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**The Rhee Plan for the Divestment and Rehabilitation
of ROK Enterprise and Industry Under Capitalism
and Democracy**

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Summary:

Plan proposed by US businessman James H. R. Cromwell to privatize industry in South Korea. In response to President Rhee's concerns, it was later renamed the "Private Enterprise Plan."

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THE RHEE PLAN

**For the Divestment and Rehabilitation
Of R.O.K. Enterprise and Industry,
Under Capitalism and Democracy**

December 10th, 1953



I N T R O D U C T I O N

Unbeknown to the American people, an incredible paradox might be consummated in South Korea.

Inspired by idealistic motives, we are commencing to pour hundreds of millions of dollars into the rehabilitation of that battle-scarred area. But unless we radically alter our present plans and policies, we will end up by socializing South Korean industry, thereby guaranteeing the perpetuity of an inevitable dictatorship.

Prior to World War II virtually all industry in Korea was owned by Japan and after her surrender title was transferred to and became the property of the R.O.K. Government. Ever since Syngman Rhee assumed the Presidency, this great leader, one of the world's most outstanding and outspoken enemies of Communism and exponents of Capitalism, has been struggling to unloose from the backs of his people, the hated burden of government ownership. Unfortunately, his efforts have been largely in vain due to the lack of capital in South Korea; a lack which the appalling destruction of war has aggravated into a vacuum.

With plans afoot to invest 180 million dollars in manufacturing, 170 millions in power, 150 millions in transportation and 50 millions each in mines and fisheries, President Rhee recognizes that the onerous taxes wrung from the earnings of private initiative in America, should not be used to consolidate in South Korea that very totalitarian system which the United States has expended 130,000 casualties in battle, and incalculable billions in treasure, to prevent and prohibit.

Russia has thrown down the gauntlet to America by the announcement that she proposes to industrialize North Korea and make it a show window to display to mankind the superiority of Communism over Capitalism. This direct challenge is freighted with fateful portents and consequences which, at this moment, are incapable of measurement.



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In this dilemma the writer, an old friend and adviser, was invited to Seoul by President Rhee, and was requested by him to try to find some solution -- some way -- to accomplish, "the divestment and rehabilitation of R.O.K. enterprise and industry under Capitalism and Democracy".

The ideas herein set forth and named the "Rhee Plan" in honor of its erudite instigator are, as will be seen, only a skeleton, only the presentation of a few vital principles. But these principles, if adhered to, offer to the industrial leaders of America, without risk of financial loss, the patriotic privilege of entering the economic arena of the cold war in Korea, upon which the eyes of the world will be focused, and proving once and for all, that Communist regimentation cannot even begin to approach the standards of living and production obtainable by the unfettered functioning of Free Enterprise.

It is common knowledge that a prosperous, independent South Korean ally, (which already possesses the largest battle-proven anti-Communist army in existence) inextricably linked with America economically, politically and ideologically, is strategically indispensable to the future security of the United States. If the "Rhee Plan" to rehabilitate South Korean industry under private initiative is not adopted to achieve these purposes and objectives, then what alternative is there?

James H. R. Cromwell

January 29, 1954



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SYNOPSIS OF THE RHEE PLAN

Preamble describing the Purposes of a Korean Reconstruction
Finance Corporation.

1. In anticipation of further appropriations for the R.O.K. recovery and rehabilitation by the 1954 session of Congress, it is proposed that a Bill be introduced to create a Korean Reconstruction Finance Corporation (K.R.F.C.). The objectives to be attained by such a Bill would be described in the preamble as follows:

Preamble To the Bill

2. A Bill to create a K. R. F. C., under the laws of the R.O.K., with 250 million dollars of capital to be used for granting long term and intermediate low-interest bearing loans for the purposes of:

- (a) divesting the R. O. K. Government (The Government) of ownership of such enterprises and industries as may seem desirable to that Government, or creating entirely new enterprises and industries;
- (b) creating or rehabilitating such enterprises and industries by organizing new Korean corporations (N.K.C's) with American corporate sponsorship (the Sponsor) and managerial direction through free partial equity stock ownership, i.e., 25% of the equity or common stock;
- (c) providing that a substantial portion of the remaining equity stock of such N.K.C's. eventually be issued to the Korean men and management, and that the final balance be retained by the Government for ultimate disposal;



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- (d) offering privately owned enterprises and industries similar financial and managerial aid and advantages on a 50-50 equity stock ownership basis.

