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**KODAC**  
Kyung Hee ODA Center



# Changing Nature of Korea-LAC Economic Relations: Towards Dynamism and Diversification

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# Observations: Trade between Korea-LAC

- Bi-regional trade grows fast, in favor of both partners (commodity vs machine though)
- Strong country and product concentration
- Convergence between Trade and Investment: (Korean FDI induces parts and components export to LAC.)★
- Strong complementarity of endowments and more complementary manufacturing sectors
- High trading cost: tariff, non-tariff & logistics
- SME participation is under-studied.

# Top LAC export items to Korea

<b>Products (HS2002, 6 digits)</b>	<b>Share (%)</b>	<b>Cum. Share (%)</b>
Copper ores and concentrates	13.4	13.4
Refined copper: cathodes and sections of cathodes	10.6	24.0
Iron ores and concentrates	6.6	30.6
Semifinished products of iron or nonalloy steel	4.9	35.5
Tankers	4.4	39.9
Oil-cake, solid residues resulting from extraction of soya-bean oil	4.1	44.0
Zinc ores and concentrates	4.0	48.0
Iron ores and concentrates (agglomerated)	3.3	51.4
Natural gas (liquefied)	3.2	54.5
Vessels for the transport of both persons and goods	3.1	57.6

Source: IDB/INT using COMTRADE data.

# LAC exports to Korea are usually concentrated to a few commodities

## LAC : TOP 3 PRODUCTS EXPORTED TO KOREA, BY COUNTRY, 2007-2009 AVERAGE

(As percentages of total exports to Korea)

Country	1st	2nd	3rd	Share in total
Argentina	Copper ores (42.3)	Feeding stuff for animals (22.0)	Fixed vegetable oils (17.0)	81.4
Bolivia (P. S.)	Other base metals ores (63.1)	Precious metals ores (36.0)	Oil-seeds and oleaginous fruits (0.2)	99.4
Brazil	Iron ore (20.0)	Primary forms of iron (19.9)	Feeding stuff for animals (9.1)	49.2
Chile	Copper (48.9)	Copper ores (25.0)	Pulp and waste paper (6.5)	80.4
Colombia	Coffee and coffee substitutes (37.4)	Base metal waste and scrap (26.2)	Ferro-alloys (23.6)	87.3
Costa Rica	Integrated circuits (76.9)	Parts for data-processing machines (12.8)	Base metal waste and scrap (2.39)	92.2
Dominican Republic	Other base metals ores (53.7)	Copper ores (31.3)	Coffee (2.5)	87.6
Ecuador	Electrical apparatus (42.3)	Base metal waste and scrap (35.2)	Apparatus for medical purposes (9.9)	87.4
El Salvador	Petroleum oils, crude (46.8)	Base metal waste and scrap (31.9)	Ferrous waste (13.0)	91.8
Guatemala	Ferrous waste and scrap (66.2)	Transmission shafts (33.7)		100.0
Mexico	Ferrous waste (58.3)	Coffee (29.4)	Pulp and waste paper (5.2)	93.1
Nicaragua	Copper (16.5)	Other base metals ores (10.9)	Base metal waste and scrap (9.6)	37.1
Panama	Ferrous waste (55.2)	Coffee (14.3)	Primary forms of iron (12.8)	82.5
Paraguay	Tobacco, manufactured (43.2)	Medicaments (36.5)	Alcoholic beverages (6.7)	86.4
Peru	Feeding stuff for animals (77.4)	Fixed vegetable oils (9.1)	Oil-seeds and oleaginous fruits (7.5)	94.0
Uruguay	Cheese and curd (57.3)	Fish (14.2)	Hides and skins, raw (7.4)	79.1
Venezuela (Bol. Rep.)	Aluminium (65.7)	Base metal waste (11.2)	Ferro-alloys (9.2)	86.2

