

# Recent Trade and Investment Trends in the Korea-LAC Relationship

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**THE KOREAN EXPERIENCE: LESSONS FOR LAC  
DEVELOPMENT**

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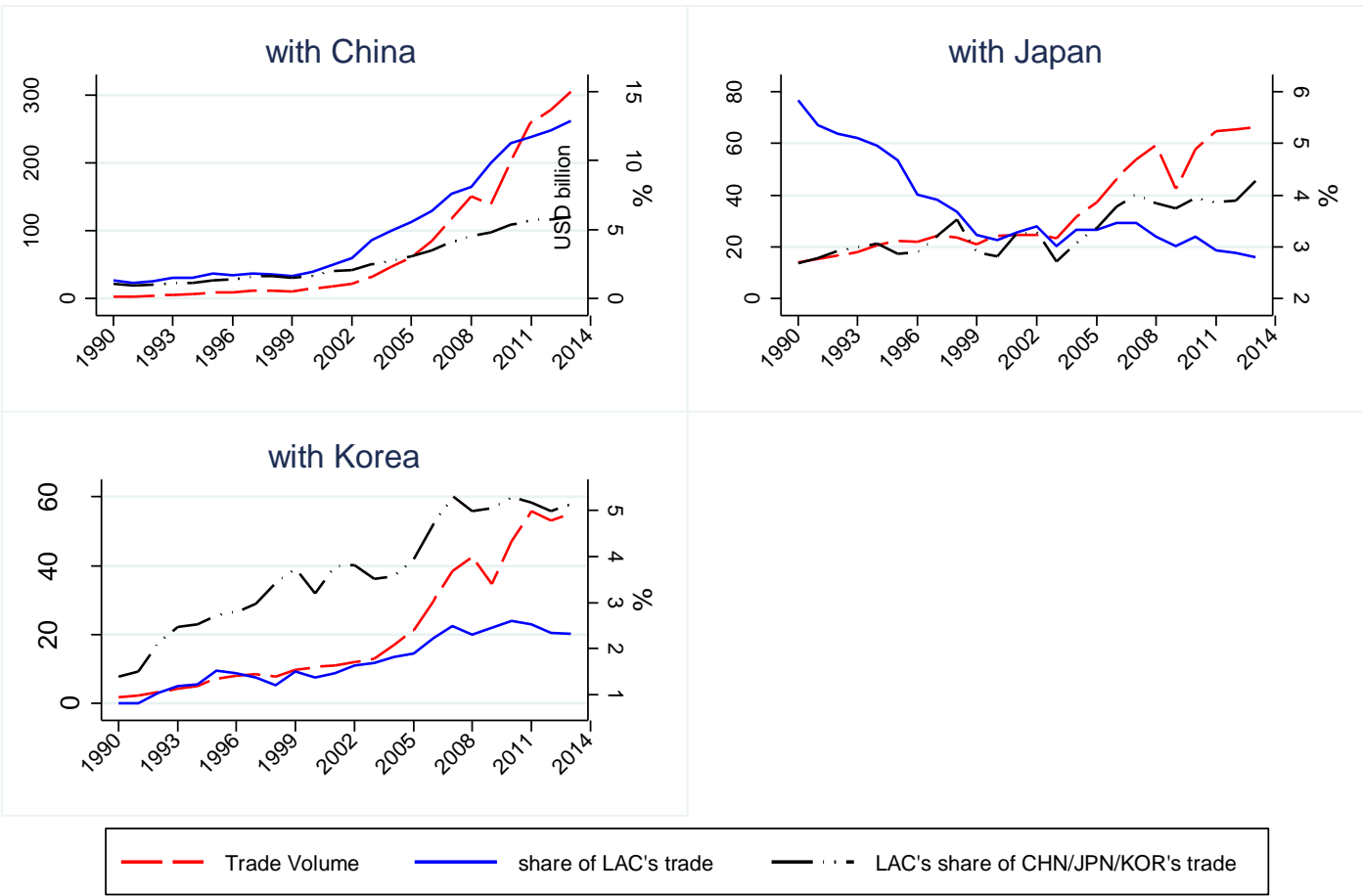
# Outline

- Behind the booming trade: drivers, gains and concerns
- Trade costs: still uncomfortably high
- Investment : the balancing act
- Summing up