Immediate Implementation of the K.R.F.C.

3. To avoid the consolidation of industrial ownership by the Government through direct grants of presently available funds to industries now owned and operated by the Government (which it is the desire of President Rhee and the purpose of the aforesaid Bill to reverse) it is proposed that the Combined Economic Board (C.E.B.), under its own authority, re-allocate a portion of presently available funds (i.e., within the current expenditure budget of 620 million dollars) which are earmarked for industrial rehabilitation and use such funds to establish forthwith a K.R.F.C. Thereby the C.E.B. would implement immediately the ideas and desires of President Rhee and commence to achieve the purposes described in the preamble.

Structure of the K.R.F.C.

4. The K.R.F.C. should be solely a fiduciary institution to grant long-term and intermediate loans of risk capital for the rehabilitation of R.O.K. enterprise and industry. Therefore, funds allocated to it, either by the C.E.B. or later by an Act of Congress, as proposed, should be employed, insofar as possible, exclusively for the purpose designated and its overhead or other extraneous activities and expenses, should be held to a minimum.



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5. Although the total loans granted by the K.R.F.C. within any specified period of time would, under the existing economic set-up, finally have to be approved by the C.E.B., nevertheless it is essential to realize that the C.E.B. is a temporary agency, whereas the K.R.F.C. would, within the foreseeable future, tend to become a permanent or semi-permanent organization. In view of this fact, and since the operations of the K.R.F.C. would so vitally and directly effect the R.O.K. economy, it is felt that its officials and Board of Directors should all be Koreans, appointed by President Rhee. Experience with the American Reconstruction Finance Corporation would indicate that authority should be concentrated in the office of the President, and that there should probably not be more than two other directors.

The Board of Selection and Arbitration

6. Pursuant to the intent of restricting the activities and expenditures of the K.R.F.C. to the granting of loans, it is proposed that a separate and independent Board of Selection and Arbitration (B.S.A.) be incorporated under the laws of the R.O.K. to fulfill the vital task of selecting the American companies in the same fields of endeavor, which could and would act as sponsors of and co-partners in the N.K.C.'s, and as described in the preamble, would provide the executive or managerial direction and training of the Korean personnel. Since the Chairman of this Board (the Chairman) would have to be an American citizen in whose ability and integrity the Korean people must have complete confidence, he should be acceptable to



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President Rhee, and the latter should fix the terms of his compensation to the end that the Chairman and his associates on the B.S.A. should be fully and directly responsible to the President.

7. In turn, therefore, full responsibility and authority for performing the duties designated should be vested in the Chairman, not only in selecting the Sponsors for the N.K.C.'s, but in seeking their efficient and profitable operation and, as the name of the Board implies, in arbitrating and settling the differences and disputes that would be certain to arise.

Relationship of the Chairman of the B.S.A.
and the C.E.B.

3. Since it is the duty of the C.E.B. to approve the total overall integrated program for the recovery and rehabilitation of the R.O.K., the fact that it must have the final decision in deciding the total amounts to be loaned by the K.R.F.C. within a specified period, and to which types of industry, is fully recognized. In seeking to aid and assist the C.E.B. in its task of achieving and maintaining a balanced economy throughout the R.O.K., it is suggested that President Rhee should forthwith select what he considers to be the best report, of the several that have been prepared on Korean recovery, that it should be printed at once in sufficient quantity, and that the advice and services of the firm which wrote the report which is selected, should be employed to the fullest extent, especially by the Chairman.