# Top LAC import items from Kor

Products (HS2002, 6-digit)	Share (%)	Acc. Share (%)
Parts of transmission apparatus, radar apparatus or television receivers	19.0 ★	19.0
Monolithic integrated circuits	7.0 ★	26.0
Vehicles with spark-ignition engine (1,500 cc–3,000 cc)	6.9	32.9
Liquid crystal devices	6.5 ★	39.4
Petroleum oils, oils obtained from bituminous minerals (light oils)	5.8	45.3
Transmission apparatus incorporating reception apparatus	3.1 ★	48.3
Parts of electrical apparatus for line telephony or line telegraphy	2.8	51.1
Vehicles with spark-ignition engine (1,000 cc–1,500 cc)	1.5	52.6
Parts and accessories of the automatic data processing machines	1.3 ★	54.0
Petroleum oils, oils obtained from bituminous minerals (other)	1.3	55.2

Source: IDB/INT using COMTRADE data.

# Diversified Korea-LAC Trade

- ODM (Original Development Manufacturing) export of Hite-Jinro for Dominican Republic's "Barcelo"
- Platform strategy to use DR for the whole LAC





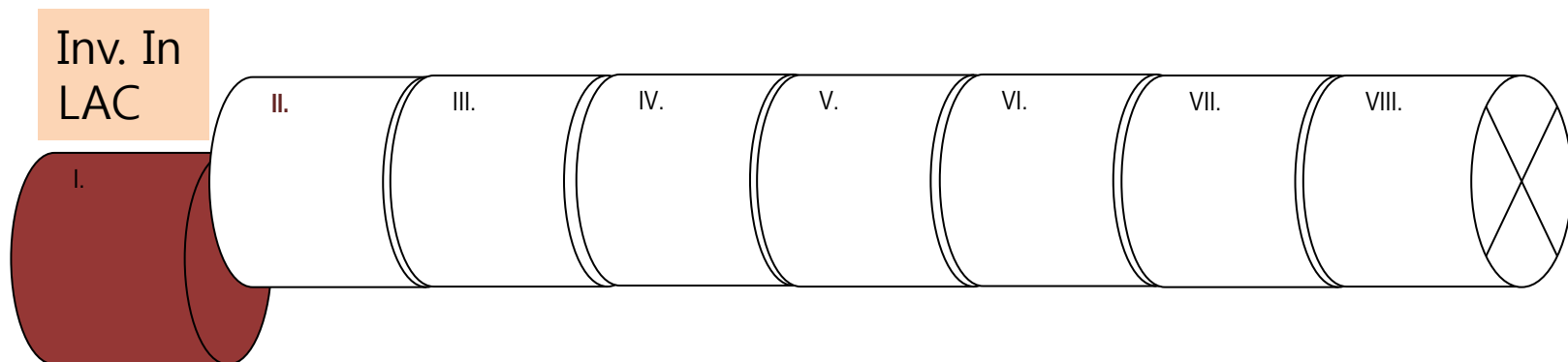
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# Patterns of Korean FDI to LAC

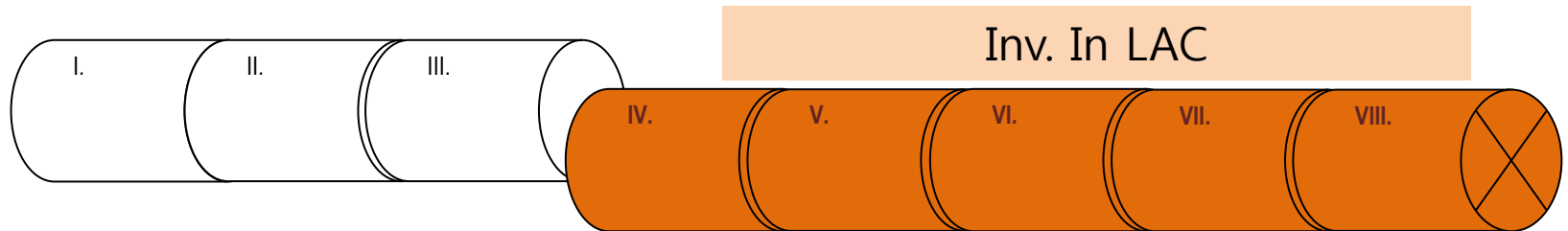
- Three main patterns of Asian FDI to LAC
  - Natural Resource Seeking
  - Efficiency Seeking for Export
  - Market Seeking for Domestic Consumption
- Value chain perspective – still “enclosed investment” with a few exceptions