# Behind the booming trade

# Korea-LAC trade has grown fast since the early 1990s

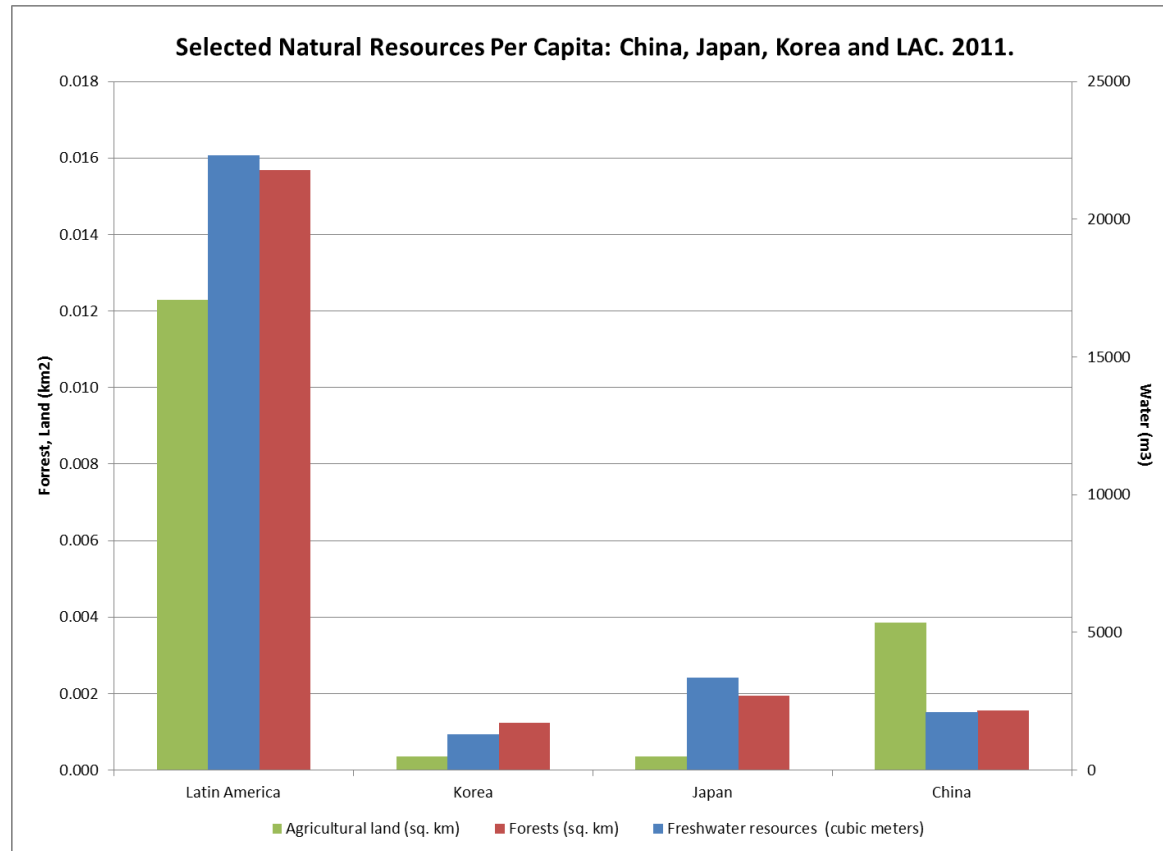
LAC's Bilateral Trade 1990-2013



Source: IMF-DOTS.



...driven by a strong complementarity of endowments and more complementary manufacturing sectors.



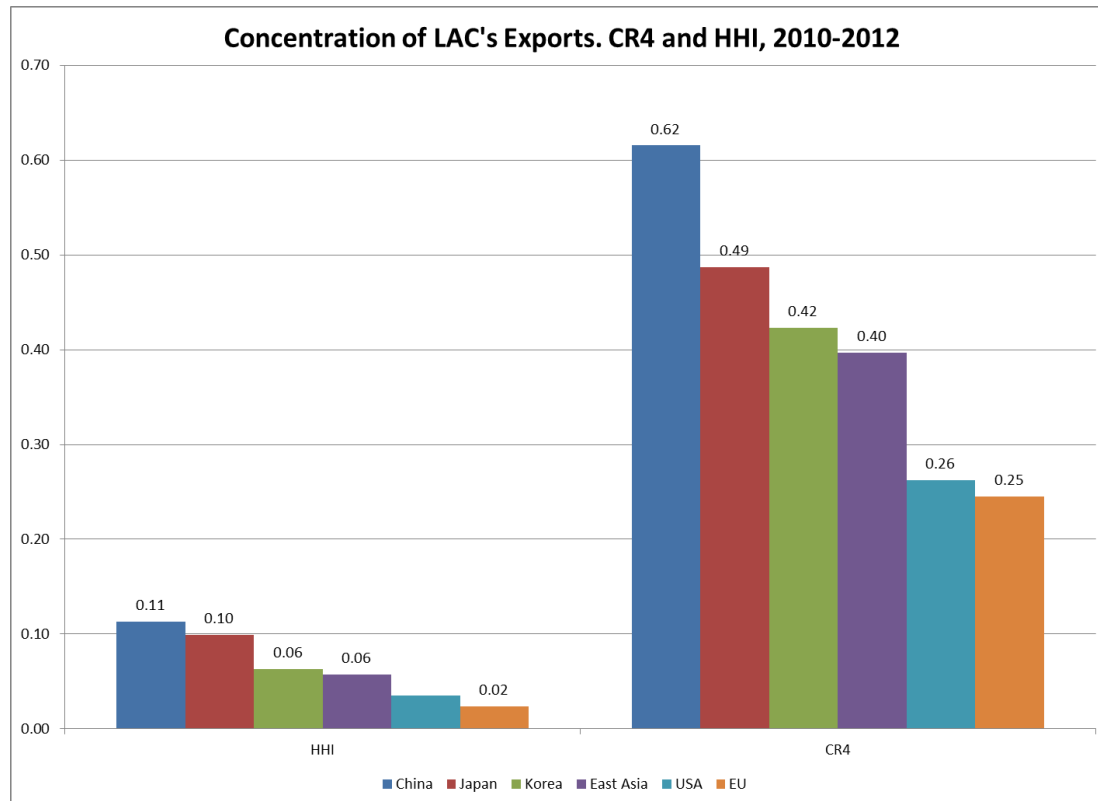
✓ Korea's high per capita income offers opportunities to add value to food and mining products and the greater high tech specialization of its industry suggest more opportunities for intra-industry trade and lower risks of trade frictions.

