new dimension to domestic economic-development activities. In a GAO survey, only ten states were found to have committed budgetary resources to attracting foreign investment before 1969. Twenty-one states began active promotional efforts between 1969-1975 as these reverse-investment flows picked up, while fourteen more began in the 1975-1978 period. By the time of the 1979 survey, only three states reported no active program to encourage foreign investment.<sup>19</sup>

Early state experience with investment promotion stemmed from overseas missions led by state governors. During 1977-1978 states reported sponsoring 113 missions abroad to promote foreign investment, as well as participating in nearly thirty additional missions sponsored by the U.S. government and other organizations. Many overseas state offices discussed earlier were actually established largely for investment-promotion purposes to follow up on the initial success of a governor's trip.

Even more than with trade flows, direct investment activities almost by definition require significant state-government involvement. Charters, siting,



ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

Pouch Y. State Capitol  
Juneau, Alaska 99811  
(907) 465-3991

January 17, 1984

MEMORANDUM

TO: Representative Joe Hayes  
Attn: Jeff Day

FROM: Jonathan Sherwood *J.S.*  
Legislative Analyst

RE: Alaska State Trade Office in Korea  
Research Request 83-245

Jeff Day of your staff requested that our agency provide information on state foreign trade offices and on Alaska-Korea trade. It is our understanding that this information is to be used by a consultant, Michael Gay, in a study he is preparing on the feasibility of a State trade office in Korea. Specifically, we were asked to perform the following research:

- Outline the current structure of the State's Asian office including staffing, duties, and costs.
- Describe the history of Alaska-Korean trade efforts.
- Identify and report on activities of other states which have established offices in Korea and other Pacific Rim countries.

In the course of our research, we have contacted several individuals familiar with the history of Alaska-Korean trade or with the activities of other state's trade offices. In addition, we have obtained information from the Department of Commerce and Economic Development (DCED) pertaining to the operations of the State's Asian Office and the extent of Alaska's trade with Korea and other Asian nations.

Whenever possible we have obtained statistics and other quantitative data concerning the issues we were asked to address and included many of these materials as attachments to the memorandum. This has allowed us to spend more time collecting data while still providing the information to the consultant in a useful form--perhaps more useful given the problems inherent in using secondary and tertiary sources.

### THE STATE OF ALASKA'S ASIAN OFFICE

The State's Asian Office, in Tokyo, is the major component of the Alaska Department of Commerce and Economic Development's Office of International Trade. In addition to the Asian Office, the Office of International Trade includes one Development Specialist position in Juneau. However, this position is not currently filled.

Staffing. The State's Asian Office is staffed by one State employee, a Far East Representative. This position is currently filled by W. D. Overstreet, former Mayor of Juneau. Mr. Overstreet reports to Deputy Commissioner Vince O'Reilly or Commissioner Lyon. Four Japanese employees also work for the Asian Office; they are hired on a contractual basis to avoid the complications of having foreign employees in the State personnel system. These employees, with their current annual salaries, are listed below:

1 Bilingual Executive Secretary	\$20,500
1 Translator/Research Analyst	\$20,000
1 Clerk-Typist/Receptionist	\$18,000
1 Assistant/Translator	\$14,500

Duties and Activities. According to the FY 85 executive budget documents, the purposes and functions of the Office of International Trade are to:

- provide the Alaska business community with pertinent intelligence on market prices and conditions, product utilization, etc.;
- locate and establish business contacts which are interested in Alaska products and investments;
- act as a catalyst to assist Alaska and foreign business persons to meet and conduct business;
- establish foreign government contacts which are important to Alaska, and introduce them to the State's economic trade and developmental policies; and
- establish a favorable image of Alaska in foreign countries.

According to the FY 84 Executive Budget, the office serves Alaska and foreign companies, State agencies, and Alaska and foreign tourists. Based on conversations with Vince O'Reilly, Deputy Commissioner of Commerce and Economic Development, and on DCED documents, it appears that the Asian Office serves all of these functions. Mr. O'Reilly, stated that the target area of the Asian office is currently Japan, Korea, Taiwan, and the People's Republic of China.

Mr. O'Reilly was not able to estimate the amount of time the Asian Office devotes to countries other than Japan; however, based on our discussion and the Far East Representative's reports, it appears that Mr. Overstreet intends to make a significant effort to expand contacts with Korea. For example, according to Mr. O'Reilly, the Representative is participating in the discussions between the State and Korea concerning liquified natural gas exports.

Based on the monthly reports from the Far East Representative to the Commissioner's office, it would appear that a significant amount of the Representative's time is spent meeting with Japanese business persons who are interested or involved in Alaska trade activities. The Far East Representative also meets with and assists members of the media who are interested in publishing information about Alaska.

One of the duties of the Far East Representative is to represent the State of Alaska and, to some extent, Alaska industry at trade shows, political functions, and business-related social functions. In addition, the Asian Office hosts receptions and luncheons for visiting Alaska businessmen and State officials. Vince O'Reilly explained that business relations in Japan traditionally involve more social activities than in the United States.

The Far East Representative also serves as the official representative of the Governor of Alaska at state functions. For example, Mr. Overstreet represented the Governor at the funeral of the Korean government officials assassinated this autumn.

Another responsibility of the Asian office is to provide assistance and support for trade delegations and visiting State officials. For example, when Governor Sheffield and his party travelled to Japan and Korea this last fall, the Asian Office was responsible for some of the arrangements; Mr. Overstreet and staff members also accompanied the Governor. According to Mr. O'Reilly, the Asian Office was also responsible for arranging a tour of the Far East for an Alaska logging industry group in the spring of 1983; the Office identified appropriate contacts and arranged meetings with Asian firms.

One of the activities of the Asian Office is the compilation and/or the dissemination of market information, both for Asian businesses interested in trade or investment in Alaska and to Alaska firms interested in marketing their products in the Orient. Two of the Japanese support staff translate information published in Japanese to English.

Productivity. One convenient method of determining the productivity of the Asian Office is to look at the extent to which it meets its

own performance objectives. The following performance measures were listed in the monthly reports submitted by the Far East Representative:

- the number of trade/marketing shows in which staff members participate;
- the number of conferences attended;
- the number of firms contacted or assisted;
- the number of Japanese organizations provided information;
- the number of pamphlets distributed;
- the number of Alaska firms provided information; and
- the number of government representatives assisted.

We have already provided the consultant with two of the Asian Office monthly reports which provides information on the extent to which each staff member performs these duties (see Attachment A). At his request, we will attempt to obtain additional reports from DCED.

Costs. The State Asian Office is included in the International Trade component of the DCED budget. This component also includes one development specialist position in Juneau and some travel funds used for DCED officials and others to participate in international trade events.<sup>1</sup>

The FY 85 Executive Budget request for the International Trade component is \$543,500. According to the FY 85 budget documents (Attachment B), this represents a maintenance level budget for the new fiscal year.<sup>2</sup> Of the total amount, approximately \$455,900 is for the Asian Office. Table 1 provides a breakdown of these costs. The remainder of the International Trade component budget goes to support the Juneau-based development specialist and to finance international trade promotion activity by State officials, legislators, and others.

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<sup>1</sup> While we have been able to separate most of the costs of the State Asian office, it should be noted that there are a few items, e.g. office supplies, for which approximations have been used. However, this should not result in a significant error in our calculations.

<sup>2</sup> According to Joan Brown, service level SL 1 (identical to SL 2) was included in the included in the Governor's budget. Budget levels for SL 1 are used in this memorandum and should be used when looking at Attachment B.

TABLE 1  
Alaskan Asian Office Costs  
(in \$thousands)

<u>Personal Services</u>	
Salary	85.0
Employee Benefits	18.3
<u>Travel</u>	
Field and administrative	35.6
<u>Contractual</u>	
Communications	35.0
Printing and advertising	13.0
Space expense and fees	90.0
Repair and maintenance	2.0
Equipment rental	4.0
Professional fees	
Tokyo office staff	90.0
Contracts*	9.0
Other fees and expenses, risk management	60.0
<u>Supplies and Materialst</u>	
Household and institutional supplies	1.5
Structural materials and supplies	.5
Equipment parts and supplies	.5
Office and library supplies	11.5
TOTAL	455.9

\* This item is for consulting contracts; the amount expended by the Asian Office varies from year to year. For our purposes, we have allocated one-half of the total amount to the Asian Office.

† Some supplies and materials may be charged to the Juneau Development Specialist position; however, we are unable to separate these expenses at this time.

Source: Department of Commerce and Economic Development, FY 85 budget documents, C series for International Trade Component, and conversations with Joan Brown, DCED. Table prepared by House Research Agency, 1984.

Representative Hayes

January 17, 1984

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One should note that the allocation for space rent not only includes office space in Tokyo, but also an apartment for the Far Eastern Representative. According to Joan Brown, administrative assistant with the Department of Commerce and Economic Development, the cost of office rent is currently about \$54,200 per year and the apartment costs about \$32,000 per year. The \$60,000 shown for other fees and expenses, and risk management includes \$10,000 for membership fees, \$8,000 for conference registration, and \$37,300 for hospitality.

History. The Alaska State Asian Office was opened at the end of 1964 following the passage of the legislation which created and funded it for \$25,000 (SLA 1964 Ch. 91 & 92). Originally, it was administratively located in the Office of the Governor; however it was transferred to the Department of Commerce and Economic Development in 1980.

Based on comments we received in the course of our interviews and on information included in previous consultants' studies of the Asian office, it appears that the Office has operated without strong direction or support from some of the past administrations. For further information on the past activities of the Asian Office we refer you to the Alaska Trade Offices Study published for the Alaska Legislature by Dupere and Associates in January of 1982 and to the Alaskan State Asian Office Study, performed by Agritrade International Inc.; these reports are included with the memorandum. Both contain information on past operations of the office as well as evaluations of the office's performance and support from State government in Alaska.

#### OTHER STATES' TRADE OFFICES

According to a 1980 survey, 33 states were represented in that year by trade offices in 66 foreign countries. This had increased from 20 states in 1977.<sup>3</sup> While some states may have added or closed foreign trade offices in the last three years, international trade staff for such national organizations as the National Association of State Development Agencies (NASDA), the National Conference of State Legislators (NCSL), and the Council of State Governments (CSG) indicated that the level of activity is about the same currently. NASDA is in the process of compiling an updated list of states' foreign trade offices, which should be available later this year.

In almost all cases, the foreign trade offices are associated with their state's economic development agency. In a few cases, the office represents the state's agriculture agency, and in some states, different agencies share an office. In some cases, rather than representing a state, an office will represent a port authority or some other regional entity. For the purposes of our discussion, we have not included any state offices which are limited to promoting tourism, although some state trade offices do serve this function in addition to other duties.

Foreign trade offices are most frequently staffed by personnel employed directly by state government, as is the case with Alaska. In many cases, these are regular employees of the parent agency, who are routinely rotated to their home state. However, some states contract with one or more foreign consultants to represent their state. In addition, several western states operate the Old West Commission, which has had joint trade offices in both Europe and Asia.

Foreign trade--and consequently the activities of state foreign offices--is often classified into two broad categories: (1) investment; and (2) trade. Investment, also called reverse investment or foreign investment, refers to business transactions in which foreign companies invest capital in the state, frequently by opening a manufacturing plant.

Trade, the second kind of activity, involves the exporting of goods to foreign markets. According to Marsha Clarke, with NASDA, state foreign trade office activity is fairly evenly divided between the promotion of these two functions, at least on the global scale. State

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<sup>3</sup> National Governors' Association, Export Development and Foreign Investment: The Role of States and Its Linkage to Federal Action, 1981, p. 22.

offices in developed countries like Japan may place a higher priority on encouraging investment; in developing nations, state offices may place a greater priority on expanding export markets, as these countries are less likely to have firms interested in developing operations in the U.S.

The trade offices of other states also collect trade intelligence for their state. However, according to Ms. Clarke, it is difficult to identify how much time is devoted to this activity, as it tends to be performed in conjunction with the office's promotional activities.

According to a 1982 study prepared for the Alaska Legislature by Dupere and Associates, once a state foreign office has made contact with a foreign firm interested in doing business with the U.S., the state's home office provides the U.S. business contact.

The Dupere report and other articles on foreign trade offices emphasize the importance of strong direction and support for state foreign offices from their parent agency. The home office must be able to identify the appropriate business contacts for foreign business interests who contact the state's foreign office, and to identify which in-state businesses expressing interest in exporting their products are serious candidates for foreign trade.

Ms. Clarke stated that the typical cost for a foreign trade office would be between \$100,000 and \$300,000. She noted that the upper limit generally provides for a large operation, but also cautioned that Tokyo was substantially more expensive than other operations. A 1982 survey indicated that the number of employees per office varied from 1 to 8, with 2 or 3 employees being the most common staffing pattern. The largest number of employees in the Japanese offices surveyed was 6.

Asian Offices. According to Marsha Clarke, her most recent information shows that 19 states now have foreign trade offices in Japan.<sup>4</sup> In addition, California, which does not have a state office there, has several port authorities, including Long Beach and Oakland, which operate offices in Japan. Most of these offices are regional in scope; however, some of the offices are intended to deal strictly with Japan. States which currently have offices in Japan are listed below:

Alabama	Indiana	Michigan	Pennsylvania
Alaska	Kentucky	Missouri	South Carolina
Florida	Louisiana	New York	Virginia
Georgia	Maryland	North Carolina	Washington
Illinois	Massachusetts	Ohio	

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<sup>4</sup>This compares with 14 states in 1980.