# POSCO, BRASIL (KOBRASCO)



**Stage I:** Kobrasco. Iron ore pellet plant. >>>> Exported to Korea

# POSCO, MEXICO



- **Stage IV:** CGL Altamira.
- **Stage V:** MPC in Puebla and San Luis Potosi >>>> **Exported to Korea**
- **Stage VII:** MESDC.
- **Stage VI - VIII:** Posco main branch Mexico, D.F.

posco mpc

B

exclusivo





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**POSCO MPC S.A. de C.V.**

**MISION**  
El MPC es una empresa dedicada al suministro de productos de alta calidad que cumplen con las especificaciones de nuestros clientes.

**VISION**  
Ser una empresa líder en el mercado de productos de alta calidad, con un compromiso de excelencia en el servicio al cliente, innovación tecnológica y sostenibilidad. Ser una empresa que contribuya al desarrollo económico y social de México y del mundo.

**VALORES**  
Integridad, respeto, responsabilidad y transparencia. Ser una empresa que contribuya al desarrollo económico y social de México y del mundo.

**ESTRATEGIA**  
Ser una empresa líder en el mercado de productos de alta calidad, con un compromiso de excelencia en el servicio al cliente, innovación tecnológica y sostenibilidad. Ser una empresa que contribuya al desarrollo económico y social de México y del mundo.

**POSCO MPC S.A. de C.V.**

**POLITICA DE CALIDAD**

Para POSCO MPC la calidad es parte fundamental del éxito de sus operaciones. Nos comprometimos a proporcionar productos de alta calidad que cumplen con las especificaciones de nuestros clientes, así como un excelente servicio al cliente, innovación tecnológica y sostenibilidad. Ser una empresa que contribuya al desarrollo económico y social de México y del mundo.

**OBJETIVOS DE CALIDAD**

- Mantener un índice de satisfacción del cliente superior al 90%.
- Reducir a cero los defectos por parte de los clientes.
- Incrementar el porcentaje de ventas de productos de alta calidad.
- Ser una empresa líder en el mercado de productos de alta calidad.

**ESTRATEGIA**  
Ser una empresa líder en el mercado de productos de alta calidad, con un compromiso de excelencia en el servicio al cliente, innovación tecnológica y sostenibilidad. Ser una empresa que contribuya al desarrollo económico y social de México y del mundo.