**But the boom has been concentrated in few LAC countries and products. Concentration, though, is lower than in trade with China.**

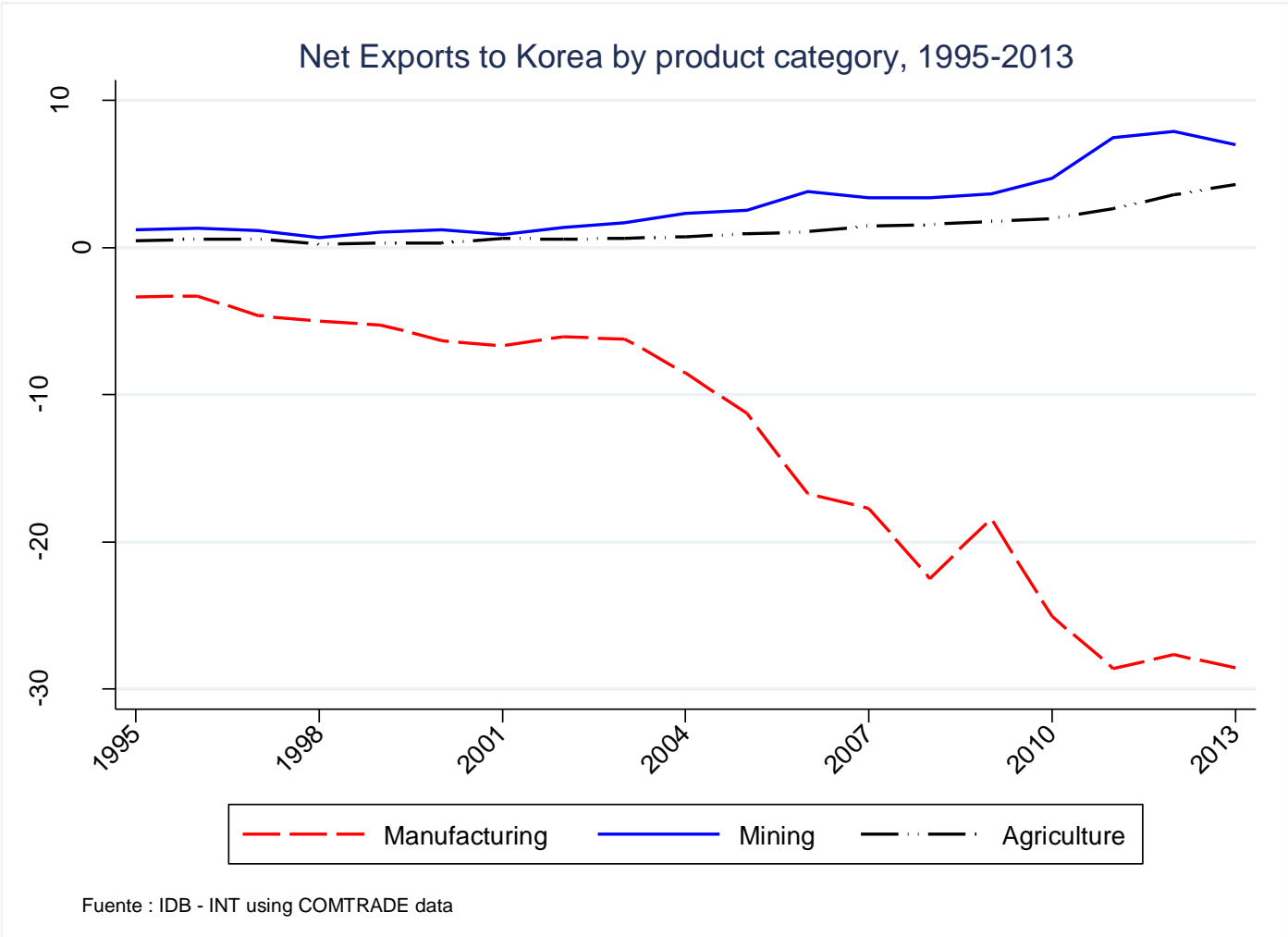
Table 1. Top Five LAC Exporters to Korea, 2007-2013