9. To avoid delays in carrying out the program and wasting the time of the C.E.B., it should notify the Chairman of the types of industry to be initially rehabilitated, and the total amounts to be loaned, as aforesaid.



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The Chairman, in cooperation with the President of the K.R.F.C., with the firm which prepared the report selected by President Rhee, and with the designated Sponsors should then fit into the master plan of integrated rehabilitation, each proposed N.K.C. with the amount of the loan recommended and should submit groups of several such N.K.C.'s for the approval of the K.R.F.C. and the C.E.B. Such final approval by the K.R.F.C. and the C.E.B. should authorize the President of the K.R.F.C. to issue the funds to the N.K.C.'s pursuant to the terms of the contract entered into with them by the Chairman.

The Repayment of K.R.F.C. Loans

10. The exchange difficulties involved with the repayment of loans under the K.R.F.C. proposal are clearly foreseen, and while under present circumstances no definite solution can be offered, it is suggested that since it was not originally intended that the funds for Korean relief, recovery and rehabilitation could or would ever be repaid -- all loans granted should be calculated in hwan at the prevailing rate of exchange and then later, in payment of interest and amortization, any differential in the rate be compromised by a special Board of Exchange Arbitration. Because it is unlikely that hwan funds received in interest and repayment of the K.R.F.C. could be wholly transposed into dollars, it is suggested that these hwan funds be held in Korea for the credit and ultimate disposal of the U. S.



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Types of Securities Issued by N. K. C.'s

11. The N.K.C.'s would issue three types of corporate securities, i.e., (1) common or equity stock, (2) first mortgage bonds to the Government in exchange for clear title to the property and (3) chattel mortgage bonds to the K.R.F.C. as collateral for its loan. It is suggested that the interest and amortization on these bond issues be low initially and be made payable on a sliding scale basis with both increasing gradually over a period of years. Attractive premiums should also be provided by the Government as well as by the K.R.F.C. to induce prepayment. Amortization of the first mortgage bonds should take precedence over the chattel mortgage bonds because it is felt that the Government would need such payments more than the K.R.F.C.

Appraisal of Government Owned Property

12. Appraisal of the current value of a Government owned property should be made both by the Sponsor and the Government, and where the difference proved irreconcilable, the Chairman would request the K.R.F.C. Board to authorize funds from the K.R.F.C. to obtain impartial expert appraisals from two or more recognized appraisal firms. Both parties thereafter, should agree to abide by the final value as determined by the Chairman and the appraisers acting as a Board of Arbitration.

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EXPLANATION OF THE RHEE PLANThe Dire Need For a K. R. F. C.

(A) With reference to the preamble, the idea of a K. R. F. C. as proposed by the Rhee Plan, derives from the same causes that occasioned the inception of its American predecessor, i.e., a dire need for risk capital. Due to the Red Menace it is most unlikely that private risk capital could be induced to invest in Korea at the present time, and the amount of Korean capital available is wholly inadequate. Thus the freedom loving and anti-collectivist Korean people, ever since gaining their independence, have found themselves saddled with a system of State Capitalism which is as unwelcome and obnoxious to them as to their President.

(B) Furthermore, unless measures are promptly implemented that will rehabilitate R.O.K. enterprise and industry and lead the nation towards economic independence, the current heavy expenditures for relief imports must be continued indefinitely. The allocation of American funds for the proposed K.R.F.C., therefore, appears as a propitious solution to a complex and difficult problem.

The Advantages Derived From American Corporate Sponsorship

(C) With reference to paragraph 2 provision B, it is felt that the incentive represented by the free equity ownership offered should be sufficient to induce top American industrial firms to become Sponsors of their Korean counterparts. This, in turn, would guarantee experienced, efficient and honest planning and management and would obviate the expense of engineering



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and financial supervision which otherwise would be essential. It would be to the advantage of the Sponsors to teach the Korean co-partners their "know-how" to the end that the Korean management could, as soon as possible, assume complete authority, thus releasing the American executives and increasing the earnings of the N.K.C's.