Salida de Emergencia



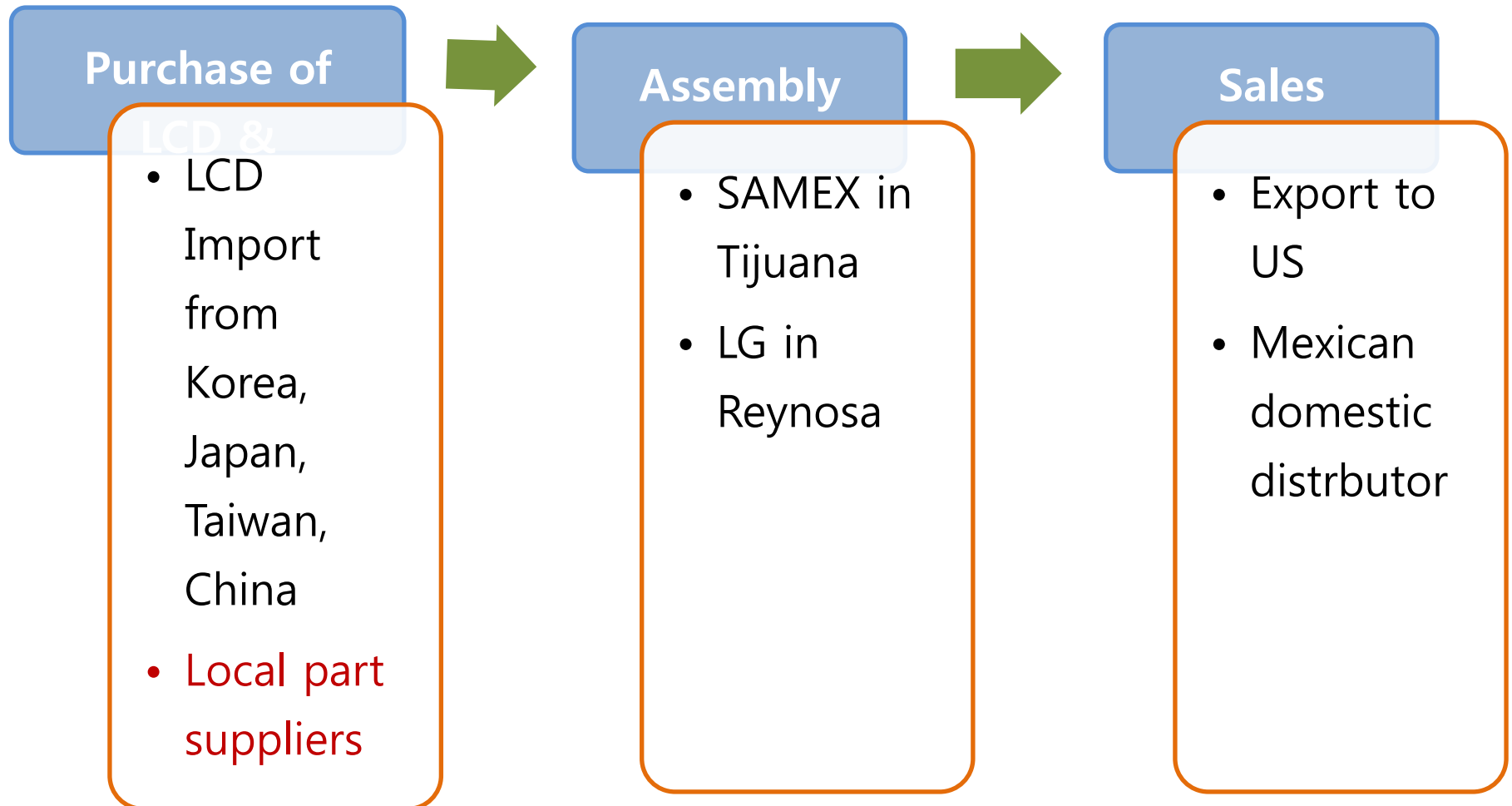
BLOQUE

# LG and Samsung / Brazil and Mexico

Company	Investment	Local Partner	Since	FDI Motives
Samsung da Amazonia	Samsung. Republic of Korea	Brazil	1995	<b>Market seeking:</b> The company has managed to rank second in the Brazilian LCD TV market and has a strong presence in mobile phones and home appliances throughout the region.
LG Electronics do Brasil	LG. Republic of Korea		1995	<b>Market seeking:</b> The company was looking to expand its market share inside Brazil. However, tariffs were excessively high to do it through imports.
Samsung Mexicana	Samsung. Republic of Korea	Mexico	1988	<b>Resource seeking:</b> cheaper labor and access to components. <b>Market seeking:</b> Samsung has established an international operation in Mexico with broad networks that allow the company to serve not only LAC, but also the US and European markets
LG Reynosa	LG. Republic of Korea		1988	<b>Resource seeking:</b> cheaper labor and access to components. <b>Market seeking:</b> LG has established an international operation in Mexico with broad networks that allow the company to serve not only LAC, but also the US and European markets

