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# **“Recent Trade and Investment Trends in the Korea-LAC Relationship”: Further Discussion on Experiences**

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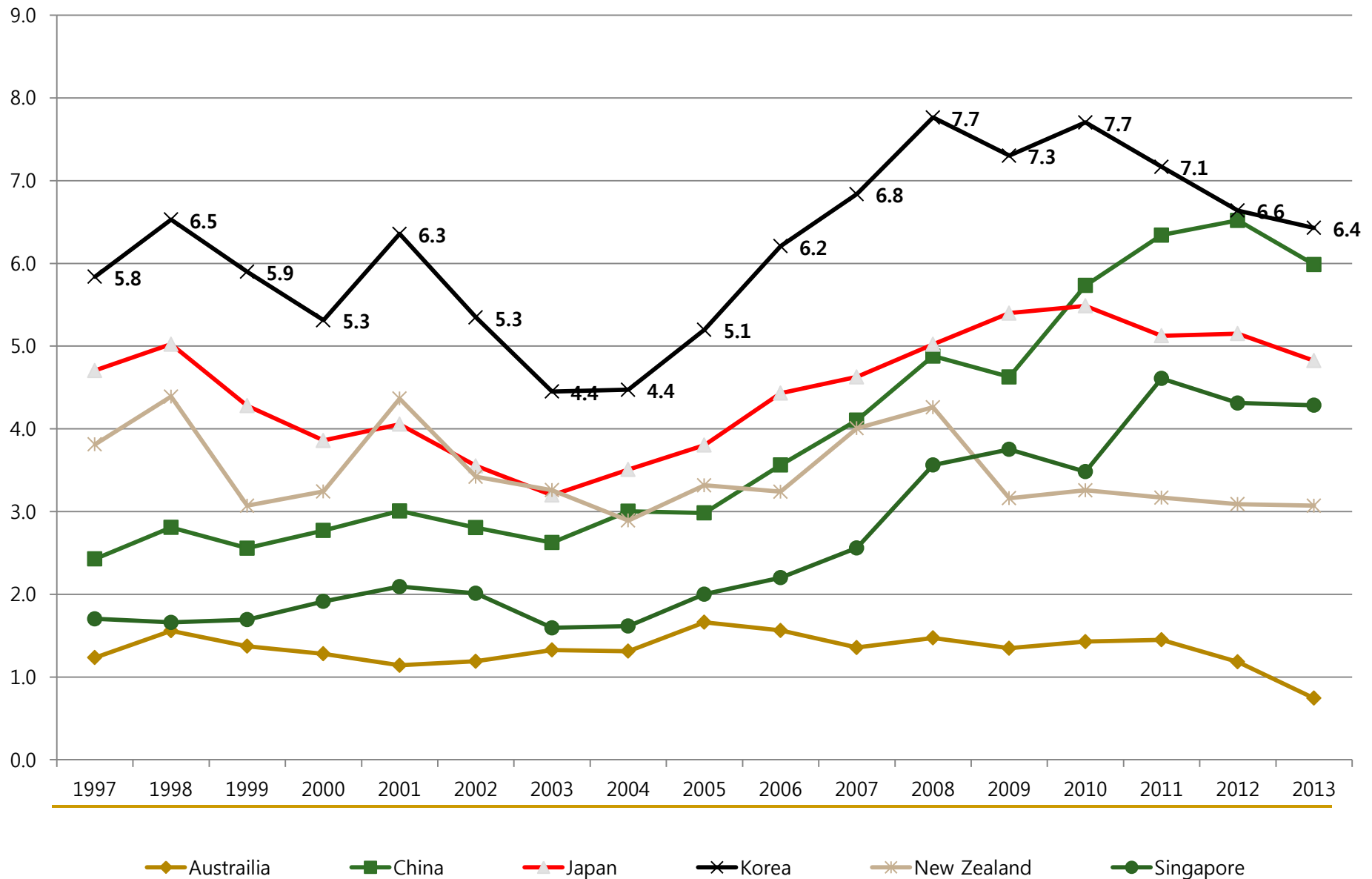
**Presented to the Korean Experience Conference organized by  
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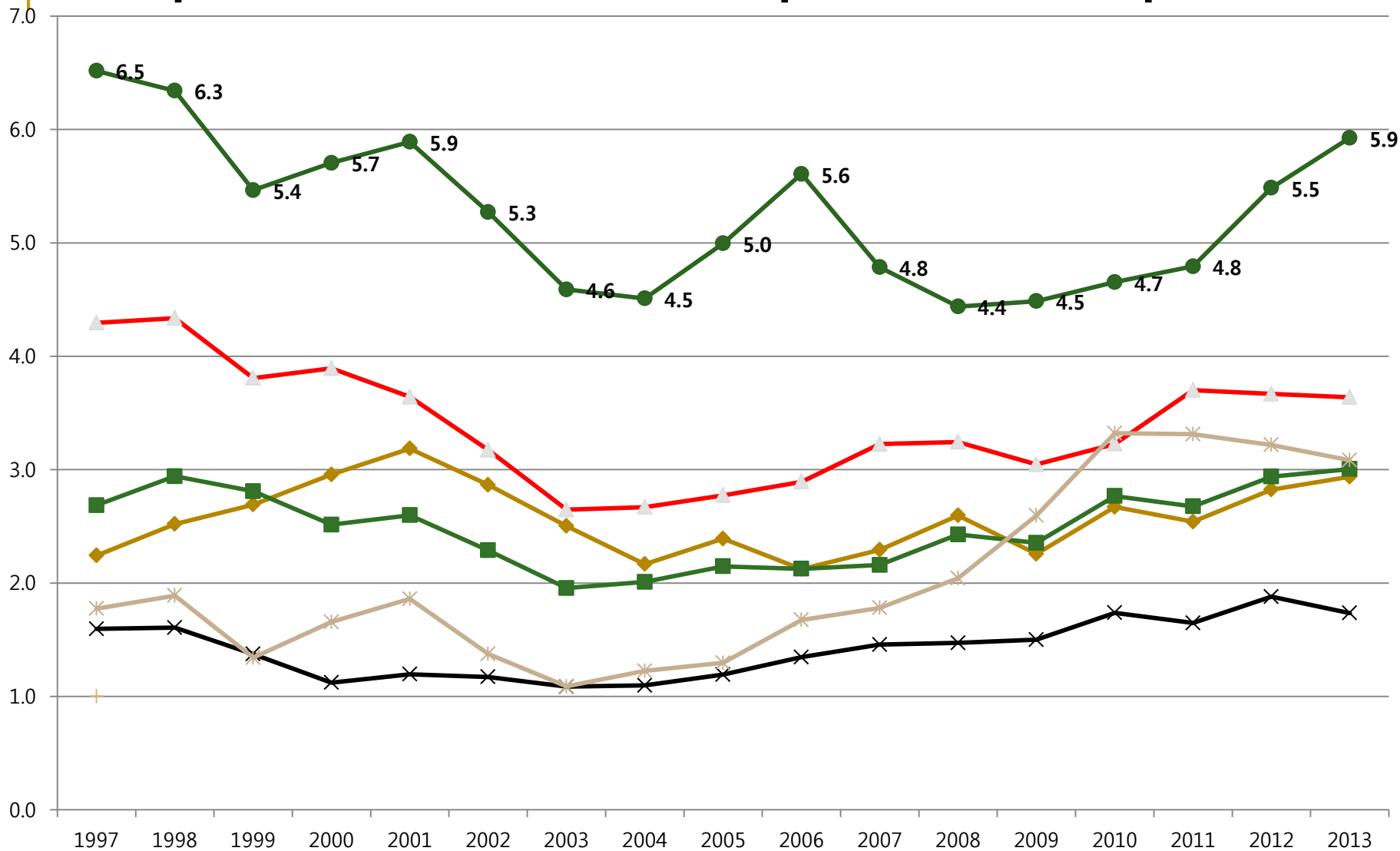
# Questions raised