Country	Share (%)
Chile	32.5
Brazil	29.6
Peru	9.2
Mexico	8.7
Argentina	7.0

Source: DOTS.

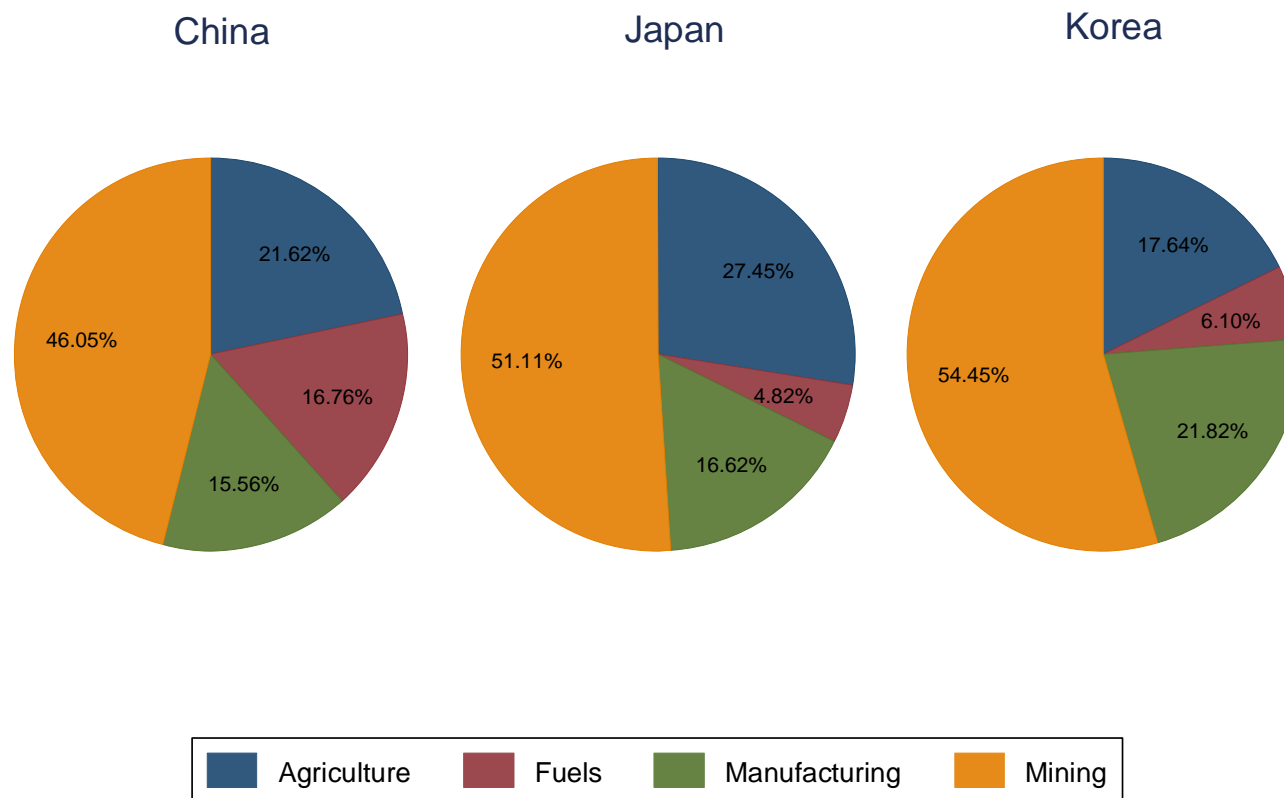


# And the bulk of trade is based on the “commodities-for-machines” model...



## ...but LAC's exports are more diversified and sophisticated than in the trade with China.

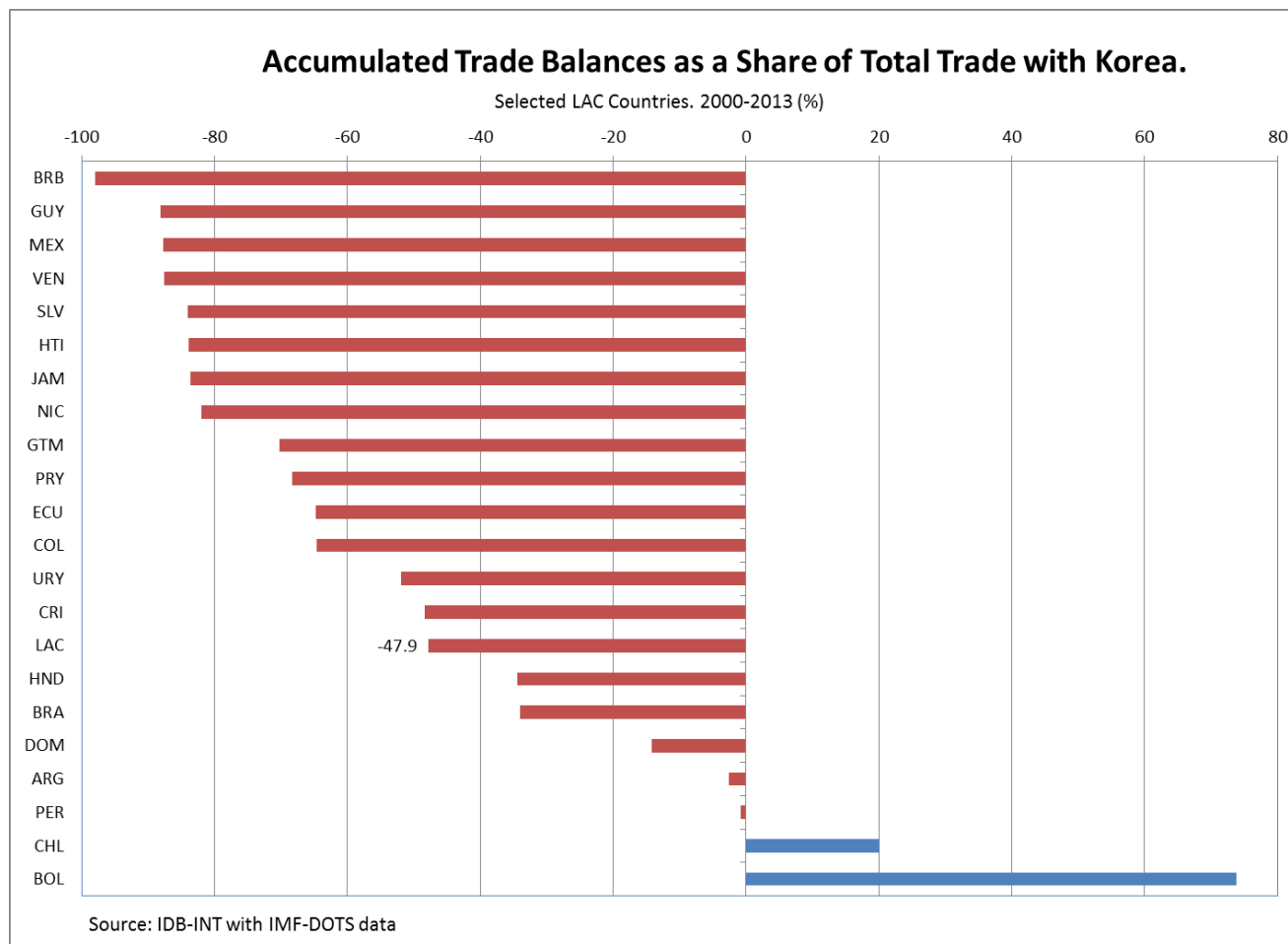
Composition of LAC's exports to Korea and Selected Markets, 2010-2012



Fuente: IDB-INT using COMTRADE data



# The growing trade imbalances can be a source tension



**Trade Costs: still uncomfortably high**

# Tariffs and non-tariff barriers have come down, but they are still a barrier to a more diversified trade.

Average tariff on Exports, Selected LAC Countries

Sector	Argentina	Brazil	Colombia	Mexico	Peru
Overall	13.32	8.15	8.76	7.91	4.63
Agriculture	15.62	9.23	11.67	25.85	8.30
Manufacturing	7.23	7.69	5.09	7.24	9.29
Mining	2.06	2.23	0.03	1.89	2.64

Source: TRAINS and COMTRADE.

Note: Averages are weighted by exports to the world. Trade and tariff data are for 2010.