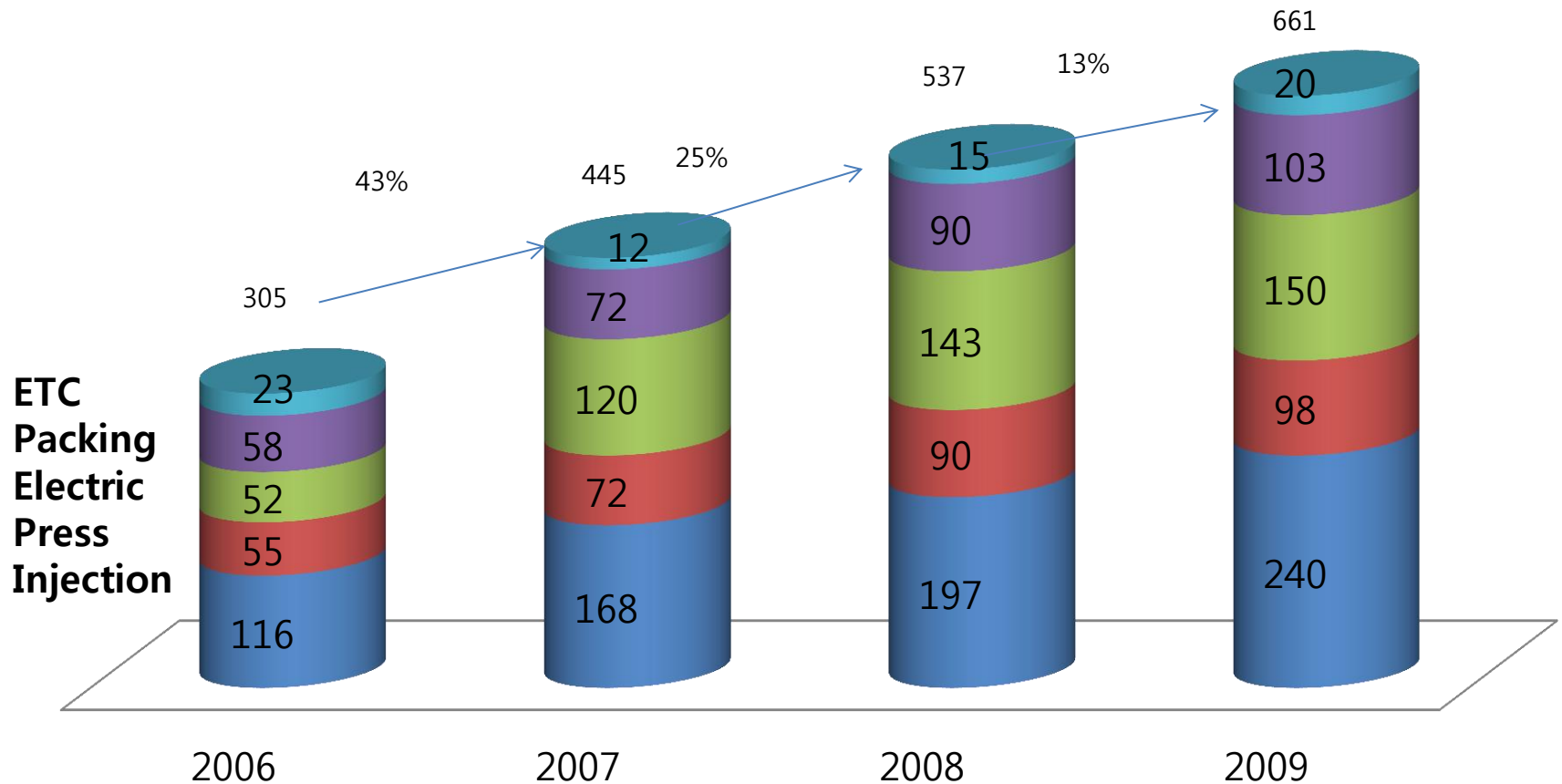


# Production Chain of Digital TV, Mexico



# Local Purchasing of SAMEX

(Samsung Mexico, Tijuana) US\$Millions



# Local vendors? Mostly Korean SMEs

## Vendors for SAMEX in Tijuana

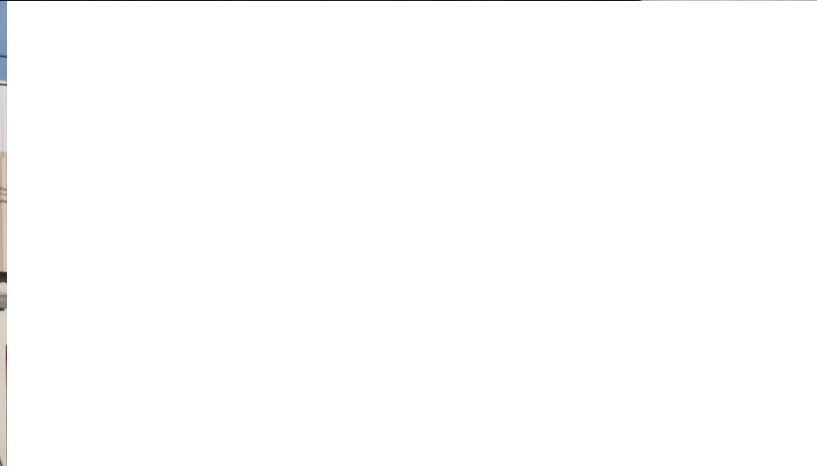
Name of Corporation	Year of Entry	Handling Area
<b>Cobuy</b>	2007	Electronic components
<b>KOMEX</b>	2006	TV & MNT cabinet
<b>NOSCOM</b>	1999	Electronic injection and assembly
<b>Taewoo Mexico</b>	1999	TV Monitor stand base
<b>Daedong Corp.</b>	2000	Plastic molding (TV)
<b>Chemtronics</b>	2007	PBA for LCD/PDP
<b>Daewon</b>	1991	Van-trailer part
<b>Daeha Cable</b>	1997	TV and industrial wire harness, cable assembly
<b>Samsung SDI</b>	1995	Display device
<b>Dongchul Mexico</b>	1994	Bracket, heat sink
<b>Seshin electronics</b>	2001	EPS resin
<b>Han-il electronics Mexico</b>	1998	PCB assembly

# SAMEX Efficiency Seeking at large



Changin





# Hyundai Motor Car, Brazil

- The first automobile manufacturing investment in LAC from Korea
- Investment of US\$700mil in Piracicabana, Sao Paulo with annual production cap. of 150,000 units.
- Began localized model production from 2012
- HMC market share 3.0% (2012), 5.9% (2013), 6.6%(1/4 2014)
- BH20 as the 2013 Car of the Year (Auto Esporte)
- BH20s voted as the Best Small Car in 2013 (Carro)



# Hyundai Motor Car, Brazil

Local Supply Chain? Mostly Korean Vendors

LAC Suppliers (Korean Investors)	Items	Remarks
<i>Hyundai Mobis</i>	Modules, components	HMC Subsidiary
<i>Hyundai Dymos</i>	Powertrain	HMC Subsidiary
<i>Hyundai Hysco</i>	Raw Materials sourcing	HMC Subsidiary
<i>MS Autotech</i>	Frame	
<i>Doowon</i>	Air conditioning	
<i>Mando</i>	Break System and Alignment	
<i>Hanil Ewha</i>	Interior	
<i>Hwashin</i>	Frame	
<i>THN Brazil</i>	Wire Harness	
<i>THN Paraguay</i>	Wire Harness	



