
Korea's Trade Relations with Latin America: Focusing on FTAs

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Shift of Korea's "Economic Diplomacy" Paradigm

Periods	Cold War Era	1990~1997	Since 1998
Paradigm/ Diplomatic goal	Ideology competition	Logics of economic interests	Global partnership
Trade partners	Western economies	Economies in transition included	More focus on developing world
Trade strategy	GATT (1967)	GATT/WTO	WTO/FTA

TRADE POLICY ENVIRONMENT

- Korea
 - In the beginning of the 1960s, Korea undertook **export-led development strategy as a resource-poor, small economy to be a trading nation**
 - In the 1970s, Korea switched to upgrading the industrial structure by introducing **heavy** and chemical industries and established **GTCs** to diversify export items and markets
 - **After the financial crisis of 1997-1998**, Korea developed a more aggressive institutional framework: **FTA** initiative
 - Limitations of WTO's multilateralism made Korea join the regionalist trend. FTA became one pillar of Korea's new paradigm for economic diplomacy
 - Korea's regaining of competitiveness after financial crisis accelerated FTA negotiations

Background...

- Korea had adhered to ‘multilateralism’ because
 - ❑ Its trade relations were **diversified**.
 - ❑ By taking the bilateral route, Korea would have run the risk of ultimately **distorting** its trade structure.
 - ❑ At the first WTO Ministerial Conference in 1996, Korea demanded tighter regulations on regionalism against expansion
 - ❑ The Korean **agricultural** sector was desperately resistant to liberalization through GATT-**UR** process

... Context & Strategy

- Mushrooming RTAs all over the world increased **discrimination** and trade diversion against Korea.
- Unprecedented financial crisis, 1997-1998
 - Any measure to secure export markets; creation of **MOFAT**
 - Increased readiness for restructuring and renovating, even trade strategy
 - Need to follow-up the EA regional integration movement
- **Consumer**-oriented trade policy to maximize the **welfare** of the general public
- New thinking about the national strategy to be a regional business hub, locating Korea in a strategic position as logistics, business & financial, R&D hubs
 - China emerging as Korea's No. 1 FDI and exports destination
 - Engagement policy toward **North Korea** (later, as outward processing zone, **OPZ**)