In addition, Illinois has an office in Hong Kong and Missouri has an agriculture representative in Singapore. None of the individuals we contacted was aware of any state with an office in Korea.<sup>5</sup>

According to Ms. Clarke, state foreign trade offices in Japan usually place much more emphasis on encouraging foreign investment and little emphasis on increasing exports. Ms. Clarke explained that this is a result of Japan's long-standing trade restrictions on the importation of manufactured goods and agricultural products. Traditionally, these have made it very difficult for U.S. businesses to export goods to Japan. While some of these restrictions have been lifted in recent years, Ms. Clarke stated that the direction of states' trade office activities in Japan have not changed significantly. The Dupere study also found that most state offices in Japan devote more time to promoting Japanese investment in the U.S. than to promoting trade.

For additional information, we refer you to the Dupere study, which includes an examination of eight state offices in Tokyo and ten offices in Europe. The study provides a substantial amount of information on their activities and procedures. We also refer you to Attachment C, which provides several articles on state foreign trade offices sent to our agency from the Western Conference of the Council of State Governments.

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<sup>5</sup> We received an excerpt of a recently published book on foreign trade office activity which refers to a possible office in Korea. The excerpt does not provide detail on the status of the office; it is not clear whether an office has been opened or was merely planned.

## HISTORY OF ALASKA-KOREAN TRADE

There are very few documents available which specifically address the past and current trade activities between the Republic of Korea and the State of Alaska. Most of our information was obtained either through conversations with individuals familiar with Alaska-Korea trade activities, or from publications which addressed only a small portion of trade activities or included information on Korea incidental to other topics. As a result, the information presented in this section does not represent a comprehensive summary of Korea-Alaska trade activities.

In this section, we will present a general overview of Alaska-Korea trade, including an informal chronology of events. We then discuss the history and status of specific areas of trade, including examples and statistics whenever we have found them readily available.

### Overview

Historically, direct trade between Alaska and Korea has been relatively sparse compared to trade activities between Alaska and Japan, or Alaska and the contiguous United States. According to the individuals we contacted, trade activities between the two countries have generally involved exporting Alaska natural resource products, particularly fish and timber, to Korea. In addition, some Korean firms have supplied industrial materials for large capital projects, and in a few cases, Korean firms have received contracts to construct all or portions of such projects. In recent years, Korean firms have also begun participating in joint ventures with Alaska businesses involved in natural resource extraction.

Presented below is a brief chronology of Alaska-Korea trade activities based primarily on our interviews with those knowledgeable about the history of Alaska-Korea trade. While it is not comprehensive, it should help to place the discussion in a clearer perspective.

<u>Year</u>	<u>Event</u>
1950s	--- Little direct trade between Alaska and Korea. Timber and fish products exported from Alaska to Korea through Japanese trading companies.
Late 1960s	--- Korean fishing fleet begins fishing in Alaska waters.  --- Hyundai Corporation builds Parks Highway bridge at Hurricane Gulch.

<u>Year</u>	<u>Event</u>
Early 1970s	--- More wood products exported to Korea, still through Japanese trading companies.
	--- Sun Eel Corporation begins exploring the possibility of exporting coal from Alaska to Korea.
1975	--- Anchorage businessman, Loren Lounsbury, appointed honorary consul by Korean government.
Mid 1970s	--- Koreans begin participating in joint timber ventures with Alaska businesses.
Late 1970s	--- U.S.-Korean joint ventures in Alaska fisheries begin.
1980	--- Korean government establishes Consul-General post in Anchorage. First Consul-General appointed.
	--- Sun Eel exports test shipment of Usibelli steam coal to Korea.
1981	--- Sun Eel agrees to export 800,000 metric tons of coal annually through Seward for 15 years.
	--- Hyundai awarded contract to erect transmission towers on the Anchorage to Fairbanks electrical intertie. Also provides structural steel for the new Sohio building in Anchorage.
	--- Daewoo Corporation provides saltwater treatment facility to Atlantic Richfield Corporation on the North Slope.

In addition, we located some general statistics on the volume of Alaska-Korea trade in past years. Attachment D is a table, taken from the Alaska Statistical Review, 1980, which gives the value of Alaska imports and exports by nation for selected years between 1970 and 1979. The table shows that in 1970, Korea ranked fourth as a recipient of Alaska exports behind Japan, India, and Canada. In 1979, Korea again ranked fourth as a recipient of exports, this time behind Japan, India, and the People's Republic of China. Japan is clearly the dominant export market for Alaska, receiving over 80 percent of all Alaska exports. Korea does not appear to have been a significant source of imports to Alaska in the 1970s.

Attachment E provides information on Alaska's exports to East Asian markets for the years 1978 through 1982. This information was provided by the Alaska Department of Commerce and Economic Development. As the table shows, Korea had consistently ranked behind Japan and the People's Republic of China until 1982, when it surpassed China. However, it should be noted that in 1982, two reconditioned jet aircraft were exported to Korea from Alaska accounting for over half of the total figure. This is not a common export item for Alaska and, to some extent, distorts the export figures for 1982.

It should be noted that these statistics reflect only exports which are shipped directly to Korea from Alaska. Many of the individuals interviewed stated that some Alaska products are exported to Japan and are then sold to Korea by Japanese trading companies. Also, some Alaska products may be transported to the contiguous U.S. before being shipped to Korea. We have not located any statistics which indicate the extent to which this occurs.

In the sections that follow, we provide information on the history and current status of specific areas of trade, a summary of trade promotion activities, and a brief discussion of the potential for increased trade between Alaska and Korea. Much of the information is qualitative in nature, based on interviews and descriptive reports on Alaska commerce. Whenever possible, we have included existing summary data on the volume of specific items of trade.

Comprehensive information on the level of trade is available in the U.S. Department of Commerce reports for the Alaska customs district, which may be obtained from the U.S. Department of Commerce International Trade Office in Anchorage. In fact, the information in the two attachments discussed above was compiled using these reports. The reports go back to 1964 and provide export and import totals for the district as well as specific dollar and piece amounts for individual items. Unfortunately, these reports do not provide any summary data by general type of product, for example, forest products or seafood.

We have not attempted to compile any summary data using these reports, as we lack ready access to the reports in Juneau (the International Trade Office in Anchorage does not have duplicating equipment capable of making copies of the microfiche records for recent years). The task of obtaining copies and compiling summaries ourselves was not possible within the time constraints of this request. However, as previously noted, some of the information has already been summarized by other agencies and these are included in the attachments.

There are several indications that the potential for increased joint venture activities with Korea is great. Of the seventeen joint-ventures approved by the North Pacific Fisheries Management Council in December of 1983, eight involved Korean firms. In addition, some of the Native corporations we contacted reported that they were currently negotiating with Korean firms for joint ventures. Furthermore, foreign allotments of the Alaskan FCZ fisheries are now determined to some extent by that nation's level of joint-venture activity in the fishery. This increases the incentives to foreign processors to participate in joint ventures.

### Timber

For the period 1977 through 1982, forest products were the most consistent and most valuable export from Alaska to Korea. The value of forest products exported to Korea in the first eleven months of 1982 was \$9.7 million. However, for the same five-year period, 1977 to 1982, Korea generally ranked behind Japan and the People's Republic of China as a market for Alaska timber. Japan frequently imported twenty times the amount of Alaska forest products imported by Korea during this period.

The Alaska timber export market to Korea includes hemlock, used in the hidden interiors of homes, Sitka spruce, used in musical instruments, and red cedar, which has recently become a popular paneling material in Korea.

There have been some joint-timber ventures between Korean and U.S. firms in Alaska. According to Robert Breeze, Korean firms have been involved in joint timber ventures with some Native corporations. Robert Loescher, with the Sealaska Corporation, reported that his firm is undertaking a joint venture with the Korean Alaska Development Corporation (KADCO), a consortium of several Korean trading companies, including Hyundai Corporation and Samsung Corporation. Mr. Loescher also mentioned that his corporation has been exporting timber to Korea for the last several years. In 1983, Sealaska exported 25 million board feet of round logs to Korea.

A recent study of the markets for Alaska timber compiled for the U.S. Forest Service predicts that the Korean market for spruce will hold steady or increase slightly in the future. However, it also points out that the Korean market for hemlock is likely to decline as the Japanese market improves. This is because the Koreans are currently buying a higher grade of hemlock than they require, due to its low price compared to inferior quality woods from other sources. If Japan begins paying more for this hemlock, the Korean market will probably substitute other woods. The study does anticipate an increase in the demand for red cedar, and mentions that there may be some potential for selling Alaska cottonwood, white spruce, and possibly birch to Korean markets.

Attachment H contains the pertinent section of this Forest Service report, which includes tables with some Korean timber import information.

### Minerals

Coal. While there has been Korean interest in Alaska coal since the early 1970s, actual exports did not begin until 1980, when the Sun Eel Shipping Co., Ltd. Corporation purchased a test shipment of steam coal from the Usibelli Coal Mines near Healy for trial in power generators in Korea. Following a successful trial, Sun Eel signed a ten-year contract to buy 7 million metric tons of coal. Last year, Sun Eel, along with Korea Electric Power Corporation agreed to export 800,000 metric tons of coal annually through the coal loading facility currently under construction at Seward. As Usibelli is the only working coal mine in Alaska, this will represent the only regular export of coal from the state.

There is also a coal development project currently underway involving Korea. This is the Bering River Coal field located 60 miles east of Cordova on land owned by Chugach Natives, Inc. This field is being developed by the Bering River Development Corporation, a joint venture between Chugach Native, Inc. and KADCO. Although the coal lies approximately 30 miles from tidewater, and there is no existing transportation or loading facility, the coal has a higher BTU value than the Usibelli coal. To date, no mining has occurred, and it is uncertain if and when this field will actually begin exporting to Korea.

Petroleum. Petroleum exports do not appear to be significant part of the Alaska-Korea trade historically. Of course, export of crude oil, and the potential export of LNG for Alaska's North Slope is restricted by federal law. According to Robert Maynard, Assistant Attorney General, provisions in the Congressional authorization of the Trans-Alaska Pipeline make it almost impossible to export North Slope crude oil, and provisions in the Congressional authorization of the Northwest gasline project make it very difficult to export large amounts of LNG. This limits, to a large extent, the potential for trade in oil. However, in the first eleven months of 1982, Korea imported \$16.6 million worth of urea from Alaska. No urea was exported in the four previous years. We have not obtained any figures for 1983.

It was the general consensus of the individuals I interviewed that Korean firms would be very interested in importing liquified natural gas (LNG) if a gasline was built and might also import oil if federal laws were changed. However, it was mentioned that Korea does have other sources of energy, and that it was not clear the extent to which unrefined Alaska petroleum products would be competitive. Alaska

petroleum does have relatively high extraction costs associated with it. Any decision regarding the export of Alaska petroleum to Korea would be based on the price of Alaska petroleum relative to the price of petroleum from other sources.

According to Robert Breeze, the Korean trading company, Samsung, is considering importing unleaded gasoline and reformat from Alaska to Korea. He also stated that another Korean firm, Sangyong, is considering exporting leaded gasoline and #2 fuel oil from Korea to western Alaska. In addition, Korea Shipbuilding and Engineering Corporation is exploring the possibility of importing residual fuel oil to Korea, to be purchased from Tesoro.

Other Minerals. Although there does not appear to be any Alaska-Korea trade in minerals other than coal and petroleum at this time, both Loren Lounsbury and Robert Breeze mentioned strategic minerals as another source of future trade with Korea. However, as several individuals mentioned, Alaska presently lacks the infrastructure to develop these mineral resources. Presumably, any development of Alaska-Korea trade in this area is dependent on future infrastructure development.

#### Agriculture

To date, there does not appear to be much agricultural trade between Alaska and Korea. There has been some shipment of beef and livestock from Alaska to Korea; Loren Lounsbury cited an operation near Homer which is currently exporting beef. Robert Breeze stated that two Korean firms are currently attempting to lease University of Alaska lands in the Kenai area for cattle raising. Mr. Breeze stated that current plans call for the firms to export cattle as well as process cattle in Alaska.

Several of the people with whom we spoke mentioned the possibility of exporting barley to Korea. Japan and Korea are considered the primary markets for Alaska barley exports. However, the lack of a grain terminal at railhead appears to be a major impediment in the development of this market.

Finally, an article in Forbes (Attachment I) notes that without the Korean market for reindeer antlers, Nana Corporation's reindeer herd would cease to be an economically viable enterprise. In addition to the antlers, the herd also provides a source of fresh meat for local residents.

### Korean Investment in Alaska

We have already discussed many of the areas in which Korea has invested in Alaska in our discussion of joint ventures in resource development. These include timber, fisheries, and coal. It should be noted, however, that joint ventures in fisheries do not usually entail foreign investment onshore. The foreign processor simply buys fish from a U.S. fishing vessel and processes the fish on board.

Mr. Breeze also mentioned that the Korea Shipbuilding and Engineering Corporation has proposed building a ship repair facility in Seward that might eventually include a small rolling mill and some ship building facilities as well.