# Observation: FDI

ISSUES	CASES AND TRENDS
Traditional Mode of FDI persists	Mexico is an <u>export platform</u> , so the <i>Maquila</i> model (efficiency seeking) persists even if there is a growing number of market seeking investments. Likewise investments in Brazil are basically <u>market seeking</u> .
	Investment in Central America and the Caribbean is essentially <u>textile</u> backup by geographic proximity and low wage.
Diversified, localized, inserted to local chain	Motivations for investing in Brazil are largely in two folds, <u>market seeking and natural resource seeking</u> , but recent investments in steel sector is motivated by <u>efficiency seeking</u> when steel makers like POSCO produce slab with Brazilian iron ore and export to Asia for further processing.
	Furthermore, further exceptions to the existing FDI pattern of <i>Mexico-efficiency seeking</i> and <i>South America-market seeking</i> are found: <u>market-seeking POSCO MPC in Puebla, Mexico</u> are representatives.
Enclosed	Still enclosed nature in most cases, especially in parts and components sourcing. (Korean – Korean Chain)
New stuff	CSR activities on the rise, but not on CSV stage yet. (KIEP, 2013)
	New items (Elevator ... )

# New Wave of Korean Investment in LAC

- Hanamicon Joint Venture in São Leopoldo, Rio Grande do Sul(RS), Brazil (2009)
  - Largest semiconductor factory in LAC
  - Produces 6 million units/year
- Hyundai Elevator Co. investment in Rio Grande do Sul(RS), Brazil (2014)
  - RS \$30mil invested
  - Production capacity: 3,000-4,000 units/year
  - Employment 150 (2014)



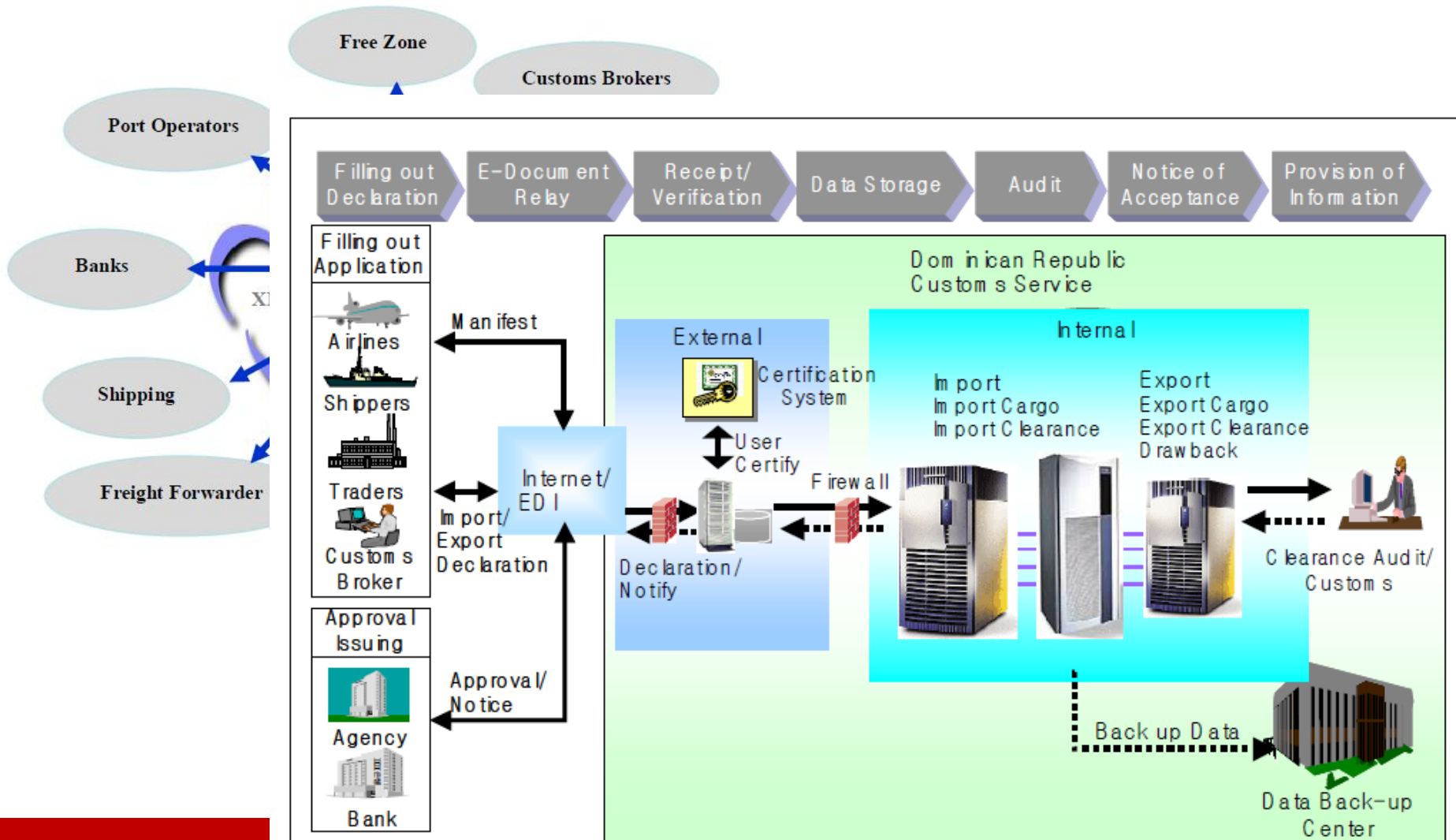
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# Service Sector Integration