## Korea-LAC FTAs

### In effect

- Peru (2011)
- Chile (2004)

### Under negotiation

- Mexico

### Under consideration

- Mercosur
- Central-America

Average Tariffs on Korean Imports, Selected LAC Countries

Sector	Argentina	Brazil	Colombia	Mexico	Peru
Overall	10.69	12.90	4.19	3.53	1.51
Agriculture	14.40	14.60	11.76	18.69	1.59
Manufacturing	10.74	12.98	4.24	3.45	1.55
Mining	8.57	9.62	2.69	1.46	0.01

Source: TRAINS and COMTRADE.

Note: Averages are weighted by exports to the world. Trade and tariff data are for 2012 (Argentina, Brazil, Colombia), 2011 (Peru), 2010 (Mexico).

## Korea's tariff quotas on agricultural products, 2011

Products	In-quota rate (%)	Out-of-quota rate (%)
Live animals <sup>1</sup>	0.0	50.6
Dairy; eggs; honey; edible products	26.6	86.2
Products of animal origin	6.5	21.8
Live trees and other plants	8.0	18.0
Edible vegetables	29.1	455.1
Edible fruit and nuts; peel of citrus fruit or melons	46.4	311.0
Coffee, tea, mate and spices	34.3	385.6
Cereals	8.2	397.7
Products of the milling industry	9.6	431.2
Oil seeds; miscellaneous grains, medicinal plants; straw and fodder	17.7	497.1
Lac; gums, resins	20.0	754.3
Animal or vegetable fats and oils	40.0	630.0
Sugars and sugar confectionery	20.0	114.0
Preparations of vegetables, fruit, nuts, etc	40.0	63.9
Miscellaneous edible preparations	20.0	754.3
Beverages, spirits and vinegar <sup>2</sup>	30.0	270.0
Residues from the food industries; animal fodder	4.9	49.0
Oils and resinoids; perfumery, cosmetic or toilet preparations	20.0	754.3
Albuminoidal substances; starches; glues; enzymes	8.0	201.2
Silk	6.8	51.1
Source: Trade Policy Review Korea 2012, WTO.		
1: units are heads or birds, 2: units are litres.		

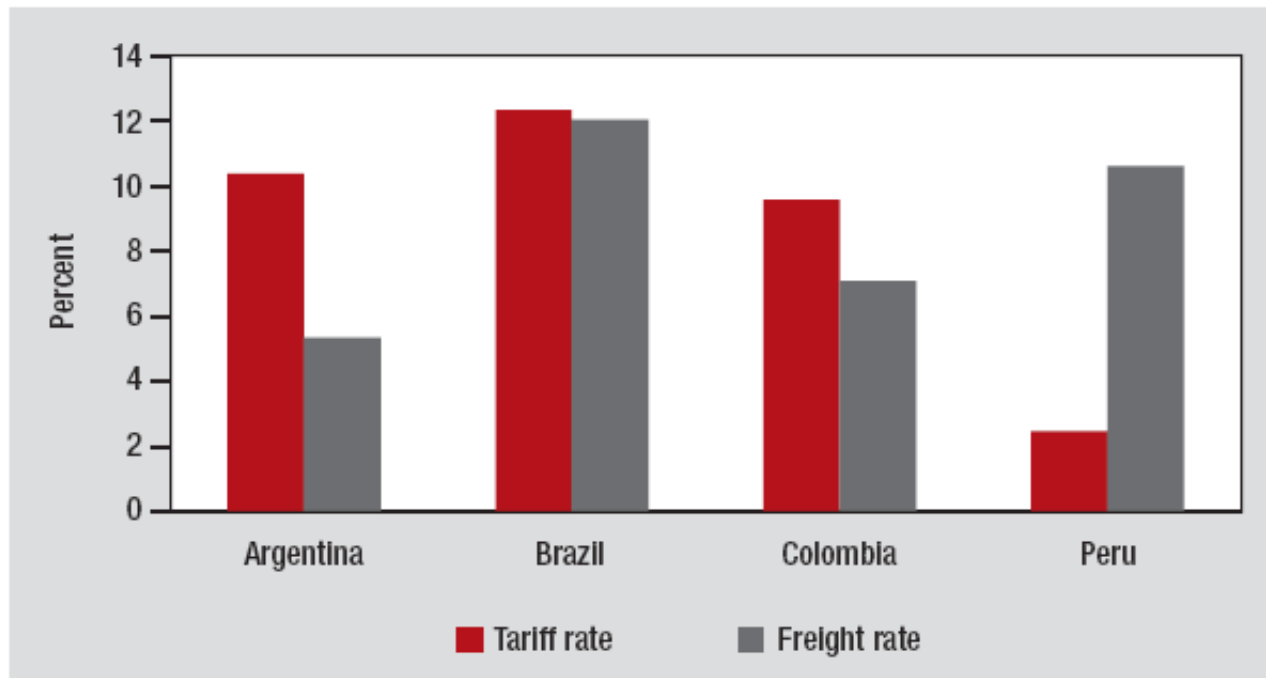
### Year and number of antidumping investigations launched against Korea. Selected LAC countries.