While many of the individuals with whom we spoke stated that there was the potential for substantial Korean investment, particularly in the extraction of Alaska's natural resources, Korea's Consul General Hwang cautioned that Korean firms are reluctant to invest in the infrastructure necessary to develop some of these resources. He explained that other natural resource producers, such as Canada, are willing to build the necessary facilities to make their resources available to foreign firms at dockside. This reduces the total cost to Korean firms purchasing these products.

### Imports

According to those we interviewed, Korean firms provide a significant amount of heavy industrial goods used in Alaska. We have not located any information which evaluates the relative size of Korean exports to Alaska in this field. However, our sources did provide several examples. The Korean firm, Daewoo, delivered a saltwater treatment plant to Atlantic Richfield Corporation on the North Slope last year valued at over \$200 million. The Hyundai Corporation provided the structural steel for the new Sohio building in Anchorage. Hyundai also is erecting the transmission towers for a section of the Anchorage-Fairbanks power intertie. In addition, Hyundai build the bridge at Hurricane Gulch on the Parks Highway in the late 1960s. Robert Breeze also mentioned that cement and electrical transformers were also imported from Korea.

For consumer goods, the potential for import does not appear great. Consul-General Hwang stated that Alaska is generally considered too small of a market to make importing likely. Although many Korean products eventually are consumed in Alaska, these are usually distributed by companies operating out of the contiguous U.S. A small Korean products import trade had existed in Anchorage for some years; however, this primarily serves the Korean community there and is not likely to increase significantly.

### Trade Promotion Activities

In addition to actual trade activities, there are a number of activities related to the promotion or enhancement of Alaska-Korea trade which merit mention. For example, for the last several years, delegations of business persons and/or political officials have either gone to Korea, or come from Korea to visit Alaska. According to Robert Breeze, trade delegations have regularly travelled from Alaska to Korea or vice versa for the last few years. Governor Hammond and several State officials (including legislators), made a tour of the Far East to discuss trade in early 1979 (see Attachment H), and Governor Sheffield led a similar delegation last fall.

In 1975, the Korean government appointed Loren Lounsbury, a long-time Anchorage businessman, honorary consul for Korea in Alaska. In 1980, the Korean government established a regular consulate in Anchorage, staffed by a Consul-General.

The Alaska-Korea Business Council, an Alaska organization, was formed a few years ago to enhance trade and other relations between the two locales. A similar organization, the Korea-Alaska Economic Cooperation Committee, exists in Korea.

Several major Korean trading companies have opened offices in Anchorage or announced plans to open offices in Anchorage. These include Hyundai, Sun Eel, Daewoo, and Korea Shipbuilding and Engineering.

### Potential for Future Trade

Virtually everyone with whom we spoke stated that there was the potential for greatly increased trade between Alaska and Korea. Export of Alaska's natural resources was cited as the most promising area of trade between the two. It should be noted, however, that the infrastructure necessary to develop many of these resources is not yet in place, and until it is, there are probably limited opportunities for increasing this trade. In addition, federal restrictions on the export of North Slope crude oil and LNG will have to be lifted before Korea can take full advantage of Alaska's petroleum resources.

Among the advantages cited for Alaska as a potential trading partner with Korea are:

- the proximity of Alaska to Korea;
- the quantity and diversity of Alaska's natural resources; and

- the political stability of the United States compared to other resource exporting countries.

The individuals with whom we spoke also cited several negative features which the Koreans see as drawbacks to Alaska as a trading partner, including:

- the lack of adequate infrastructure for resource development;
- the lack of sophistication and expertise of Alaska business firms;
- the lack of consistent, positive State government policy concerning resource development; and
- State and federal restrictions and permit requirements which add time and expense to resource development.

Robert Breeze, Loren Lounsbury, and Bill Bittner, attorney for Hyundai in Alaska, all stated that Korean trading companies are interested in becoming involved in Alaska's infrastructure development, both as a supplier of industrial materials, and as a contractor. Korean companies reportedly have a similar posture toward Alaska Power Authority hydroelectric power projects.

While it appears that Korean companies are neither used to or inclined to invest heavily in infrastructure development, they have begun investing in Alaska's resource development, as evidenced by the Bering River Development Corporation and joint ventures in the timber industry.

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This concludes our research on Korean trade and foreign trade offices. As noted throughout this memorandum, we have supplied several attachments which should be useful to the consultant in preparing his report. We are, of course, willing to assist the consultant in obtaining further information to the degree that time permits. Should you have any questions, or if we can provide further information on any of the issues addressed in this memorandum, please do not hesitate to contact us.

JS

Attachments

cc w/attachments: Michael Gay

ATTACHMENT E

Alaska Exports to East Asian Markets

ALASKA EXPORTS: EAST ASIA AND PACIFIC  
Totals and Major Products (000)

COUNTRY (PRODUCT)	1977	1978	1979	1980	1981	1982 (H)
<u>JAPAN</u>	<u>288,164.0</u>	<u>471,161.5</u>	<u>738,445.7</u>	<u>757,959.4</u>	<u>934,205.7</u>	<u>887,967</u>
Seafood	47,623.7	203,479.6	396,895.2	297,494.2	406,279.6	332,491
Forest Products	141,096.1	135,410.5	236,306.5	273,337.1	206,214.7	205,081
Pet & Pet/Chem*	95,325.6	121,448.4	131,649.3	222,547.4	297,350.7	281,947
<u>CHINA</u>	<u>7,196.2</u>	<u>18,711.4</u>	<u>32,352.5</u>	<u>67,795.1</u>	<u>43,841.7</u>	<u>58,665</u>
Urea	6,938.6	15,174.6	27,179.2	35,036.6	18,953.6	43,860
Forest Products	0.0	3,393.2	1,303.6	32,173.3	24,412.5	9,562
<u>TAIWAN</u>	<u>8,573.6</u>	<u>8,090.6</u>	<u>12,096.4</u>	<u>14,600.6</u>	<u>16,916.0</u>	<u>4,374</u>
Urea	0.0	0.0	2.4	0.0	4,109.7	0
Forest Products	7,349.2	5,614.2	9,479.0	9,201.5	7,036.6	3,658
Seafood	0.0	0.0	0.0	9.6	0.0	0
<u>KOREA</u>	<u>8,302.5</u>	<u>8,653.5</u>	<u>23,578.6</u>	<u>36,121.0</u>	<u>19,807.4</u>	<u>95,185</u>
Urea	0.0	0.0	0.0	0.0	0.0	16,612
Coal	0.0	0.0	0.0	0.0	635.7	0
Forest Products	5,314.0	2,420.3	12,773.9	8,030.8	9,430.0	9,469
Seafood	0.0	3,453.5	1,446.0	24,345.0	4,088.4	9,345
<u>THAILAND</u>	<u>3,821.3</u>	<u>4,306.8</u>	<u>3,468.4</u>	<u>5,539.4</u>	<u>4,099.8</u>	<u>9,331</u>
Urea	0.0	994.6	800.9	4,283.9	0.0	2,884
Forest Products	4,219.3	2,662.8	2,568.9	1,069.7	2,347.6	5,995
<u>HONG KONG</u>	<u>309.1</u>	<u>1,303.9</u>	<u>2,963.3</u>	<u>1,859.3</u>	<u>5,611.5</u>	<u>917</u>
Pet & Pet/Chem	0.0	0.0	1.2	0.0	.7	0
Forest Products	402.2	0.0	0.0	0.0	982.2	0
Seafood	0.0	0.0	82.6	1.5	0.0	0
<u>INDONESIA</u>	<u>0.0</u>	<u>1,102.4</u>	<u>1,188.4</u>	<u>10,942.4</u>	<u>2,969.5</u>	<u>22,199</u>
Urea	0.0	0.0	0.0	0.0	0.0	15,552
Forest Products	0.0	0.0	0.0	0.0	545.7	5,247
<u>PHILLIPINES</u>	<u>22.0</u>	<u>367.2</u>	<u>3,270.6</u>	<u>14,598.3</u>	<u>28,326.4</u>	<u>12,551</u>
Urea	0.0	0.0	2,217.9	14,442.4	26,362.6	12,256
<u>MALAYSIA</u>	<u>0.0</u>	<u>166.2</u>	<u>4,859.9</u>	<u>4,901.2</u>	<u>10,627.2</u>	<u>14,038</u>
Urea	0.0	0.0	2,219.0	3,579.6	6,408.4	11,898
<u>AUSTRALIA</u>	<u>1,173.4</u>	<u>6,965.9</u>	<u>18,318.6</u>	<u>3,069.0</u>	<u>9,096.0</u>	<u>33,576</u>
Urea	0.0	0.0	3,742.6	0.0	0.0	8,025
<u>NEW ZEALAND</u>	<u>0.0</u>	<u>2.0</u>	<u>27.1</u>	<u>0.0</u>	<u>0.0</u>	<u>1.0</u>
<u>TOTAL EXPORTS</u>	<u>392,157.3</u>	<u>611,825.7</u>	<u>913,047.4</u>	<u>987,519.0</u>	<u>1,182,597.2</u>	<u>1,190,536.7</u>

\*Pet & Pet/Chem exports to Japan and other countries are included in the totals.  
†1982 figures are preliminary.

## ALASKA EXPORTS: WORLDWIDE TOTALS

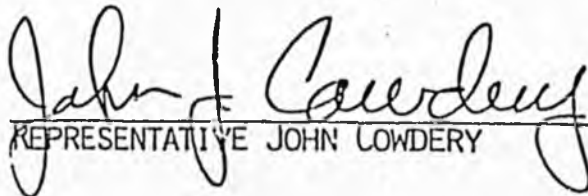
Major Products (000)

Product	1977	1978	1979	1980	1981	1982 (NOV)
Forest Products	179,212.5	168,484.4	271,135.9	339,037.1	278,026.5	252,815.0
Seafood Products	52,106.3	205,707.1	356,047.6	327,205.3	427,142.8	349,391.0
Natural Gas	95,325.6	111,442.0	122,536.0	218,044.4	310,024.5	266,148.0
Urea	20,059.1	59,837.6	73,719.5	87,481.3	133,417.2	100,734.7
Ammonia	6,517.5	9,433.5	913.8	2,648.7	0.0	19,371.2
<u>TOTAL</u>	<u>392,157.3</u>	<u>611,825.7</u>	<u>913,047.4</u>	<u>987,519.0</u>	<u>1,182,597.2</u>	<u>1,199,356.7</u>

REPORT TO THE ALASKA LEGISLATURE  
OF THE  
LEGISLATIVE MISSION TO JAPAN AND KOREA  
JANUARY 14-21, 1984

  
SENATOR BETTYE FAHRENKAMP

  
REPRESENTATIVE ROBERT BETTISWORTH

  
REPRESENTATIVE JOHN LOWDERY

JANUARY 24, 1984

## REPORT OF LEGISLATIVE MISSION TO JAPAN AND KOREA

### I. Executive Summary

This report describes the legislative mission of Senator Bettye Fahrenkamp, Representative Bob Bettisworth and Representative John Cowdery to Japan and Korea. The purpose of the mission was severalfold:

1) to return the visit of Japanese Diet members who visited Alaska in August 1983;

2) to join with Senator Murkowski in requesting Japan and Korea to formally request Alaska oil from the United States government;

3) to let Japan and Korea know of the Legislature's intent to seek a long term resource relationship, particularly energy resources, with those countries as provided in the respective communique signed during President Reagan's November 1983 trip to those countries; and

4) to seek a summit meeting on energy among Japan, Korea, the Republic of China and the United States to form a financing plan for the construction of a gas pipeline and the marketing of the North Slope gas. The briefing material contained in Appendix A was submitted to officials of each government.

The Export Administration Act, which contains the prohibition on the export of Alaska oil, will be considered in mid-February 1984 by the United States Senate. If Japan's and Korea's formal requests for the oil are to do any good, they must be made soon. This legislative mission went at this time to these countries along with Senator Murkowski to show Alaska's solidarity in making this request and to stress the need for immediate action.

In Japan we found continued interest in purchasing Alaskan crude oil if the law can be changed to allow its export. We recommend that Alaska continue to establish relations with our friends in the Japanese Diet who prescribe energy policy for Japan. The interest of these Diet members will insure closer cooperation of the officials in the Ministry of International Trade and Industry (MITI).

On natural gas the Japanese continue to talk of an oversupply of gas extending into the 1990's. The Japanese look to private enterprise to perform any necessary marketing or financing studies. The MITI ministry appears to desire to operate solely within the United States-Japan Energy Working Group. This working group does not now favor an energy summit. Continued efforts with the Diet should be pursued to convince MITI to participate. Further, if Korea and Taiwan agree to a summit meeting, it would be difficult for Japan to refuse to attend.

The Koreans were very positive with respect to the oil and the gas. On oil, Energy Minister Choi stated that Korea wanted to purchase Alaskan oil and that it would point that fact out to the United States government. The Koreans favor the energy summit on gas and have taken preliminary steps with private industry in Korea to participate in the financing and marketing study. We recommend increased efforts with the Korean government to encourage this continued positive attitude.

While the legislative mission did not visit the Republic of China, Senator Murkowski reports from his meetings there during the week of January 9, 1984 that the Republic of China's government has the same attitude as the Korean government with respect to the oil and gas. Again, this attitude should be encouraged.