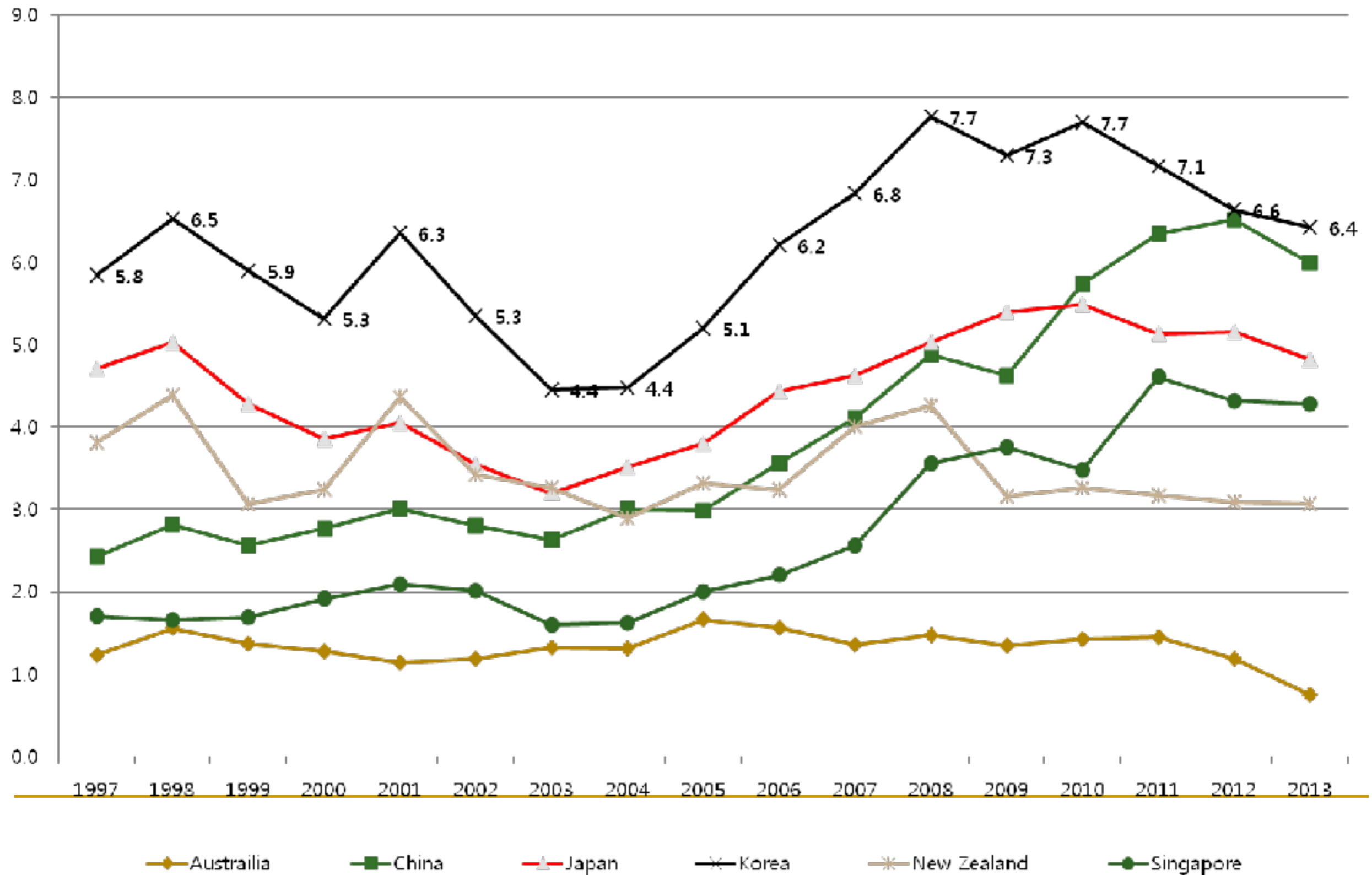
... As result

- Korea has gained the third largest FTA “**territory**” in the world
 - ❑ 15 FTAs with 52 countries
 - ❑ The **only** country with FTAs with all of US, China, and EU
 - ❑ Covering 77% of World economy in terms of GDP
 - ❑ Covering **71.1%** of Korea’s total trade
- Ultimate mandate
 - ❑ **Overcome protectionism** through as more and deeper FTAs as possible
 - ❑ Big **contrast** with pre-1997 stance