Argentina	1992 (2) ,1993 (1) ,1994 (2) ,1995 (1) , 1998 (1) ,1999 (2) ,2000 (1) ,2001 (3) ,2002 (1) ,2004 (2) ,2010 (2) ,2012 (1)
Brazil	1993 (1) ,2000 (2) ,2001 (1) ,2004 (1) , 2007 (1) ,2010 (3) ,2011 (2) ,2012 (5)
Chile	2000 (3)
Colombia	1995 (1) ,1998 (1) ,2001 (1)
Mexico	1992 (3) ,1993 (4) ,1999 (1) ,2000 (1) , 2012 (1)
Peru	1994 (1) ,1995 (1)

Source: World Bank Global Antidumping Database.



...and are compounded by high transport costs.



Source: INT-BID using COMTRADE and INTrade data. Averages are weighted using Korea's trade data.

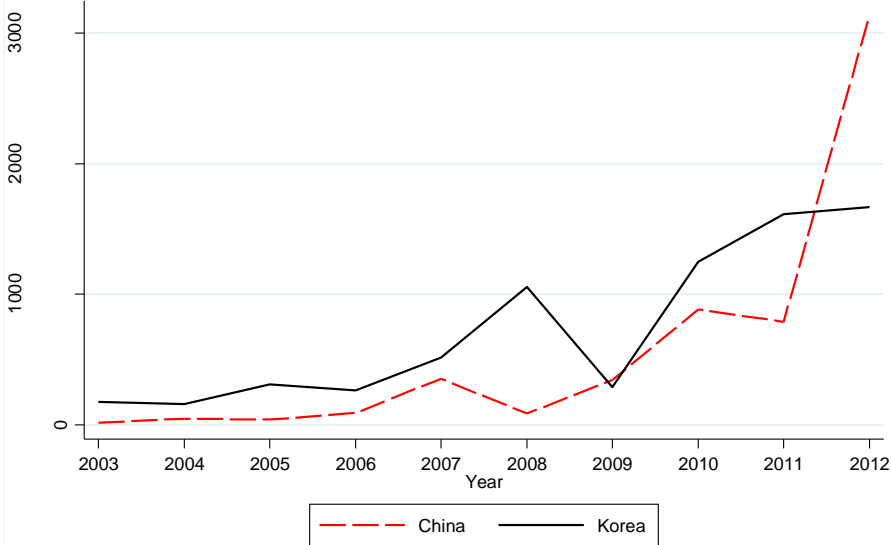
**FIGURE 8/**  
Tariffs and Ad Valorem  
Freight Expenditures  
on LAC's Imports from  
Korea, 2009

<sup>4</sup> Mesquita Moreira, Mauricio; Christian Volpe and Juan Blyde: *Unclogging the Arteries: The Impact of Transport Costs on Latin American Trade*. IDB and Harvard University Press, Washington DC, 2008.

# Investment : strengthening integration

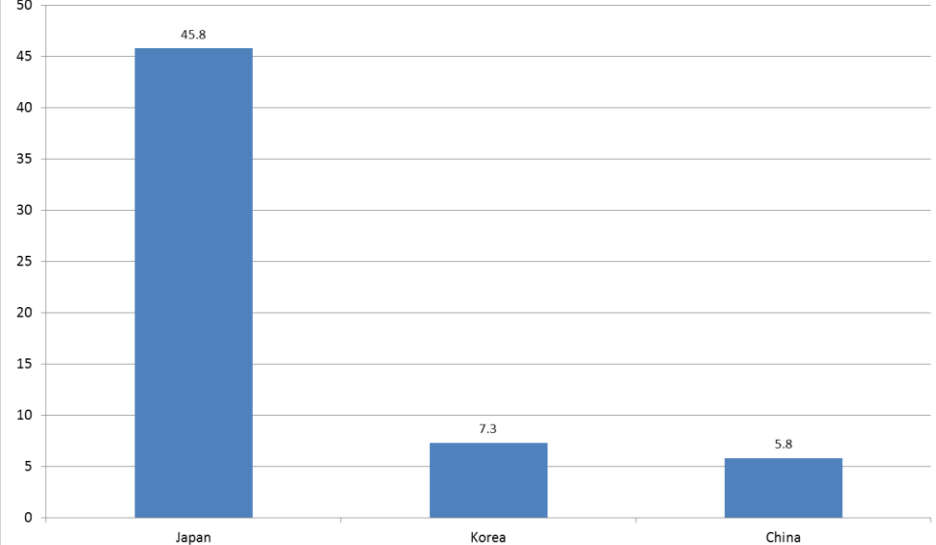
# Bilateral investments have been following trade, but only on the Korean side