A word needs to be said about Alaska's Asian Office, which is located in Tokyo. It is the mission's impression that the Office is doing an excellent job. In the opinion of the mission, its effectiveness could be increased if offices were established in Seoul and Taiwan. We urge a review of this proposal by the Alaska Department of Commerce and Economic Development with a report by Commerce to the Legislature during this legislative session. Bill Overstreet, Director of the Alaskan Asian Office, was with the mission in Japan and Korea. His assistance throughout was most helpful and appreciated. The mission is firmly committed to the Asian Office.

It is the observation of the authors of this report that Asians and students of American history recognize that the United States is entering the "Century of the Pacific". Alaska, as a central point in the Pacific Rim geography, should be an integral part of the future trade pattern of the Pacific Rim region. Further, it is our observation that the United States will not be Alaska's primary market in the years and decades to come. We believe that the real market

for Alaskan resources is with and in Pacific Rim nations with which the United States of America has economic and strategic treaties (Japan, Korea, and Taiwan).

Asian countries have historically looked to Southeast Asia for trade and commerce. Those countries must be made aware of Alaska's other resources. This will take an effort by Alaskans. Moreover, Alaskans must be made aware of the potential.

It is our perception that IF Alaska is to maintain its high production in hydrocarbons and IF Alaskans continue to receive revenues it believes it needs, then the State leaders must plan for the future.

It is asserted by some economists and futurists that the center of world commerce has already shifted from the historic north Atlantic to the north Pacific Rim region. We believe this to be true and want our State to be aware of the potentials, opportunities and/or hazards.

## II. Recommendations.

It is the opinion of the Alaska legislative mission that for Alaska to realize the promise of that portion of the Reagan/Nakasone communique of November 1983, that calls for Alaska to be the focal point of an energy relationship between the U. S. and Japan and other countries on the Pacific Rim, most notably Korea and the Republic of China (Taiwan), the State of Alaska must be an active party. Recognizing this, we recommend the following:

1. That in cooperation with the Alaska Congressional delegation and the Governor, the Alaska Legislature take an active role in seeking to market Alaska's energy resources in the Pacific Rim, recognizing that such an undertaking will require the expenditure of funds and will probably take some time;

2. That the Alaska Legislature establish a procedure for exchanging visits with members of the legislative bodies of Pacific Rim countries interested in Alaska's energy and other resources, with a view toward establishing with those legislators an understanding of Alaska's resources and the desirability of purchasing those resources. In particular, the Alaska Legislature should support Senator Murkowski's efforts to arrange an energy summit meeting between the United States, Japan, Korea and the Republic of China (Taiwan) with representatives from Alaska in attendance.

3. That the Alaska Legislature assist the Governor and the Alaska Congressional delegation in seeking to lift the ban on the export of Alaska crude oil, including the expenditure of funds for Congressional lobbying and general education efforts, recognizing that this may take some time to achieve.

If Congress fails to lift the ban on the export of Alaska crude when the issue is debated in the Senate in February this year, all appropriate action should be undertaken by the State of Alaska, assisted by the Alaska Congressional delegation, to permit the export of a portion of the State's royalty crude oil. Such actions may include a request by the Governor for an export permit for State royalty crude oil as suggested by Senator Murkowski, or a lawsuit to establish the State's right to sell its own oil as suggested by Congressman Young.

4. That the Alaska Legislature support the efforts of private groups to arrange for marketing of Alaska's gas and financing of a gas pipeline, including marketing of the gas to the Pacific Rim countries. The Alaska Legislature should consider procedures which would require that any foreign companies which obtain contracts to help build the natural gasline, are from countries that agree to provide markets or financing for the gasline.

5. That the State of Alaska take all appropriate measures to assure that existing coal contracts take place on schedule and that additional opportunities for the sale of Alaska coal be found. In proposing this, the Alaska legislative mission recognizes that large scale coal contracts with the Pacific Rim cannot be expected to occur earlier than the mid 1990's. However, some assurance of sales at this time would be of great assistance to the Legislature in making proper decisions for construction of the infrastructure needed for coal development.

6. That the mission of Alaska's Asian Office be expanded to aggressively market Alaska's resources on the Pacific Rim. In this regard we envision its mission for Alaska as similar to that which the Ministry of International Trade and Industry provides for Japan. To perform this function, Alaska's Tokyo office would have to be upgraded and offices established in Seoul and Taiwan. Given the interest in Alaska's resources we have seen in Japan and Korea, the money expended would be a wise investment. We recommend that the Alaska Department of Commerce and

Economic Development study this proposal and report back to the full Legislature before the end of this legislative session.

### III. Discussion of Trip Details

The mission left Juneau for Anchorage on January 13th. That evening the mission attended a dinner hosted by Consul General Huang of Korea, to which Consul General Inamura of Japan was invited. Energy matters were generally discussed. The main purpose of the dinner, however, was to firm up the arrangement for the visit. The mission very much appreciated the information provided by the Consuls General.

The mission left Anchorage on January 14, 1984 and arrived in Tokyo on January 15, 1984, having lost a day crossing the international dateline. January 16, 1984 was a holiday in Japan, during which the mission adjusted to the time and was briefed by the Alaska Asian office.

On the evening of January 16, 1984 the mission had dinner at Bill Overstreet's home, which was attended by Senator Murkowski, for the purpose of rehearsing for the meetings. It was decided that after the introduction of the legislative mission by Senator Murkowski, Senator Fahrenkamp, as the mission's senior member, would make the following points:

1. The mission was returning the August 1983 visit of the Diet with the idea of continuing such exchanges in the future;
2. The mission felt it was in the interest of both Japan and Alaska to work to implement that portion of the November 1983 communique from the meeting of President Reagan and Prime Minister Nakasone which named Alaska as the focal point for an energy relationship between Japan and United States;
3. The mission recognized that realizing Alaska's position as the focal point of an energy relationship will take time and commitment, which Alaska for its part was willing to pursue;
4. The mission endorsed the efforts of the Congressional delegation to change that portion of the

Export Administration Act which precluded the export of Alaska oil and the effort to arrange for an energy summit meeting.

It was agreed that Senator Murkowski would speak to these subjects on behalf of the combined group.

The first meeting on January 17, 1984 was a briefing by Ambassador Mansfield. After Senator Murkowski had introduced the legislative mission, Ambassador Mansfield gave an in-depth and exceptionally knowledgeable review of both the oil and gas issues from both the U. S. and Japanese perspectives. He stated his unequivocal support for the export of Alaskan crude oil, Pacific Rim, and promised to be of assistance in any appropriate way. He detailed the numerous publications and occasions in which he had made known his views on this subject. He is clearly a friend of Alaska.

The combined mission met with MITI Vice Minister Komatsu on January 17, 1984. Vice Minister Komatsu is one of the two senior Japanese officials who sit on the U. S.-Japan Energy Working Group. After Senator Murkowski had made the introductions and Senator Fahrenkamp had made the above listed introductory remarks on behalf of the legislative mission, Senator Murkowski made the following points to the Vice Minister:

1) The purchase of Alaska's energy resources would provide Japan an opportunity to redress its balance of payment problem with the United States that opening its market to U. S. citrus and beef cannot do;

2) The U. S. Senate would soon take up the Export Administration Act, while Japan has informally indicated its desire to purchase 50,000 barrels per day (bbl/d); a formal request by the government of Japan for the oil would be very helpful in Senate debate;

3) The group felt that an energy summit among the U.S., Japan, Korea and Taiwan to discuss Alaska oil and gas would be a good means of implementing the Reagan-Nakasone communique as it pertains to Alaska energy resources.

Mr. Komatsu replied that energy is an area where Alaska and Japan can cooperate. Japan told the U.S.-Japan Energy Working Group that it wanted the oil, and the Japan Refiners' Association said the same thing on its trip to Washington, D. C. Mr. Komatsu said that that request

constituted a "formal" request. Japan believes that lifting the crude oil ban is critical. However, it understands that lifting the export ban will be difficult in the short run; this must be a long-term effort.

Mr. Komatsu declared that the potential exists for Japan's purchase of LNG from Alaska in the 1990's. The development of this potential is up to private enterprise in each country.

Mr. Komatsu said that coal is also the responsibility of private industry, although there are many more difficulties connected with this resource than with LNG.

On January 17th the combined delegation met with Mr. Nagayama of the Japan Refiners' Association and his staff. After Senator Murkowski and Senator Fahrenkamp had made their prepared presentations, Senator Murkowski stated that the Export Administration Act and Senator Murkowski's amendment to allow the export of Alaska oil will be debated in February. The Senator described the proposed amendment and advised Mr. Nagayama that there is strong objection by the maritime unions to the export of Alaska oil. If this objection can be overcome there will be a market in the U. S. for replacement oil from Mexico and an opportunity for Japan to redress its balance of payments problems with the U. S. A formal request for the oil from Japan to the U. S. would help in the Senate debate.

Mr. Nagayama replied that he had made a request for the oil during his trip to Washington, D. C. on the issue. Furthermore, he felt that the Japanese side had requested the oil during the U. S.-Japan Energy Working Group discussions. Mr. Nagayama said he understood that it would be politically difficult to have the amendment pass.

Mr. Nagayama expressed concern about that portion of the Senator's proposed amendment that called for the oil to go to Japan on U. S. bottoms. He stated that he was concerned that this would make the price of the oil commercially unreasonable. A discussion then ensued which explained to Mr. Nagayama that the transportation price would be absorbed at some point in the distribution system and thus Japan would pay no more than the market price for the oil. Mr. Nagayama replied that even if the delivered price were the same the U. S. tanker proviso precluded Japanese oil companies from using their tankers which were surplus to the present demand. Dr. Thayer responded that

having the oil on American tankers provided security to the Japanese, because it would be an act of war to stop an American tanker. Mr. Nagayama acknowledged the point.

Mr. Nagayama then expressed concern that the proposed amendment called for the oil to be cut off in case of an emergency. Senator Murkowski explained that this was because Japan as an OECD nation would receive oil pursuant to the International Energy Act were there to be an emergency.

Mr. Nagayama stated that he agreed that importing Alaska crude oil would go a long way toward resolving Japan's imbalance of trade problems. He had spoken with people during his U. S. trip on the issue who had told him that changing the balance with Alaska oil was not a desirable way to do it. The reason he had been given was that this would possibly take the pressure off Japan to resolve other trade difficulties. He thus expressed concern that even if Japan purchased the oil, U. S. criticism of the trade imbalance would continue.

Nevertheless, Mr. Nagayama believed that Japan should buy limited quantities of oil to reduce the balance of payments problem. Furthermore, he felt it important to diversify Japan's source of supply and reduce its dependence on Middle East oil.

Senator Murkowski responded by saying that the efforts of the U. S. in Lebanon and the Middle East to secure peace were of <sup>more</sup> ~~less~~ benefit to Japan than the U. S. because the U. S. was <sup>more</sup> ~~less~~ dependent than Japan on oil from that area. Mr. Nagayama reiterated the desirability of a diversified oil supply but said it would be inappropriate for him to comment on the Lebanon situation.

There was some confusion on the Japanese side regarding the 200,000 bbl/d amendment. Mr. Takahashi asked if this represented royalty oil only. Senator Murkowski replied that the 200,000 bbl/d represented oil from all sellers including the State. The Senator said that the 200,000 bbl/d was selected because it was the amount of oil which could be sold without causing a job loss among existing maritime workers as a result of oil export. He cited the Putnam, Hayes and Bartlett report prepared for Alaska Lumber and Pulp Co., Inc. (ALP) as the authority for this proposition. He said it was only a coincidence that this 200,000 bbl/d was the same amount as the total of the State's royalty oil. Mr. Ishiyama of ALP later informed members of the group that because of the political good will

involved with it, the Japanese are far more interested in State royalty oil than oil from the other producers. As Mr. Ishiyama understood it this had a lot to do with the fact that the Japan Refiners' Association had expressed interest only in 50,000 bbl/d of royalty oil.

Representative Bettisworth told Mr. Nagayama that Alaska looked upon the oil export issue as a long-term proposition. He said the Alaska Legislature expected to push hard to achieve oil export over whatever period it took to succeed. During this period he hoped that further visits between the Diet and the Alaska Legislature could be arranged.

The combined group then met with Mr. Murata, the Director General of the Economic Affairs Bureau of the Ministry of Foreign Affairs. After Senator Murkowski and Senator Fahrenkamp made their initial presentation Senator Murkowski explained the amendment he intended to introduce to the Export Administration Act to permit the export of a limited amount of Alaska crude oil. Senator Murkowski told Mr. Murata that it would enhance chances for the amendment's success if Japan would formally request the oil. The Senator pointed out that the State of Alaska was prepared to spend money to help get the amendment passed. The Senator said that passage of this amendment would help the Japanese avoid criticism due to the balance of payments problem. The Senator then outlined his proposal for an energy summit.

Mr. Murata responded that Japan would like to purchase Alaska crude oil in order to diversify its sources of supply and to help its balance of payments problem. He stated that Japan was reluctant to make a formal request for the oil because it could be interpreted to be interference with the internal affairs of the United States (i.e., the deliberations on the Export Administration Act). Accordingly, the problem has "chicken and egg" aspects: Japan says the U.S. should make the oil available before it takes action to purchase it; Senator Murkowski wants Japan to indicate a desire to purchase the oil first.