- Why LAC share of Korea's trade so high?
- Why unbalanced trade between Korea and Latin America?
- Why FTA negotiations between Korea and Mexico, and between Korea and MERCOSUR deadlocked?
- What implications can be drawn from Korean trade policy experiences for LAC?
- What is the current trend and challenge for Korea-LAC economic relations?

# LAC Share of Korea's Total Exports (1997~2013)



# Compare with LAC Share of Spain's Total Exports



◆ France   
 ■ Germany   
 ▲ Italy   
 × Netherland   
 ✱ Portugal   
 ● Spain   
 + United Kingdom

# Paradox of Tyranny of Distance: Why high Korean exports (vis-à-vis imports) concentration on LAC?

- Asymmetrical resources **endowments**?
  - High industrial complementarities\*
  - Why not the Korea's importation as impressive as exportation?
- **Trade cost**?
  - Exports also suffer cost!
- **Boom** in Latin American markets?
- **FTAs**?
  - Only with Chile and Peru yet!
- **FDIs**-driven
- **Degrees of intraregional integration...**

# Endowments and trade cost rather may explain concentration on limited items (2010,%)

HSK 4 UNITS	EXPORTS (2010)		IMPORTS (2010)	
	LAC	WORLD	LAC	WORLD
<b>Top 10 items</b>	<b>71.9</b>	<b>50.7</b>	<b>65.4</b>	<b>42.4</b>
<b>Top 20 items</b>	<b>80.0</b>	<b>60.3</b>	<b>77.5</b>	<b>51.1</b>
Top 30 items	84.7	66.9	84.4	56.9
Top 40 items	87.8	72.0	88.9	61.5
Top 50 items	89.9	75.5	92.1	65.2
Top 60 items	91.5	78.3	94.0	68.3
Top 70 items	92.7	80.6	95.3	71.0
Top 80 items	93.7	82.6	96.2	73.1
Top 90 items	94.5	84.3	96.7	75.0
Top 100 items	95.3	85.8	97.2	76.7

# Policy dynamics may better explain LAC share of Korea's exports

- \*\*Korea's diversification strategy for exports and markets
  - **KOTRA's** role in export promotion only?
  - Korean model is not just state-led, but **state-market** joint scheme
  - **General Trading Companies (GTCs)**
  - The law of inertia in exploring markets
- In turn, LAC (in general) hasn't had a sophisticated export-diversification strategy toward Korea (Asia in general), a **new player**



## Korea Economic Growth in 1970s~1990s

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- An **industrial targeting policy** launched
    - ◆ “Heavy and Chemical Industries Development Plan”
    - ◆ Targeted industries:
      - » Steel, petrochemicals, shipbuilding, industrial machinery, nonferrous metals, and electrical industries.
    - ◆ In 1975, General trading companies (GTCs) introduced to facilitate exports of targeted industries, with their own export targets.
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# Korea's General Trading Companies

- Origin/ Policy challenges
    - Proliferation of small-scale manuf. Exporters
      - Government promotion financing limited
    - Benchmark Japan's *sogo-shosha*
  - Objective
    - Large-scale trader with export marketing capacity
      - Constant contacts with specified buyers by sector
    - **Diversify export products**
    - **Diversify export markets**
-

# Requisites for Korean GTC Designation

	1975	1976	1977	1978	1979	1980	1981	1987-
Minimum annual export	US\$50 mil	US\$100 mil	US\$150 mil	2% of total export	2%	2%	2%	2%
Minimum Capital	W1 bil (approx. US\$2.5 mil)	W1.5 bil	W2 bil					
Export Items	7 /over US\$500 thou)	10 /over US\$1 mil	10	5	5	5		
Overseas branch offices	10	15	20	20	20	20		
Mandatory public offering of stocks	x	x						
Area diversification	10 countries/ over US\$1 mil	15	ME 15% Oceania, LAC Africa 3%each					
Total GTCs	5	11	11	13	12	10	10	*Today 7

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# Korean GTCs (As of today)