- **IT Based Cooperation**
  - Customs computerization project in DR
  - “Single Windows” in Ecuador
  - IT Data / Training Centers
- **Infrastructure Upgrades**
  - BRTs in Ecuador, Mexico
  - Elec. Distribution system in DR
  - Airport Modernization in Colombia
- **Latin Champions in Korea**
  - Juan Valdez

# DGA (Dirección General de Aduanas) Computerization Project (DR-EDCF \$23mil)



# BRT *Bus Rapid Transit* by LEOKON KOREA, LG CNS

Bus de Tránsito Rápido es un proyecto que determina a una amplia variedad de soluciones de transporte masivo urbano basada en buses articulados en vías exclusivas. El objetivo principal es el de brindar un servicio de transporte masivo de alta capacidad con respecto al servicio tradicional de bus urbano.

El BRT debe tener las siguientes características:

***Carriles exclusivos.*** un carril de una calle o avenida arteria se reserve para el uso exclusivo de los buses.

***Calles y vías exclusivas.*** las calles deben ser rediseñados para que todos sus carriles sean del uso exclusivo de los buses.

***Señal de preferencia para buses.*** dar un trato preferencial a los buses en las intersecciones como por ejemplo extender la duración del semáforo en verde para los buses, o activación del semáforo en verde cuando se detecta un bus.

***Buses, un sistema de recaudo automatico y control de flota***



# finally ... *Juan Valdez* in Seoul



- Franchised by CCKC
- 1<sup>st</sup> JV opened at DDP(Dongdaemun Design Plaza) in 2014
- Plan for opening 300-400 coffee shops for next 5 years

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# 4. Conclusion: New Horizon for Cooperation

- **Dynamic and Diversified Nature**
  - Diversified fashion of economic relations mainly prompted by new investments >> Convergence of Trade and Investment
  - Promotion of trans-pacific value chain in Asia and LAC
  - Service Sector Integration - Support to LAC regional cooperation initiatives in infrastructure (transportation, ICT, customs)
  - Beyond Development Cooperation: Promotion of South-South Cooperation and Triangulation (KOICA Initiative 2014)
- **Converging Modalities**
  - Trade
  - Investment
  - Service and Projects
  - Development Cooperation

# Thanks for your attention

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