(D) It is also felt that this profit incentive would achieve the objectives described in the preamble more expeditiously and efficaciously than were they spelled out in any managerial contract. While no estimate of the international plans and programs of the Sponsors can presently be arrived at, it is not unlikely that in some instances considerable production for export by their Korean affiliates might be considered desirable. From every viewpoint, therefore, the principle of American corporate sponsors, as contemplated by the Rhee Plan, appears to offer potentialities for Korea that far outweigh the value of the 25% equity ownership.

Problems of Men and Management Ownership

(E) With reference to paragraph 2 provision C, it is recognized that enterprises and industries vary widely in composition and that as a consequence, each must be separately evaluated and appraised, particularly concerning the proportion of equity stock to be retained by the Government as compared to the Korean men and management. The Government would, of course, retain a greater share of the equity stock in corporations that had



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a heavy capital investment with fewer employees, as with power companies, than visa versa, as with manufacturing companies.

(F) Obviously, however, the division of equity stock between the Government and the N.K.C. men and management would be a matter wholly within the jurisdiction of the Government and the Chairman could offer his advice and opinion only when it was requested or where the Sponsor might feel its vital interests were involved. In view of the almost fanatical hatred of the Korean people for all manifestations of communism and collectivism, it would seem safe to assume that the Government would ultimately provide as large a proportion of the equity stock for men and management as would be consistent with the public welfare. It is also safe to assume that the immense propaganda value of eventual majority ownership of the N.K.C.'s by men and management would not be lost sight of by a Government whose very life depends upon its successful resistance to communism.

(G) In considering the public welfare in relation to men and management ownership, the Government would have to analyze the need for a free security exchange market and its own pressing requirements for revenue and for collateral with which to support national bond issues. There are, in the U. S., and throughout Western civilization, numerous and various plans and mechanisms for providing men and management ownership and these would have to be analyzed by the Government before the system, or systems best applicable to conditions within the R. O. K. could be selected. In conclusion, the opportunity offered by an ownership plan to reward veterans, especially disabled ones, should be emphasized and Sponsors should agree to



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priorities of employment for veterans whenever such priorities would not be detrimental to the efficient operation of the N.K.C.'s.

Proposal for Loans to Private Owners

(H) With reference to paragraph 2 provision D, it is recognized that the need for risk capital among the more than 1700 enterprises and industries purchased from the Government since their recovery from the Japanese, is generally just as urgent as is the situation confronted by the Government itself. It is believed that if these private owners were currently approached by a top American company engaged in the same type of business -- which offered to supply expert executive direction and supervision along with adequate capital, not only to completely rehabilitate the enterprise with the most modern equipment obtainable, but also to assure it of abundant liquid or operating funds -- it is felt that such private owners would be glad to offer their proposed new partners a 50% share of the enterprise.

(I) In such instances the usual 25% stock equity would be given to the Sponsor and the 25% balance would be set aside under an escrow agreement providing for eventual Korean men and management ownership similar to the plans adopted by the Government. In this manner the serious disadvantage faced by privately owned enterprises -- in competing for men and management with the N.K.C.'s offering equity ownership plans -- would be offset, and at the same time, the purpose of ultimately achieving an industrial system largely owned by its employees, would be advanced.

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Small Enterprises and Cottage Industries

(J) While the need of small enterprises and industries and even cottage industries in Korea for long term and intermediate loans of risk capital, such as it is proposed to provide through the K.R.F.C. is recognized, it is felt that further information would have to be obtained and analyzed to determine to what extent, if any, American aid and know-how might be marshalled by the Chairman and made available. In general, however, it is felt that small business loans should probably be handled separately or by a subdivision of the K.R.F.C. and would be beyond the province of the Chairman.

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