- Samsung Corporation
  - Daewoo International Corporation (by POSCO)
  - LG International Corporation
  - Hyundai Corporation
  - SK Networks Co., Ltd.
  - Hyosung Corporation
  - GS Global Corporation (formerly Ssangyong)
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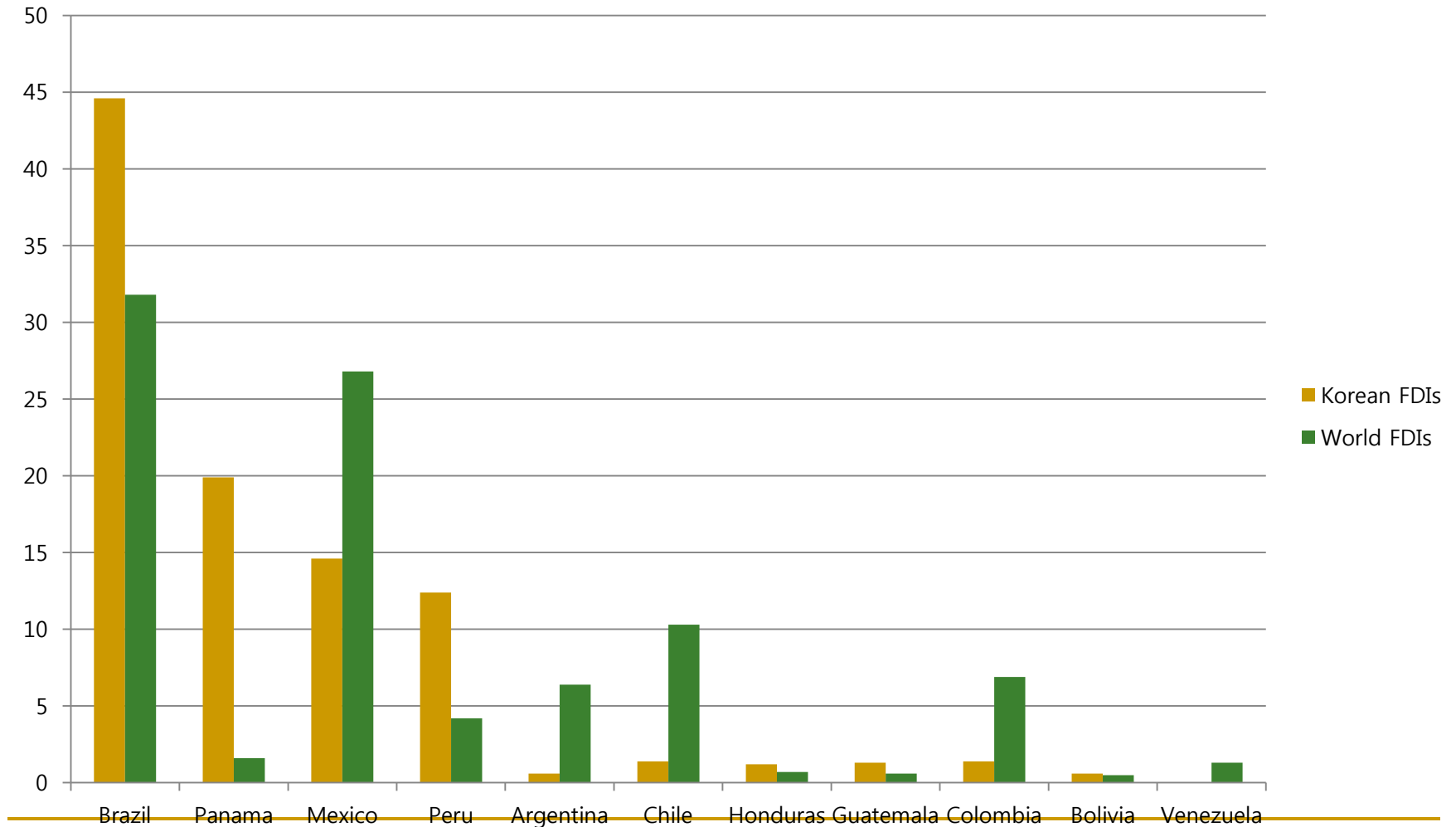
# Lessons from Korean GTCs

- Problems of GTCs
    - Big initial investment and long pay-back period
    - Over-competition among GTCs
    - Deterioration of profitability
  - But impressive performance
    - In terms of trade volume (about half)
    - In terms of exports diversification (HCI goods above K average)
    - In terms of market diversification (leading exploration of new markets)
  - **Implications for LAC**
    - **Develop your own scheme to facilitate export-specialized firms and HRs**
      - **Study GTC system before deciding to introduce**
-

# Unbalanced trade results in FTA negotiation stalemates

	Trade Balance (2010, \$ billion)	
	With Korea	With the World
<b>Mexico</b>	<b>-7.33*</b>	<b>-3.0</b>
<b>Brazil</b>	<b>-3.04</b>	<b>20.3</b>
Panama	-3.48	-4.6
Chile	1.27	16.3
Colombia	-0.96	2.2
Peru	0.09	6.6
Argentina	-0.12	14.7
Ecuador	-0.88	-0.9
Venezuela	-0.52	28.0