Senator Murkowski stated that it would be very embarrassing if the U.S. lifted the oil export ban only to find that Japan was not interested in purchasing any oil. He stated that it was difficult to understand the rationale for Japanese refusal to make a formal request for the oil when Taiwan had agreed to do so. It was anticipated that Korea would also do so. The Senator pointed out that the U.S. was securing Japan's oil supply as well as that of the United States by its actions in the release. Thus, it was

hard to understand why the Japanese invested in Sakhalin rather than Alaska. The Senator asserted that it would be much better if Japan invested in Alaska.

Mr. Murata asked what would happen if no amendment to the Export Administration Act allowing crude oil export was achieved in February. Senator Fahrenkamp responded that Alaska would try again. She stated that the State Legislature was prepared to spend money to obtain the amendment but recognized that it could take some time to have this happen.

On January 18, 1984 the combined group met with Minister Okonogi, the Minister of International Trade Industry. Senator Murkowski and Senator Fahrenkamp made initial remarks as outlined previously. Senator Murkowski then stated that purchasing crude oil from Alaska would help Japan reduce the balance of payments problem. The Senator declared that opening the beef, citrus food barriers to U.S. producers would not provide sufficient balance of payment offset. The Senator stated that the answer to the balance of payments problem was not for the U.S. to restrict import of Japanese products, but for the Japanese to buy more U.S. products. The Senator then described his proposal for an energy summit as outlined above. Mr. Okonogi replied that he will be in Washington, D.C. at the end of the month and these issues will be discussed. Mr. Okonogi said he preferred using the U.S.-Japan Energy Working Group in the energy summit proposal, but would consider the proposal.

Senator Murkowski pointed out that Vice President Bush has responsibility to follow through on the Reagan/Nakasone communique. He stated his intention to meet with the Vice-President concerning the energy summit.

The combined group then had lunch with three of the four Diet members who had visited Alaska in August, 1983: Namely Mr. Watanabe, Mr. Harada, and Mr. Yosano. Mr. Kato, a Diet member interested in energy, also attended. Mr. Uetake, a former Diet member, was present as was Mr. Matsune, Chairman of Alaska Kai. Mr. Nakayama, senior counselor to the Industrial Bank of Japan, and a long-time friend of Alaska, attended as did Ishiyama, the President of Alaska Lumber and Pulp Company. The discussion focused on the desirability of exchanging visits between Diet members and members of the Alaska Legislature. Senator Fahrenkamp expressed the view that Alaska was prepared, on its part, to take the actions necessary to implement that portion of the Reagan/Nakasone communique which calls for Alaska to be the focal point of an energy relationship between Japan and the

U.S. Minister Watanabe stated that this was a worthwhile goal which he would be unable to pursue because of his recent promotion to Minister of Health and Welfare. He stated that the other Diet members present were prepared to be helpful in the effort. In their various remarks the Diet members expressed an interest in the energy summit proposed by Senator Murkowski and promised to consider it.

Following lunch the Alaska legislative mission held a press conference with the Japanese press. Senator Fahrenkamp presented the points she had made in meetings with government officials. The press was extremely interested in the oil and gas issues and the interview had to be terminated to allow the mission to take the flight to Korea.

The combined group was met at Kimball International Airport on the evening of January 18, 1984 by former Korean Energy Minister S.K. Lee, a strong advocate of development of Alaska's energy resources. The group was joined by another long-time friend of Alaska, Mr. T. J. Kim at the Shilla Hotel.

The first meeting of the morning of January 19, 1984 was breakfast with the corporate leaders of Sun Il Corporation concerning its coal purchase contract with Usabelli Coal Company. The group was assured that the project was on schedule.

The combined group then received a briefing from Mr. Walter Lundy, economic counselor to Ambassador Walker. Mr. Lundy briefly outlined the dramatic expansion of the Korean economy in the last ten years. The Korean economy is growing at approximately ten percent per year. Much of this is due to the expanding domestic market in Korea. The Koreans are presently trying to enter the export market and participate in the hi-tech area. For the first time, Korea will have an unfavorable balance of payments problem with the United States in 1983 - approximately \$1 billion. The Koreans are extremely worried about this.

Mr. Lundy felt that the Korean government would respond favorably to the proposal of formally requesting oil and to the idea of an energy summit. He warned that due to their recent prosperity the Koreans had been deluged with requests to purchase foreign goods. The Koreans have sufficient energy in the short run but need assured, long-term supplies over the long run. Mr. Lundy viewed the

creation of the five company consortium to participate in the marketing and financing study of the gas as very favorable.

Mr. Lundy advised that although there was no specific mention of Alaska, as there had been in the Reagan/Nakasone communique, the communique between President Reagan and President Chun in November, 1983 contained a paragraph in which the United States pledged to be an energy supplier to Korea and to help Korea obtain energy resources in case of emergency. Mr. Lundy suggested that in its discussion with the Korean government, the group point to this paragraph as the basis for its proposal that the Koreans make a formal request for oil and an energy summit meeting. Mr. Lundy stated that the embassy would provide all possible assistance in achieving these goals.

The combined group met next with Minister of Commerce and Industry Kum. After Senator Murkowski and Senator Fahrenkamp had made their opening statements Senator Murkowski urged that the Korean government make a formal request for crude oil from Alaska that there be a four nation energy summit meeting. Mr. Kum responded that while Korea was interested in purchasing energy resources from Alaska, the specifics of that discussion would have to await the group's meeting with Energy Minister Choi. Mr. Kum stated that Korea would buy the oil if the export ban were lifted and asked Senator Murkowski to explain the procedures for changing the law. Following Senator Murkowski's explanation, Senator Murkowski did give reasons why Alaska was looking to Pacific Rim as a market.

The combined group had lunch with National Fisheries Administrator Kang. After an exchange of introductions, Senator Murkowski applauded Korea's adherence to the 200-mile limit. He asked if the Korean government was interested in obtaining more joint ventures with Alaska fishermen as opposed to fishermen from elsewhere. The conversation centered on these two points.

In the afternoon the combined group met with Ambassador Walker. The Ambassador stated his support for the export of Alaska crude oil and for the energy summit meeting. He promised to do everything he could to assist in Korea's purchase of natural gas from Alaska. To that end he planned to host a dinner for Yukon Pacific officials in the five company consortium which had agreed to do the financing and marketing study on the gas during Governor Hickel's visit in February, 1984. Senator Fahrenkamp thanked the

Ambassador and explained that Alaska intended to aggressively market its resources on the Pacific Rim and to make any necessary changes in federal or state law toward that aim.

The combined group then met with Minister Choi, Minister of Energy and Resources. Senator Murkowski and Senator Fahrenkamp made opening remarks. Senator Murkowski asked that Korea make a formal request for Alaska oil and that there be an energy summit between the U.S., Korea, Japan and the Republic of China (Taiwan). Senator Fahrenkamp asked the Minister to assist in making certain that the coal contracts between Sun Il Company and Usabelli Coal Company occur on schedule.

Minister Choi stated that Korea wanted to diversify its sources of energy supply. Korea would buy Alaska crude oil if it were made available and would seriously consider making a formal request for it. He said that while there was no need for gas right now because of purchases from Indonesia, his ministry's upgraded projections show a need by 1989. Accordingly, his ministry would assist private enterprise of Korea to coordinate Korea's portion of the financing and marketing feasibility study. Minister Choi said that he is uncertain that the Sun Il/Usabelli contract would occur on schedule. The Minister said that he views favorably the proposed energy summit. He then asked Senator Murkowski to explain his proposed amendment to export crude oil and to describe the prospects for passage in the Senate.

Senator Murkowski gave a detailed account of the proposed amendment. He stated that changing the law would be a hard fought battle. Accordingly, he appreciated the Minister's consideration of the proposal that Korea make a formal request for the oil as this would be a great help.

The group then met with Mr. Lee, Chairman of the Board of Samsung Corporation. Senator Murkowski pointed out that the gasline construction would involve assistance from companies such as Samsung. The Chairman stated that Samsung Corporation had always looked for natural resources, particularly in the United States, and more specifically Alaska.

The combined group then met with the President of the Korean Electric Power Company, Mr. Park. After Senator Murkowski and Senator Fahrenkamp had made initial remarks, Senator Murkowski stated that he hoped that the Sun Il Usabelli coal contract would go forward as scheduled. He was assured by Mr. Park that it would. Senator Fahrenkamp

then brought up the issue of all of Alaska's resources focusing specifically on Alaska's energy resources. An informal discussion ensued regarding the opportunities for marketing those resources on the Pacific Rim.

At this point Senator and Mrs. Murkowski left the group to return to the United States. Following departure of Senator Murkowski the discussion continued and was led by Senator Fahrenkamp.

The legislative mission met for breakfast on January 20, 1984, to discuss the points it would make in its meetings during the day, all of which were with Korean companies interested in Alaska's energy resources and their construction projects in Alaska. It was decided that Senator Fahrenkamp, as senior member, would make the following points at each of the meetings:

1. That the Alaska Legislature intended to make a major effort to market Alaska's resources on the Pacific Rim.

2. That the mission has come to Japan and Korea at this time to demonstrate the Alaska Legislature's support of the congressional delegation's effort to lift the ban on the export of Alaska oil to the Pacific Rim.

3. That this issue will be debated in Congress in mid-February. The Alaska legislative mission believes that the ban on Alaska crude oil exported is inconsistent with Paragraph 12 of the communique between President Chun and President Reagan, which provided that the U.S. would be a reliable supplier of energy and help Korea obtain stable energy supplies.

4. That the legislative mission urges the Korean government to contact the U.S. government to formally request the Alaska oil. In particular the U.S. Defense Department should be contacted regarding Korea's desire for the oil.

5. That Alaska has extensive natural gas supplies. Senator Murkowski is trying to put together a four-country energy summit meeting to discuss financing and marketing of the gas.

6. That the Alaska legislative mission understands that former Governor Hickel will be in Korea in February to discuss the natural gas issue. Ambassador Walker told the mission yesterday that he will help coordinate that visit

with key industry leaders. The Alaska legislative mission supports this initiative.

7. That coal is one of Alaska's major resources. Contracts have been entered to sell Alaska coal to Korea. The legislative mission is delighted to learn that arrangements for coal delivery are still on schedule. The Alaska legislative delegation would like to see more coal sold in Korea.

8. That in April a delegation from the Alaska Loggers' Association will be in Korea to discuss Alaska's timber resources. The Alaska legislative mission urges the Korean business community to work with the Alaska timber industry to sell more of Alaska's timber in Korea.

The Alaska legislative mission met with Fisheries Minister Kang for lunch. The Alaska legislative mission applauds the efforts made by the Korean fishing industry to comply with the requirements of the 200-mile limit and requests that the Korean fishing industry enter into more joint ventures with Alaska fishermen.

The mission met first with Mr. Kim, President of Ssangyong Construction Company. Senator Fahrenkamp made the remarks outlined above. Mr. Kim expressed the hope that Korea would enter into a long-term energy relationship with the United States. He stated that his firm had purchased some Alaskan coal in connection with its cement plant operations, but the coal was wet and had to be mixed with other coals. Ssangyong is not now using Alaska coal.

Mr. Kim expressed his company's interest in any construction contracts which may arise from construction of the gas pipeline. Senator Fahrenkamp responded that it was her personal view that in awarding such contracts consideration would be given to companies of nations that participated in the financing and marketing of the gas and were themselves helpful in causing the project to happen.

The legislative mission then met with officials of the Doosan group. Senator Fahrenkamp made the points outlined above. Mr. Keh stated that Korea was interested in Alaska's resources. While Doosan was smaller than the big Korean trading companies, he was quite interested in those resources and also interested in participating in the construction of the natural gasline. Senator Fahrenkamp repeated the point about assistance causing the project to happen, previously made to Ssangyong officials.

The group met next with Mr. Cheon of Hyundai Construction Company. Hyundai is the largest of the Korean trading companies. Mr. Cheon stated that he had prior experience in construction projects in Alaska. He plans to be in Alaska in April. He expressed interest in construction of the gas pipeline. Senator Fahrenkamp repeated what she had told the other companies. Mr. Cheon wanted to know if the Hyundai built the project, could it be paid in natural gas. Representative Bettisworth stated that in his opinion, this was the only way the project would work. General discussion about Alaska's potential then followed.

The legislative mission then met with Mr. Roh, Vice Chairman of the Federation of Korean Industries (FKI), which is similar to the Keidenren. Mr. Roh stated that approximately 400 of the largest Korean companies are members of FKI. The FKI makes recommendations to the government after reaching an internal consensus.

Senator Fahrenkamp delivered her prepared remarks, whereupon there was a general discussion about the desirability of Korea purchasing Alaska's energy resources and other resources. Mr. Roh stated that the business community was anxious to expand its activities in Alaska.

Following the FKI meeting, the legislative mission was met with Mr. Lee, Vice-President of Daelim Construction Company. After Senator Fahrenkamp delivered her prepared remarks there again was a general discussion about construction activity in Alaska. Senator Fahrenkamp repeated her remark that any construction company that participated in the natural gas line would have to be from a country which participated in the financing and marketing study and itself was helpful in causing the project to happen.