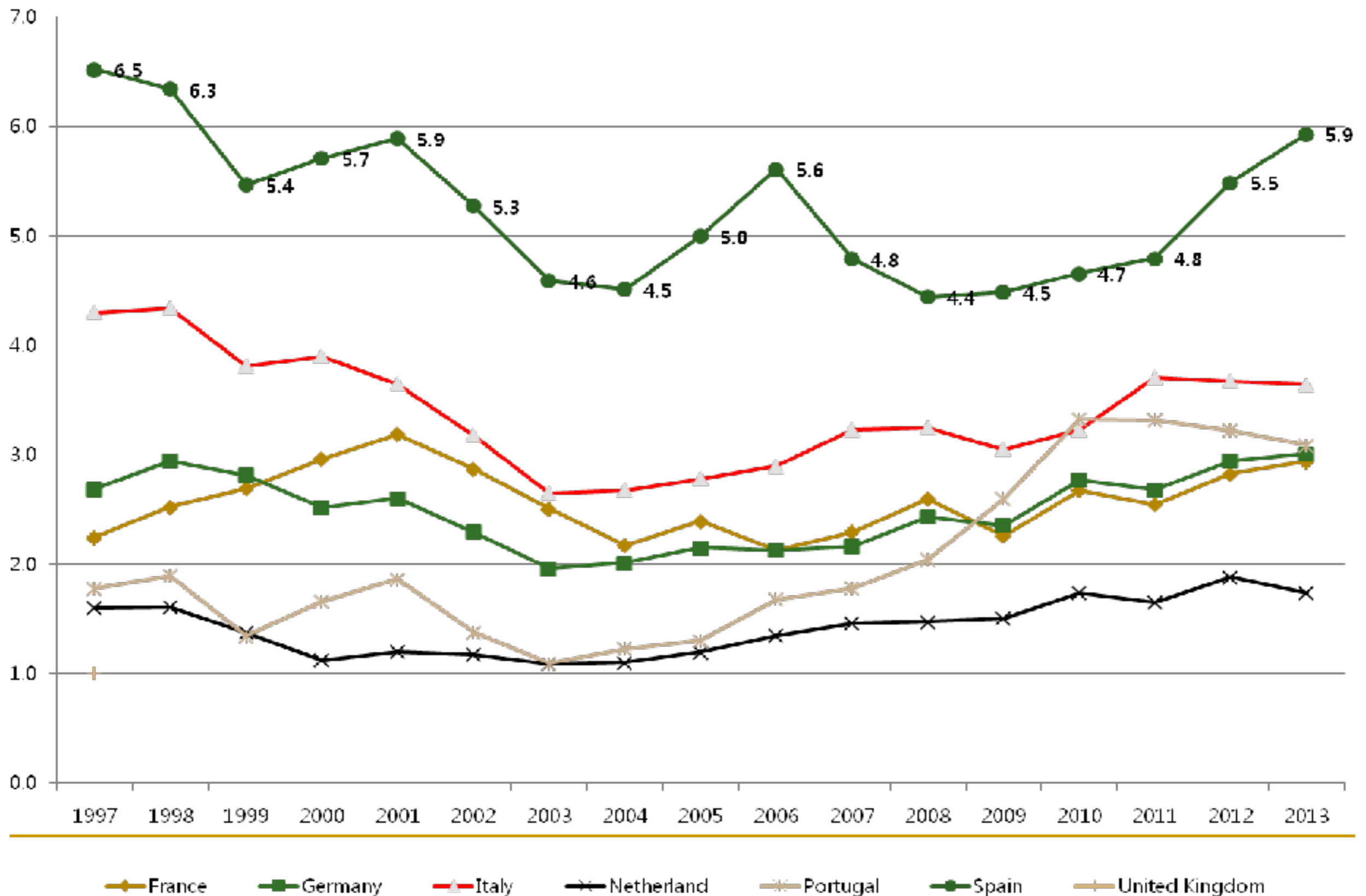
Korea's Economic Interests in LAC

- As export **markets**
 - **Rise** of Latin American economies in 21st century
- As plant & construction **service** markets
 - Improved international reserves, international financing, NT
- As resource supply **sources**
 - Security of energy resources and commodities, & cost reduction
- As food supply **sources**
 - Partly facing domestic resistance in Korea
- As manufacturing **bases/platforms**
 - Korean FDIs in the region

LAC Share of Total Exports (Asia-Pacific)



LAC Share of Total Exports (Europe)



TRADE POLICY ENVIRONMENT

- Latin America
 - Structuralism was dominant largely during the period between the Great Depression and the debt crisis of 1980s: ISI policies and high tariff barriers
 - Membership of GATT came also late
 - Instead, Latin American countries promoted intra-regional integration: LAFTA, the Central American Common Market and Andean Pact in 1960s and 1970s
 - After the 1980s debt crisis, most Latin American countries took trade **liberalization** measures
 - Among others, Mexico and Chile were active in **integration** with Asia (joining APEC in 1993, 1994)

THE FIRST FTA (Chile)