# Share of Korean v. World FDIs in LAC (2000~2010)

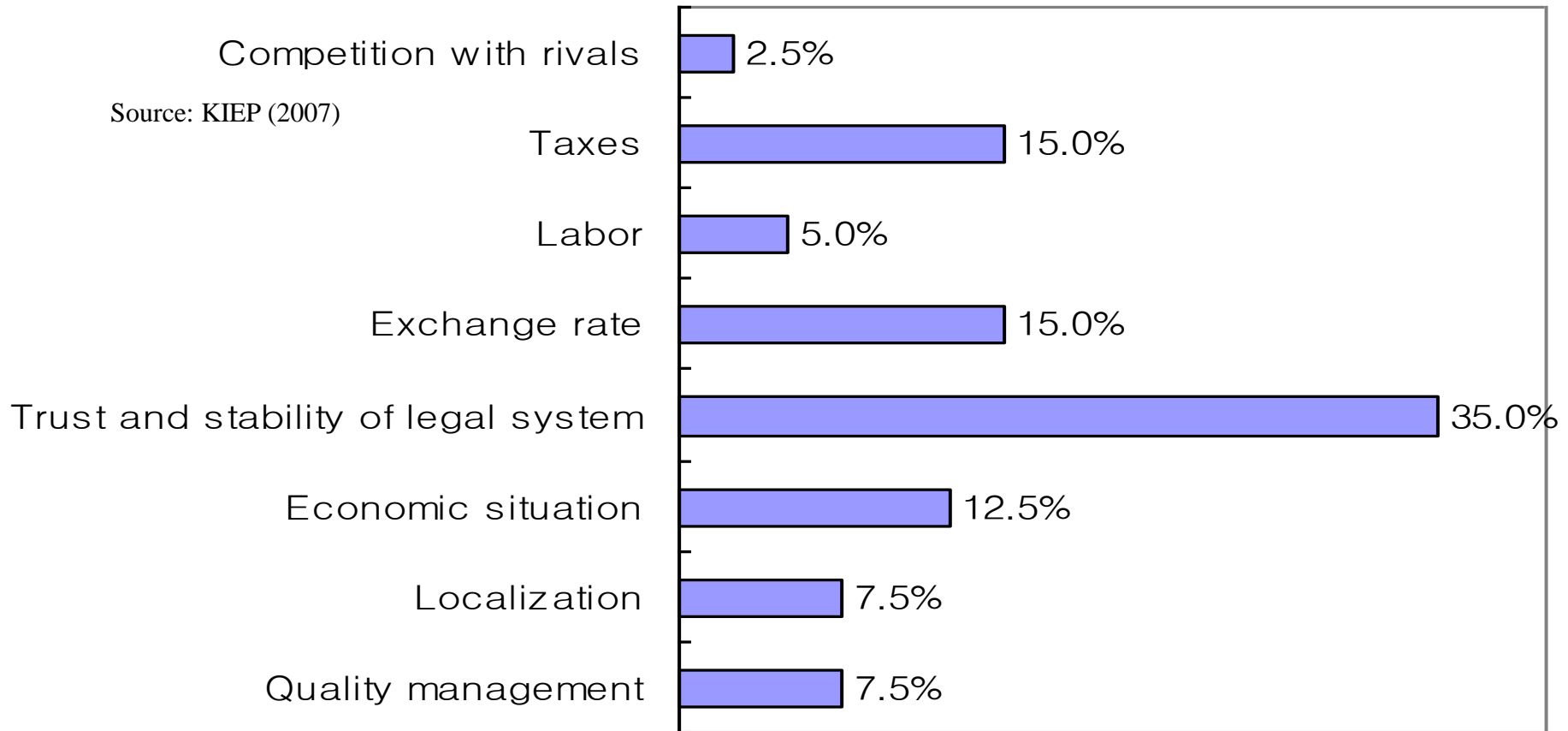


Source: ECLAC, KEXIM

# Difficulties Korean Investors Face in LAC

(Survey by KCCI)

Source: KIEP (2007)