In the evening the group attended a reception put on by Ambassador Walker for the Alaska legislative mission and a congressional mission which was then in Korea. During the course of this reception, members of the Alaska legislative mission had the opportunity to talk with members of the Korean National Assembly and with members of Congress regarding these energy issues. In particular, there was an opportunity to talk with Congressman Jack Hightower of Texas. Congressman Hightower stated that the congressional attitude against exporting Alaska oil was not strongly held, although he doubted it would pass the Congress at this time because of the power of maritime unions. The members of the National Assembly with whom conversations were conducted were very anxious that the oil export ban be lifted and that Korea participate in the purchase of Alaska's energy

resources. Members of the legislative mission also talked with Ambassador Walker and economic counselor Lundy and were promised all possible support from the Embassy in assisting the legislative mission in achieving its goal.

On Saturday, January 21, the Alaska legislative mission traveled to Pamunjon. The purpose of the trip was primarily to view the demilitarized zone and, secondarily, to experience first hand, Korean life which has been dramatically affected by its relationship with North Korea.

#### IV. Conclusion.

In conclusion, we believe that the objectives of the mission we set out to achieve were accomplished. However, much more work needs to be done. In this regard, we would urge that the recommendations made in Section II of this report be adopted.

ATTACHMENT I

Forbes, November 7, 1983--"Northwest Passage"

Asia covets Alaskan fish, timber, coal and, especially, oil, and the state's little-known Native corporations are finding new trading partners.

## Northwest passage

By Allan Dodds Frank

**W**HEN THE residential housing market slumps in Tokyo, it hurts Alaska Natives in Juneau and Sitka. When South Koreans get depressed, aphrodisiac prices there decline and Eskimos in Kotzebue lose

profits. What's going on is that the Natives of Alaska, the Eskimos, Indians and Aleuts, are establishing business empires increasingly tied to the fortunes of the Pacific Rim. Japan and South Korea provide major markets for timber, fish, minerals and, yes, even reindeer horn, which old-fash-



Cook Inlet Region, Inc. President Roy Hulmbuf at headquarters in Anchorage: Alaskan coal to Japan?

ioned apothecaries in Seoul finely grind into much-savored sea potions.

Being in the export business is just one offshoot of the 1971 settlement, enacted by Congress, of the land claims of Alaska's 80,000 Eskimos, Indians and Aleuts. The Natives were granted 44 million acres, a land area equal to 2% of the entire U.S. To help them enter the capitalist mainstream, \$962.5 million was thrown into the pot (FORBES, *Oct 24*) to establish 203 village and 12 giant regional corporations. These are to administer the land and begin profitmaking ventures. Each Native received 100 shares in a regional corporation. To prevent takeovers by outsiders, Congress prohibited any stock sale until 1991.

"Until I became a Native American businessman, I always thought a strong American dollar was a good thing," says Roger Lang, a Tsimshian Indian who fishes commercially for salmon and halibut when not attending to his duties as a director of Scalaska Corp., a company with estimated timber assets in hemlock, spruce and cedar worth more than \$200 million. He now knows a weak yen means weak sales. Lang adds that Canada, which he accuses of dumping logs, has hurt Scalaska timber sales to Japan, which last year were nearly 190 million board feet, mostly in round logs.

Overall the 12 Alaska Native corporations' profits have been improving (*see table, p. 222*), but the big move forward will occur when world prices for oil, timber and fish improve. Until then the corporations will work on honing skills in scouting out new joint ventures. Several Native corporations have opened branches in Tokyo and Seoul, and more will follow. Alaska is midway between Tokyo and New York by air, and by water it's far easier to ship bulk commodities to the Pacific Rim than to the U.S. East Coast. Raw salmon is a big seller in the Orient, so several Native corporations, like Calista Corp. in southwest Alaska and Nana Regional Corp. in Kotzebue, have negotiated wholesale deals to sell fish caught by Natives to Japan.

For Nana, the South Korean market for reindeer horn is the margin that makes it possible to maintain a herd of 6,000 animals that also provides fresh meat for local Eskimos, all of whom are stockholders. The herd still loses money, which makes it a tax-loss carryforward on the hoof, but the slaughterhouse also is used in summer to process fish. Besides, Nana stockholders are constantly entertained by management's amusing efforts at rounding up the reindeer. Using tax-deductible toys—helicopters,

metal, three-wheeled vehicles and dog teams—they try to separate the reindeer from thundering herds of wild caribou. (They look alike and are compatible.) Nana also mines decorative quality jade that it sells to Taiwan for carving into clocks, ashtrays and little animals, even reindeer.

"In Japan they understand the Alaska market much better than anyone else," says Alex Raider, Calista Corp. president. Raider has enticed several major Japanese corporations, including Mitsui Engineering & Shipbuilding, Ltd. and Kawasho International Corp., into joint ventures to supply engineering expertise and steel for building offshore oil rigs in the Bering and Chukchi seas. It's not just the Asians who are doing business with the Native corporations. Remember, the dozen corporations control 44 million acres of the state and deal with the major U.S. oil companies, handling service and construction contracts. Natives and oilmen lobby together against environmentalists for sale of Alaska oil to Japan.

In the main, the Native corporations have staked their future on resource development, with nearly every corporation involved in joint ventures with oil companies.



Roger Izng, a Tsimshian Indian who is a Sealaska director. Learning that a strong dollar doesn't always help.

The most profitable Native corporation, Cook Inlet Region, Inc., is seeking a blend of Pacific Rim and domestic markets that other Native corporations are trying to duplicate. Cook Inlet President Roy Huhndorf says improvement of coal prices could make it economically feasible to ship to Japan from the corporation's massive Beluga coalfield near Anchorage, to be operat-

ed under lease by Placet Amex Inc. In the meantime, with proved oil and gas reserves, Cook Inlet "is going to stick to joint ventures with expert operators like Arco and Texaco," says Huhndorf.

The Native corporations always look for ventures that will employ shareholders, a notion that produces company ties akin to the Japanese cradle-to-grave employment approach. The Native leaders strive to create shareholder loyalty—William L. Hensley, president of Nana Development Corp., a Nana subsidiary, calls it "Sivuniigvik," spirit in Eskimo—to work against the temptation to sell out when 1991 comes around.

The Native corporations, however, have lost a friend with the resignation of James Watt, the Interior Secretary. Watt had pushed hard to unlock their lands for exploration and to get their land titles to them. He put federal lawyers to work on projects to make the Natives self-sufficient, even if it meant fighting The Sierra Club, which it has. As he told FORBES before his resignation, "The no-growth advocates who try to destroy the success of these corporations shouldn't be tolerated."

But then Watt believed in self-reliance for the Natives, not handouts. ■

### On native ground

These 12 corporations, established by Congress, control most subsurface and surface rights to 44 million acres of Alaska and were given \$962.5 million to set up

businesses and manage the assets to make Alaskan Natives self-supporting. They can't sell their stock until 1991. Here's a situation report.

Corporation	Reporting year	Stockholders	Acres (millions)	Settlement money	Equity	Long term debt (in thousands)	Current assets	Current liabilities	Earnings per share	Equity per share
Alutna Inc	1983	1,074	1.8	\$15,085	\$17,755	\$ 877	\$12,304	\$1,354	\$ 2.69	\$17.34
Alutic Corp	1982	3,249	1.5	19,504	15,839	2,110	8,346	1,208	1.53	48.75
Arctic Slope Regional Corp	1982	3,738	5.2	22,535	20,002	16,299	15,684	14,938	(18.38)	50.84
Bering Straits Native Corp	1981-82	7,425	2.2	51,225	8,360	24,391	5,640	3,404	(5.01)	13.20
Bristol Bay Native Corp	1983	5,401	3.2	32,695	37,194	14,527	7,980	3,761	5.88	62.87
Calista Corp	1982	13,306	6.5	80,133	54,716	23,865	21,571	3,600	1.18	41.12
Chugach Natives Inc	1982	1,908	1.0	11,454	6,049	906	8,828	9,710	(4.62)	31.64
Cook Inlet Region Inc	1982	6,264	2.4	43,026	75,880	9,685	65,209	26,677	24.98	121.14
Doyon Ltd	1982	9,491	12.2	53,609	57,991	3,374	11,602	19,144	0.74	64.00
Koniag Inc (9 mos ending 3/31/82)		3,432	1.1	26,904	15,043	2,886	8,696	8,315	(3.33)	33.35
Nana Regional Corp Inc	1982	4,828	2.3	43,583	44,669	2,751	20,594	20,184	1.80	60.85
Sealaska Corp	1982	15,787	0.6	203,948	176,000	36,889	100,756	101,828	(17.72)	111.41

Source: Native corporations' annual reports.

ATTACHMENT H

Markets for Alaska Timber--Pacific Rim Countries

Development Planning and Research Associates, Inc.,  
200 Research Drive, Manhattan, Kansas 66502  
with  
The Tuolumne Corporation  
and  
International Investments Consultants, Inc.

MARKETS FOR ALASKAN  
TIMBER PRODUCTS  
PACIFIC RIM COUNTRIES

To

Forest Service, Region 10  
U.S. Department of Agriculture

P-509  
May 1983

## B. The Market for Alaskan Timber Products in Korea

Korea is a country of few forest resources but a sizeable wood products industry that relies heavily on the export market. It exports large volumes of plywood worldwide and some lumber to Japan and the Middle East where Korean contractors are very active.

### 1. Market Structure for Alaskan Timber

Our investigation of the Korean market showed that only four firms import from southeast Alaska and one of these, a red cedar importer, was beyond the scope of the study. Each of the three applicable users is an integrated importer/processor importing hemlock and spruce directly from Alaska. The three importers used 75,500 m<sup>3</sup> of Alaska spruce and hemlock timber in 1981, most of which (83%) was western hemlock imported by one firm. Table 5 summarizes survey results of the three Alaskan timber importers. Alaskan timber represented 29 percent of their total timber volume, ranging from 25 percent to 75 percent. For all Korea, Alaskan timber represented only about one percent of the total timber usage in 1981.

### 2. End Use

The greatest single use of Alaskan timber is western hemlock in hidden interiors of houses. Western hemlock is also used in exposed house interiors and boxes and crates. Sitka spruce usually goes into the growing musical instruments industry, particularly Korean pianos.

### 3. Timber Quality and Desirable Characteristics

Most Korean concern about quality pertain to Sitka spruce which is used in the higher valued musical instruments industry. They are less concerned about the quality of western hemlock which they use primarily because of price consideration. The quality of hemlock logs is not good but acceptable at the low price Koreans pay (recently \$200 per MBF, p.a.s.).

Table 5. Information summary on sawmills importing SE Alaskan timber, Korea 1/

Item	Survey results
Total annual volume:	
• Timber processed, all sources	260,667 m <sup>3</sup>
• SE Alaskan timber	75,500 m <sup>3</sup>
• SE Alaskan logs (n=1)	67,500 m <sup>3</sup>
• SE Alaskan cants (n=2)	8,000 m <sup>3</sup>
• SE Alaskan Sitka spruce (n=3)	13,000 m <sup>3</sup>
• SE Alaskan western hemlock - all logs	62,500 m <sup>3</sup>
Alaskan timber as % of total	1 mill - 27%, 2 mills - 75%
Recovery on logs	Sitka spruce - 65%, hemlock - 60%
Recovery on cants (n=2)	Sitka spruce - 70% and 75%
End Use	
o SE Alaskan western hemlock logs (n=1)	50%, House const. - hidden interiors 20%, House const. - exposed interiors 30%, boxes and crates
o SE Alaskan Sitka spruce scants	100%, Musical instruments

1/ A total of three integrated sawmills were surveyed and to the best of our knowledge they are the only Korean users of SE Alaskan Sitka Spruce and western hemlock. Each does its own importing of timber.

Koreans prefer the same qualities in Sitka spruce as the Japanese; high ring count, free of small knots and specific uniform grain angle. There have been problems attaining acceptable quality in most of these areas.

#### 4. General Timber Situation in Korea

##### Demand

In 1981, total timber demand was 7.3 million m<sup>3</sup> (log equivalents), sawn from 11.6 million m<sup>3</sup> in 1978. Traditionally, most of Korea's demand for timber was for re-export. Recently domestic demand has become dominant mainly due to declines in the export market. In 1982, domestic demand is expected to account for 65 percent of the timber use and lower export demand will account for only 35 percent of the log use.

Most of the wood product exports is in the form of plywood, 2.5 million m<sup>3</sup> log equivalents in 1981 or 93 percent of exports. However, this is down sharply from a peak of 4.9 million m<sup>3</sup> in 1977.

The reduction in plywood exports is attributed to decreased supplies of suitable hardwood logs, more so than reduced plywood markets. Key hardwood exporting countries have significantly restricted log exports in recent years.

By 1990, Korean forestry officials expect annual timber demand to be 19 million m<sup>3</sup> annually. They expect the domestic demand to be 14.5 million m<sup>3</sup> and export demand to be 4.8 million m<sup>3</sup>. We believe the export demand projection may decline faster than the government estimates. Domestic demand projections are reasonable if Korea can maintain its economic growth and increase housing starts which recently ranged from 200,000 to 250,000 per year.

## Supply

In 1965 domestic timber accounted for 48 percent of the total supply. Imports became more and more important as the plywood and lumber re-export industry grew, and domestic sources supplied only 8 percent in 1978. Their proportional importance has increased sharply since 1978, however, up to 16 percent in 1981. This is largely because of reduced hardwood imports for the plywood re-export industry as discussed earlier. The actual volumes have been 800,000 to 900,000 cubic meters since the mid 1960's, topping 1 million m<sup>3</sup> in 1981.