Figure 9: Korea and China, FDI in LAC, 2003-2012



Source : Korea Eximbank and MOFCOM

Japan, Korea and China, Foreign Direct Investment in LAC. Cumulative Flows, 2003-2012 (US\$ billion)

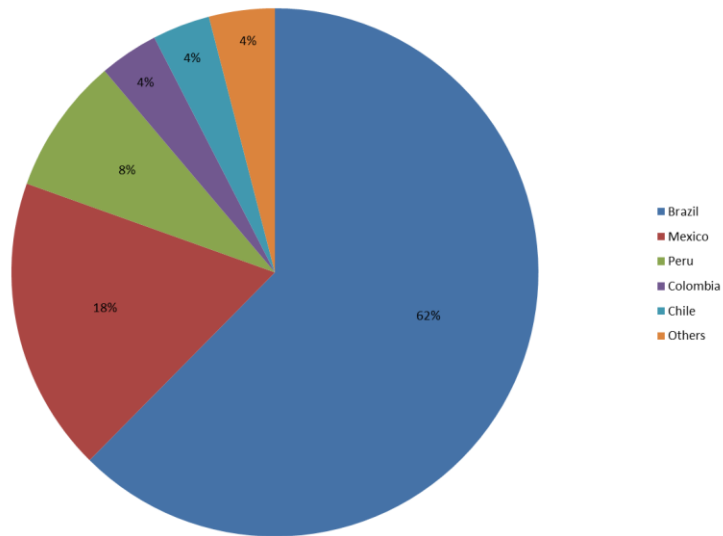


Source: IDB INT with data from Jetro, Korea Eximbank and Ministry of Commerce of China.

# Heavily concentrated in Brazil, Mexico and Peru

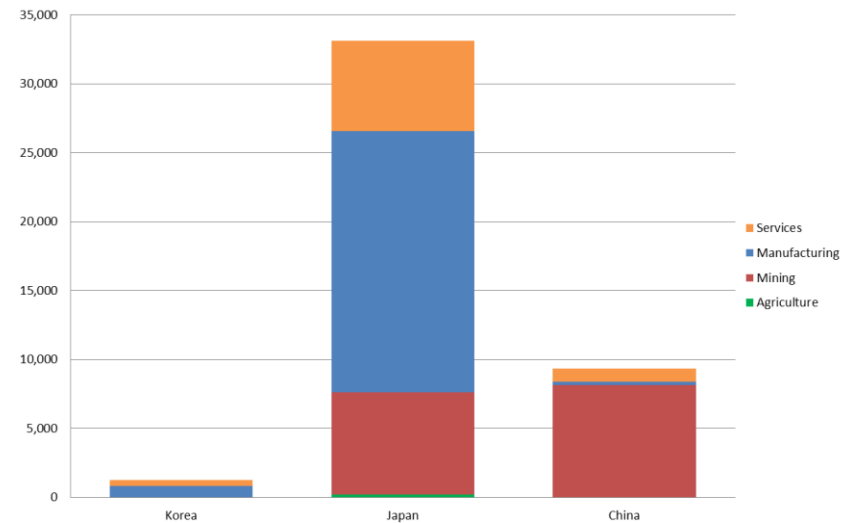
✓ it has a important manufacturing component like Japan and unlike China

Distribution of Korea's investment flows in LAC, 2006-2012 (%)



Source: OECDstat.

Korea, Japan and China's FDI Stock in Brazil.  
US\$ million, 2011.



Source: Brazil Central Bank. Foreign capital census.



## LAC investment is still a trickle

Accumulated OFDI flows to Korea, 2000-2012	
Country	(million USD)
Uruguay	22.8
Mexico	18.9
Chile	10.8
Paraguay	6.2
Brazil	4.9
Venezuela	1.5
Peru	1.2
Total	64.1
% of LAC's outflows	0.02
% of Korea's inflows	0.08
Source: OECDstat and WIR2012.	
Tax heavens are excluded from totals.	

✓ Too limited to have an impact on trade

# Conclusions

✓LAC's booming trade with Korea is a powerful reminder that the regions' **opportunities in Asia are not just limited to China.**

✓as in the case with China, resources complementarity has been, and is bound to be for the foreseeable future, the main driver for bilateral trade and investments. However, **there are also strong fundamentals for this relationship to go beyond the canonical Asia-LAC model of commodities for machines.**

✓However, the consolidation of these promising trends will hinge critically on **the governments' ability to bring down the remaining barriers to trade**, still significant on both sides of the relationship

✓ The figures on **bilateral investment** are another good reason to believe that LAC and Korea can go beyond the canonical model. Korea's investments have been following exports closely and with a level of diversification not seen in other LAC-Asia relationships. It has not been just about natural resources.