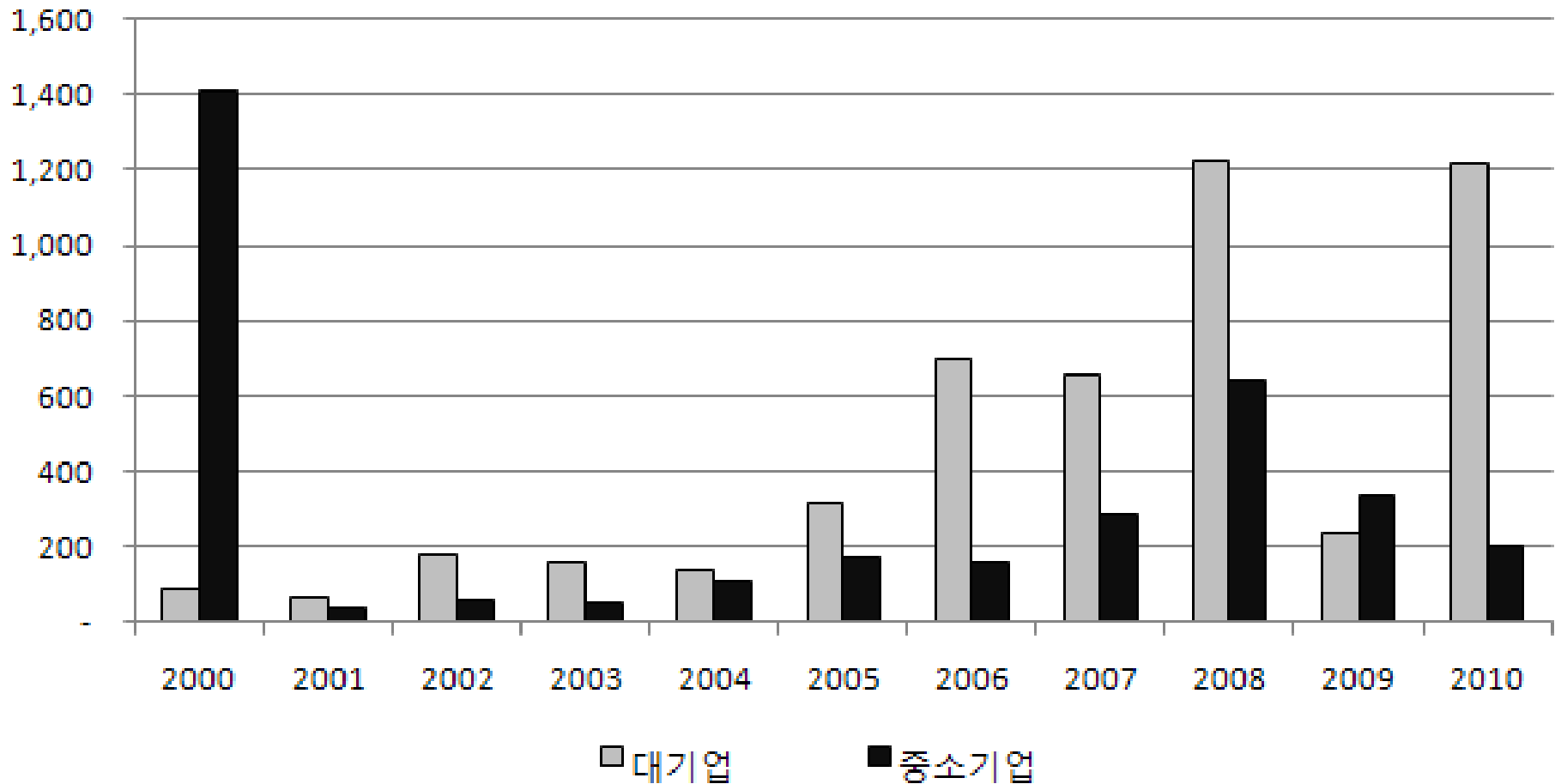


# Recent Trend of Korean FDI's in Latin America

- Combination of motivations (unlike China's)
  - Market-seeking
  - Resource-seeking
  - Efficiency-seeking
- Trend
  - Larger (large companies) investments in volume
    - Capital intensive
    - Labor intensive
  - Potential for industrial cooperation through more integrated **value-chain for production**



# Trend of Large Companies' Investments in LAC



# Prospects

- Korean LAC investments boom continues
  - Larger projects in Mexico and Brazil
  - Diversifying into secondary group of countries (Colombia, Panama, Peru, etc.)
  - New infrastructure, plant & engineering projects
- ODA facilities will be expanded
- Trade boom may enter uncertainty
  - FTAs, FDI, ODA will still lead trade if not market
- FTA stalemates may continue
  - FDI, LAC export promotion, further sophisticated industrial cooperation, perception of Korea as threat(?) or partner(?) may factor

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