Imported supplies reached a peak of 10.6 million m<sup>3</sup> in 1978, declining to 6.1 million m<sup>3</sup> in 1981. Most of this decline has been in the hardwood area and while the volume of imported softwoods is down some. Softwoods now represent a larger share of imports, 22 to 23 percent in 1978 to 1981 versus 8 percent in 1975.

### 5. Trends and Opportunities in the Korean Market

Due to a combination of increased demand for softwood and limited domestic resources, use of North American softwoods will presumably grow. Most of this will be in the form of logs but the share of processed timber is expected to grow.

If Alaska suppliers can be price competitive, they should expect increased exports to Korea. If current manufacturing practices hold, demand for Sitka spruce in musical instruments should increase. However, if spruce is replaced by other woods in piano keys, legs and frame, spruce demand could decline but such substitution does not appear likely.

While Korea can probably use more hemlock in the future, their actual hemlock imports will depend on what the Japanese do. If the Japan market strengthens, the Koreans will not likely compete with the Japanese for hemlock logs and cants. They will seek lower cost and lower quality substitutes. Thus, relative to Japan, the hemlock market in Korea does not look particularly good.

- Alaskan Sitka spruce is preferred over essentially all foreign spruces. Assuming prices are competitive no major threats to substitution exist and Alaskan volume should be a direct function of Japanese demand for spruce. At higher prices, substitutes do exist and will be used.
- The Japanese sawmills have had problems with quality control on Alaskan timber. We recommend Alaskan exporters start a program with key traders to identify specific problems and improve sorting and grading of timber for Japanese customers.
- The Japanese sawmillers are very interested in discussing their trading problems and establishing long-term trading relationships.

Korea is a much smaller importer than Japan but offers potential for growth in Alaskan timber imports. We offer the following specific conclusion and recommendations:

- Korea sawmillers and importers, compared to Japanese, are more price conscious and less quality conscious, particularly regarding hemlock.
- We recommend that Alaskan traders develop a sort specifically for the Koreans, like the K-sort used in the Pacific Northwest. This will complement the need to maintain higher quality and prices for the Japanese market. The lower quality material can be sorted out and sold to Korea at a fair price.
- Korean plywood mills are facing great difficulty securing Southeast Asian hardwood. They may be able to substitute some Alaskan species, e.g., cottonwood or the larger white spruce logs, to replace part of the hardwood needs and Alaska should investigate this potential.

Taiwan offers potential for Alaskan timber primarily by increasing volume in current use areas. Both spruce and hemlock markets are exploitable and current volumes could be increased in multiples. However, even if increased the volume scale will be low compared to Japan.

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The People's Republic of China is a large potential market but the purchasing process is complex and not conducive to seller initiated marketing. We recommend the Alaskan traders establish a representative to work with the U.S. Chinese trade officials (The China National Native Produce and Animal By-Product Import and Export Corporation (Tuhsu)) to assure that Alaskan exporters are informed about Chinese buy orders and can respond accordingly.

## V. THE POTENTIAL MARKETS FOR ALASKAN TIMBER PRODUCTS IN KOREA

### A. Background

Korea is a country with few forest resources, but with a sizeable wood products export industry. The domestic forests were heavily cut in the later years of Japanese occupation for military construction purposes and before they could recover were again cut over for firewood during and just after the Korean War. They now consist largely of planted pines, growing slowly on rather poor sites, and planted poplars, plus limited old growth hardwoods, pines, and other conifers. The acreage is extensive but stocking is low, except in the poplar plantations. Total forest area is 6.6 million hectares, with an estimated 111 million cubic meters of growing stock, or 16.8 cubic meters per hectare.

Exports consist mostly of plywood produced from imported Southeast Asia hardwood logs. In recent years American softwood logs have provided the raw material for construction lumber exported to Japan and the Middle East, where Korean contractors are very active. As of 1981, Korea depended on imports for 83 percent of its timber requirements.

### B. The Market Structure for Alaskan Timber in Korea

#### 1. Importers, Sawmills and Channels of Distribution

To the best of our knowledge there are four firms that import from southeast Alaska, but only three fall strictly within the scope of this study. The fourth is a red cedar importer and falls outside the scope of this study. For the applicable cases, the market structure is the same. Each is an integrated importer/processor who imports directly from Alaska. One importer does sell a minor quantity to small independent sawmills.

The three importer/processors imported about 75,500 m<sup>3</sup> of Alaskan timber in 1981 according to survey responses. Most of this, 83 percent, was K-sort hemlock logs imported by one firm (Table V-1). Sitka spruce imports totaled 13,000 m<sup>3</sup> of which 8,000 m<sup>3</sup> were cants. In 1980, one firm reported they had imported hemlock cants also, but lost money on the venture and have not repeated it.

The Alaskan timber represents about 29 percent of the total volume of the three processors and ranges from 27 percent to 75 percent. For the total Korean industry, Alaskan imports represented only about one percent of total timber usage in 1981.

## 2. End Use

As shown in Table V-1, the greatest share of the Alaskan timber, 31,250 m<sup>3</sup> of western hemlock, went into hidden interiors of houses. The remainder of the western hemlock was used in exposed house interiors and boxes and crates. Sitka spruce, logs or cants, usually went into the growing musical instruments industry, particularly Korean pianos.

## 3. Preferences

Korean preferences for Sitka spruce require a high ring count, an even knot distribution and a specific uniform grain angle. They tend to be less concerned about quality characteristics in hemlock which is used in lower value or hidden end products.

In the case of the hemlock logs, they are generally satisfied and accept the trade-off in quality for the low price they pay (recently \$200 per MBF, FAS). Alaskan logs are criticized, however, for a high percentage of center defects. While specifications do allow up to 40 percent deduction from gross for these defects, the usual deduction is less than 20 percent. Also, the overall recovery rate on logs is relatively high, 60 percent, considering the low grade of logs imported.

Table V-1. Information summary on sawmills importing SE Alaskan timber, Korea 1/

Item	Survey results
Total annual volume:	
• Timber processed, all sources	260,667 m <sup>3</sup>
• SE Alaskan timber	75,500 m <sup>3</sup>
• SE Alaskan logs (n=1)	67,500 m <sup>3</sup>
• SE Alaskan cants (n=2)	8,000 m <sup>3</sup>
• SE Alaskan Sitka spruce (n=3)	13,000 m <sup>3</sup>
• SE Alaskan western hemlock - all logs	62,500 m <sup>3</sup>
Alaskan timber as % of total	1 mill - 27%, 2 mills - 75%
Recovery on logs	Sitka spruce - 65%, hemlock - 60%
Recovery on cants (n=2)	Sitka spruce - 70% and 75%
End Use	
• SE Alaskan western hemlock logs (n=1)	50%, House const. - hidden interiors 20%, House const. - exposed interiors 30%, boxes and crates
• SE Alaskan Sitka spruce cants	100%, Musical instruments

1/ A total of three integrated sawmills were surveyed and to the best of our knowledge they are the only Korean users of SE Alaskan Sitka Spruce and western hemlock. Each does its own importing of timber.

1-3

Preferences or criticisms of the spruce timber were at least more vigorous, if not more serious. One importer notes that only 40 percent or so of the Sitka spruce is really suitable for sounding boards in pianos, its intended use. They complain about knots, unacceptably wide grain, wavy grain, pitch pockets or lines, excessive hardness and instability in drying. As a result of these defects, one processor has accumulated about 500 MBF of material that they cannot use--presumably it could be used for legs but the requirement for legs is not large enough to use defective material. In contrast, the other Sitka spruce importer did not have major complaints about quality.

### C. The General Situation for Timber in Korea

Given the status of Alaskan timber imports in Korea, we now provide an overview of the aggregate timber market. Topics covered include demand and supply which will lead to a final section on opportunities for Alaskan timber in Korea.

#### 1. Demand

The total demand for timber in Korea was 11.6 million cubic meters (log equivalent) in 1978, declining to 7.3 million in 1981. The Office of Forestry forecasted, about a year ago, that 1982's demand would be up to 8.3 million cubic meters. 1982 data were not available at the time of the visit, but it is apparent that there has been an appreciable increase over 1981. Table V-2 shows the demand from 1965 to date by category of domestic use, and by domestic vs. re-export requirements.

According to the Korean Office of Forestry, Korea's domestic needs were much less than those of the Korean re-export industry through the late 1960's and up to 1977. During those years the re-export sector took almost 60 percent of the total demand, reaching 66 percent in 1976. Still, its importance has declined recently, and is likely to decline even more in the future.

Table V-2. Korea's wood products demand

	1965	1970	1975	1978	1979	1981	1982
-----1000 m <sup>3</sup> log equivalents-----							
<u>Domestic use</u>							
Pit props	304	450	549	617	626	628	637
Pulpwood	41	206	188	313	233	497	737
Plywood	-	-	-	541	1,792	1,345	1,132
Other	403	1,057	2,159	4,875	3,965	2,115	2,911
Total	<u>748</u>	<u>1,713</u>	<u>2,839</u>	<u>6,346</u>	<u>6,616</u>	<u>4,585</u>	<u>5,417</u>
<u>Export use</u>							
Plywood	511	2,279	3,226	4,528	3,031	2,497	2,413
Other	1	17	350	737	1,293	183	460
Total	<u>511</u>	<u>2,287</u>	<u>3,576</u>	<u>5,265</u>	<u>4,324</u>	<u>2,680</u>	<u>2,873</u>
Total Demand	1,259	4,000	6,465	11,611	10,940	7,265	8,290

Note: 1982 figures are a forecast prepared at the end of 1981, apparently reasonably accurate.

Source: Assembled from data obtained from the Korean Office of Forestry.

a. Domestic requirements

The categories of domestic use into which the Office of Forestry groups its figures, and which are shown in Table V-2, are pitprops, pulpwood, plywood and general use (presumably lumber in its various applications and particle board). The plywood and general use categories cover housing and other construction, furniture and musical instruments, and boxes and crating material.

Since Korea is heavily export-oriented, an unknown but certainly quite large part of domestic use should perhaps be assigned to the re-export sector - e.g., furniture, musical instruments and the packing materials needed for all kinds of export items. These requirements would exist in most countries, but in Japan and the United States, for example, they are small compared to other domestic needs. In Korea, they probably inflate domestic demand to a significant degree.

Domestic use peaked in 1979, at 5.6 million cubic meters, declined to 4.5 million in 1981. Government stimulation of the housing industry was to increase domestic use to 5.4 million in 1982.

The current rate of housing starts is between 200,000 and 250,000 annually, and is expected to increase slightly. Data were not available on the number of multi-unit vs. single-family dwellings. However, in terms of wood use it is probably not as significant as in Japan because there are very few wood-frame buildings. Wood is used primarily in door and window frames, floors, ceilings and roofs to some extent, doors and some cabinetry, and in concrete forming.

The volume of wood used per housing unit is estimated to be 7.1 m<sup>3</sup>. Housing, therefore, would be using 1.4 to 1.8 million cubic meters per year, plus whatever is used temporarily for concrete forming, perhaps another 0.2 or 0.3 million. Plywood and general use took 3.5 million cubic meters in 1981, so roughly another 0.5 million were required for other construction, furniture, crating, etc.

b. Re-export

Starting in the early 1960's, Korea became the world's most important in-transit processor/producer of hardwood plywood, using Southeast Asian logs. This activity peaked in 1977, with 4.9 million cubic meters of logs--half of Korea's total log requirements in that year. It has since dropped sharply, to 2.5 million in 1981.

Reduced plywood markets in North America, Europe, Japan, etc. are not the only factor in the decrease in Korea's plywood re-export trade. The declining availability of suitable logs is more significant and promises more future problems for the industry. Indonesia and the Philippines have severely restricted log exports, leaving only Papua New Guinea and the Malaysian states of Sabah and Sarawak as places from which logs may be exported on a reasonably open market basis. As a result, Korea must compete with Taiwan, Singapore and Japan for these remaining log sources.

The Korean plywood industry has two options for dealing with this problem. They are:

- shift their operations to the resource country which many companies either have done or are planning to do. This, of course, removes their log requirements from Korea's total demand.
- Substitute other woods for Southeast Asian hardwoods, in core and cross-band veneer. The possibilities include Korean plantation poplar, cottonwood from North America, tight-knotted softwood logs from North America, or imported veneer of softwoods, aspen, etc.

Korea also exports lumber, moldings and other remanufactured wood products, although this is much less important than plywood export. The raw material for this includes North American softwoods, re-exported to Japan and to

Korean construction companies working in the Middle East. This sector took 1,293,000 cubic meters of logs in 1979, dropping to 183,000 in 1981 and supposedly increasing to 460,000 in 1982.

Export statistics cast doubt on the above figures, however. In 1981, Korea apparently exported 262,000 cubic meters of lumber, moldings, and other processed lumber of which 219,000 cubic meters were softwoods for Japan and the Middle East. Probably about 400,000 cubic meters of logs would have been needed to produce this volume, suggesting that lumber re-export is much more important than the 183,000 cubic meters shown in Table Y-2.

c. Future demand

The Office of Forestry has prepared a forecast of timber demand and supply up to the year 2030. This was done in 1978 and their estimate for 1980, not surprisingly, missed significantly as the world-wide economic climate suddenly worsened. Their long-term forecasts are presumably more reliable, if their analysis of underlying domestic trends is soundly based. These forecasts are:

	<u>Domestic</u> <u>use</u>	<u>Export</u> <u>use</u>	<u>Total</u>
	-----million cubic meters-----		
1990	14.5	4.8	19.3
2000	19.5	3.0	22.5
2010	22.7	2.5	25.2
2020	24.6	2.0	26.6
2030	25.6	1.5	27.1

It would not be surprising if the export sector's demand declined faster than these figures suggest, particularly with respect to plywood. As domestic demand increases and as the plywood industry struggles with its raw materials problems, a larger decline in exports is possible.

## 2. Supply of Timber

### a. Domestic supplies

In 1965 domestic timber accounted for 48 percent of the total supply. Imports became more and more important as the plywood and lumber re-export industry grew, and domestic sources supplied only 8 percent in 1978. Their proportional importance has increased sharply since 1978, however, up to 16% in 1981. This is largely because of reduced imports for the plywood re-export industry as discussed earlier. The actual volumes have been 800,000 to 900,000 cubic meters since the mid 1960's, topping 1 million in 1981.

Data were not obtainable on the species composition of domestic production, but from our knowledge of Korea it is estimated that well over half would be pine, about one-tenth plantation poplar, and the balance other conifers, oak, chestnut and miscellaneous other hardwoods (e.g., walnut, persimmon, Paulownia).

Domestic logs are mostly small and of rather low grade and poor form. Their end uses are:

- Conifers: construction, generally utilizing small cross-section and short lengths.
- Poplar: packing material, choesticks, blockboard.
- Hardwoods: furniture, sliced veneer (particularly in narrow widths and short lengths for items such as plywood parquet), and specialty purposes such as golf club heads (persimmon), and Japanese-style solid or veneered furniture (Paulownia).

Table V-3 shows the sources of Korea's timber supply from 1965 to date.

Table V-3. Sources of Korea's timber supply

Source and species	1965	1970	1975	1978	1979	1981
	-----1000 m <sup>3</sup> log equivalents-----					
Domestic supplies	503	845	896	996	952	1,130
Imports						
Tropical hardwood	718	2,863	5,116	8,197	7,886	4,792
Softwood						
North American	18	236	443	1,719	1,252	929
Chile & New Zealand	20	56	-	622	832	414
Total	<u>38</u>	<u>292</u>	<u>448</u>	<u>2,401</u>	<u>2,084</u>	<u>1,343</u>
Other	-	-	5	17	18	-
Total	<u>756</u>	<u>3,155</u>	<u>5,569</u>	<u>10,615</u>	<u>9,988</u>	<u>6,135</u>
Total supplies	1,259	4,000	6,465	11,611	10,940	7,265

Source: Assembled from data obtained from the Korean Office of Forestry.

## b. Imports

Imports reached a peak of 10.6 million cubic meters in 1978, declining to 6.1 million in 1981. Industry sources consider an increase to 6.3 million, likely in 1982. Southeast Asia and the South Pacific are the principal sources, and from 1965 to 1977 this area supplied 85-95 percent of imports. Softwood imports increased sharply in 1978, and as of 1981 they reduced tropical hardwoods' share of the market to 72 percent.

Tropical hardwoods are used mostly for plywood, but also for other purposes such as lumber and remanufactured product exports, furniture, domestic moldings, window frames, and construction. Table V-4 compares the Office of Forestry data on domestic and export plywood raw material requirements, and on tropical hardwood imports, in order to get some idea of the hardwood volume that goes into these uses.

Softwood imports have so far come mainly from the United States. New Zealand and Chile are suppliers of Monterey pine, accounting for about 27 percent in 1981. Korea has also started to buy Siberian logs, either transshipped or redocumented in Japan. There has been some imports from Canada in the past few years, the volume is not available. We suspect that it is quite small.

With a few exceptions, Korean importers have but one criterion for softwoods--price. Color, grain characteristics, knot placement, ring count and log size mean little. Knot size is of some significance, however, since Korea, like other Asian countries, uses lumber in some very small cross-section, it does not seem to be a serious problem. Also, logs with smaller knots are selected for this type of end product. One product that can accept large knots, provided they are tight, is crating material for machinery exports, etc. Monterey pine, from New Zealand and Chile, is used for this, as it is in Japan.

Table V-4. Korean plywood requirements and tropical hardwood imports

Item	1978	1979	1981
	-----1000 m <sup>3</sup> log equivalents-----		
Plywood requirements			
Domestic	541	1,792	1,345
Export	4,528	3,031	2,497
Total	5,069	4,823	3,842
Tropical hardwood imports	8,197	7,886	4,792
Tropical hardwood used for lumber, moldings, etc. (domestic and export)	3,128	3,063	950

Source: Assembled from data obtained from the Korean Office of Forestry and the Korean Traders Association.

West Coast exporters prepare a class of logs for the Korean market, appropriately called "K Sort." Ideally this consists of small second-growth logs, in long lengths, so that the Korean mills can benefit from the very high Scribner MBF/cubic meter conversion factor. While the Japanese market accepts small logs (down to 6"), Koreans also accept a considerable degree of roughness, i.e. more knots, sweep, crook bark seams, center rot and, catfaces. The Korean market will also accept larger logs with considerable center defect (say, up to 35-40 percent of the gross volume), provided it is scaled out and the poorer stowage on board ship is accounted for in the price.

U.S. lumber grading rules are not applicable to Korean usage, because with a wide variety of small sizes the Korean sawmillers can recover clear lumber where U.S. sawmillers could not. However it may be useful to describe Korea's lumber use in terms of these rules to provide an idea of what is needed from their softwood supplies. Some characteristics are:

- A moderate amount of improvement in recovery--upgrading from purchase basis by remanufacturing into small sizes. This end result, achievable directly in the sawmill, will not be very large because most of the logs imported are small second-growth, with tight knots.
- A moderate amount of utility grade lumber, used domestically, probably most of it as boxes or packing material.
- A moderate amount of Standard grade, used domestically or exported to Japan or the Middle East.
- Some Construction grade--probably most of which is exported to Japan.
- A little No. 1, Select Structural, Shop Grades, or Clears, probably used locally for miscellaneous special uses or exported to Japan.

Two exceptions to these remarks are:

- Sitka spruce for the musical instrument manufacturers, whose requirements are even more stringent than those of their Japanese counterparts. Korea does not have the same outlets as Japan for spruce which, while not meeting musical instrument specifications, is still of rather high grade, and
- Red cedar, which has come into fashion in Korea for wall panelling. In this case the Koreans are forced into taking lower grade sawlogs in order to get the larger logs that yield clear lumber for panelling; the lower grade logs then go into general uses, probably including crating.

#### D. Trends and Opportunities in the Korean Market

##### 1. Future Timber and Lumber Supplies

The production forecasts developed by the Office of Forestry indicates an aggressive production level for domestic timber. Supplies are projected to increase to 13 million m<sup>3</sup> by 2030 or 42 percent of the projected demand in that year. By 1990, however, domestic supplies are expected to be at only the 3 million m<sup>3</sup> level, or 15 percent of demand. These forecasts rely heavily on poplar, which of course grows much faster than any native species. Poplar volume is expected to reach a plateau of 5 million cubic meters per year by 2010.

Imports are forecast to grow, with domestic demand, to 16.4 million cubic meters in 1990, but to decline to 14.1 million in 2030, as domestic supplies increase. The importance of North America as a supply source is likely to increase, as Korea's overall demand comes to consist more of domestic construction needs and less of (mostly plywood) re-export raw material.

Table V-5 shows the Office of Forestry's estimates of where supplies will come from between now and 2030, plus our own estimate of how much North America might provide. Our estimate is based on these assumptions:

- Korea's re-export industry will continue to have difficulties competing for South Seas hardwoods to supply the necessary component for the plywood component.
- The domestic plywood requirement will account for about one-third of total domestic demand. A part of the domestic demand will be filled by softwood plywood imports; some softwoods will be used for veneer in domestic plywood production.
- As a result of increasing difficulty in obtaining tropical hardwood logs, the volume of tropical hardwoods used for purposes other than plywood will decline. The combined domestic and export plywood demand will approximate the extent of tropical hardwood imports.

Up to now Korea has imported almost all its lumber requirements as logs, with relatively little material in cants, squares, lumber, particle board, etc. From our analysis of the market, we believe Korea will gradually import more and more finished or semi-finished wood products. It is difficult to quantify this, but the areas in which such imports are likely to show the most growth are:

- Korean specification construction lumber sawn in North American mills from K Sort logs--similar to those mills that now produce to Japanese specifications,
- hardwood lumber as by-products of Korean plywood operations in Indonesia, etc.,
- softwood veneer and plywood, and

Table V-5. Future sources of Korea's timber supply

	1988	1990	2000	2010	2020	2030
-----million m <sup>3</sup> log equivalents-----						
Domestic supplies						
Native species	1.4	1.5	2.0	4.0	6.0	8.0
Poplar	0.9	1.5	4.4	5.0	5.0	5.0
Total	<u>2.3</u>	<u>3.0</u>	<u>6.4</u>	<u>9.0</u>	<u>11.0</u>	<u>13.0</u>
Imports						
North American	4.8	5.1	4.7	4.4	3.9	3.0
Other areas	10.9	11.3	11.4	11.8	11.7	11.1
Total	<u>15.7</u>	<u>16.4</u>	<u>16.1</u>	<u>16.2</u>	<u>15.6</u>	<u>14.1</u>
Total	18.0	19.4	22.5	25.2	26.6	27.1

Source: Assembled from data obtained from the Korean Office of Forestry.

• North American particle board.

## 2. Opportunities for Alaskan Timber Species

Within the general setting, it is also possible to gain some insight about opportunities for Sitka spruce, western hemlock and some other Alaskan products.

### a. Sitka spruce

As mentioned, the Korean musical instrument industry uses about 5 million BF or (13,000 cu. m.) of spruce per year. This figure is likely to increase somewhat, according to the largest piano manufacturer. They report increasing demand for Korean-made pianos, and to satisfy this they are increasing their capacity. Within a couple of years the total demand will probably be about 7 million BF or (18,000 m<sup>3</sup>).

Also as mentioned, the demand could theoretically be halved, or at least reduced, if spruce are supplied only in sounding board quality and basswood and other species are used for keys, legs, etc. In practice, basswood might not be as convenient to import as spruce, and so it seems rather likely that spruce will maintain its position.

Since even the highest grade log is bound to contain considerable non-music grade material, we think it is reasonable to say that cants, containing as much as possible of music grade cuttings, would be preferred if the end-users could get them. Some of the smaller companies are now making efforts in this direction.

### b. Hemlock and lower grade spruce

Only a very small percentage of Southeast Alaska hemlock and spruce is really suitable for the Korean market - top grade spruce for musical instruments, and small, knotty and preferably sound logs of either species.

What lies in between is too good, in the sense that it possesses characteristics (tight grain and generous yield of clear lumber) that command a premium in Japan but are in most cases of no importance in Korea.

Korea's current log imports from Alaska are covering not only the small low quality, knotty logs but also the next layer of quality upwards - as previously described, logs that will yield a considerable amount of clear lumber but which have a lot of defect. This is probably due to two factors:

- the current low prices for all logs which brings more logs within the range that Korean importers are willing to pay, and
- the overall lower level of logging activity in the Pacific Northwest, which reduces the volume of K Sort logs available there.

When the Japanese market improves, or as the yen strengthens against the dollar, it is almost certain that some of the logs now being bought by Korea will be priced out of the Korean's reach, and either imported by Japan in the round or custom sawn into cants. When this happens exports to Japan from the Pacific Northwest will pick up, producing more K Sort logs as a kind of by-product; some of the Koreans' buying will presumably then shift back to that area.

One might suppose that the small percentage of "true K Sort" logs produced from National Forest land in Southeast Alaska could be sawn into cants that would then be suitable and reasonably priced for the Korean market. We do not think so, for these reasons:

- such logs are, at most, 16" in diameter, and the lower productivity with small logs makes the canting process inordinately expensive, and

- with larger logs, the cost of producing cants may be partly offset by a real freight saving, as defective material is sawn out. With small, knotty but reasonably sound logs this saving is not available.

In short, these logs should, perhaps, be available for export to Korea in the round.

c. Red cedar

Unless red cedar panelling is a passing fad, the projected growth of Korean domestic demand, based on housing and other building construction, will mean more demand for red cedar, and more opportunities to supply it to small scale importers or end users in the form of cants.

d. Other Alaskan possibilities

Moving north and west along the Gulf of Alaska coast, the percentage of logs that are suitable for Korea rises sharply. In places such as Seldovia, Port Chatham and Afognak and Kodiak Islands about half of the volume could be considered K Sort.

Possibilities for Korea's plywood industry exist in cottonwood, white spruce, and perhaps birch, as log or maybe even veneer imports.

In general, the Korean market prospects are good for high grade spruce logs or cants and for red cedar. The market size is small compared to Japan, however. The Korean market does not look particularly good for hemlock or low grade spruce, as Koreans will not compete price-wise with the Japanese for this timber. As described above, some other Alaskan timbers also have some market potential and deserve some attention.