- Dec. 1998, Inter-Ministerial Meeting decided to pursue FTAs, with **Chile** as the **first** partner
- There were several official and unofficial, and economic and political reasons why Chile was to be the first FTA partner of Korea
 - Korean officials took a cautious approach (**trade deficit**; small economy, **marginal** negative impact)
 - FTA-experienced **Chile wanted** an FTA in Asia
- Korea-Chile FTA went into effect in April 1, 2004
- The most drastic outcome was the market share increases of Korean cars in Chile, and Chilean wine in Korea
- Korea-Chile FTA **inspired** other countries, both in Asia and Latin America for **trans-Pacific** trade arrangements

Lessons Learnt from Korea-Chile FTA

- Korea still had to deal with the **domestic front**
 - Basic Plan for Agriculture and Rural Area
 - FTA Implementation Fund
- Under the democratic context, the Korean government rationalized the **legal process** of FTA negotiation
 - Procedure before going ahead to start FTA negotiations (IMM, FTA Advisory Meeting, public hearings, etc.)
- The Korean government earned confidence in trade negotiation and began to draw a bolder plan for future FTAs in the name of “**FTA Roadmap**” in **2003**
 - **Simultaneous, multiple** negotiations
 - Minimize opportunity cost
 - Trade-off positive and negative impacts
 - **Maximize gains** from leverage of simultaneous negotiations (“Korean style”)

Korean FTA Strategy

1998~2014	2015~2017	2017~
Ministry of Foreign Affairs and Trade (Trade Negotiation Unit)	Ministry of Trade, Industry and Energy	New Trade Negotiation Unit under MOTIE
“Simultaneous Multiple Negotiation” (2003)	“New FTA Strategy”	Crisis management?
Deep Integration*	Deep Integration*	Against protectionism
<ul style="list-style-type: none"> • Compesate liberalization with further penetration into overseas markets • Respond to regionalist discrimination 	<ul style="list-style-type: none"> • Mega-FTAs such as RCEP and TPP • Upgrading existing FTAs • New FTAs with emerging economies 	<ul style="list-style-type: none"> • Trump pressure to renegotiate KORUS • China’s commercial retaliation with THAAD

*Singapore issues: investment, gov procurement, trade facilitation, competition policy + IPR

Peru as the 2nd FTA Partner

- Korea-Peru FTA went into effect in August 1, 2011
 - Korea's **7th** FTA after Chile, Singapore, EFTA, ASEAN, India, EU
- Peru wanted to **compete with Chile** for access to Asian markets
- Korea-Peru FTA is considered “the **deepest**” in investment and trade facilitation **among** East Asia-Latin America FTAs (IDB-ADB 2014)
- Korean cars' market share in Peru jumped, and the Peruvian cuttlefish and squid also dominated Korean import market

Colombia as the 3rd FTA Partner

- Korea-Colombia FTA was signed in February 2013
 - Korea became the **first Asian** FTA partner for **Colombia**
- Korea-Colombia FTA met resistance in Colombia
 - Colombian automotive sector particularly has been resistant to the treaty
- Korea-Colombia FTA went into effect as of July 15, 2016, after final approval by the Colombian Constitutional Court
- Colombian coffee and cut flower are expected to dominate Korean import market soon

LAC Partners for FTA

FTAs in effect	<ul style="list-style-type: none"> - Chile - Peru - Colombia 	<ul style="list-style-type: none"> - Apr. 2004 Effective - Aug. 2011 Effective - Jul. 2016 Effective
FTA concluded	Central America 5	Signed on Mar 10 2017
Negotiation underway	Ecuador (SECA)*	5th round Nov 2016
Deadlocked negotiation	Mexico	Since 2008; Working-level meeting Feb 2017
Pre-negotiation	MERCOSUR (TA)**	Joint feasibility study 2007; Negotiation expected later 2017

*Strategic economic cooperation agreement **Trade agreement

Central America 6 as 4th Partner

- Central America

- Central America has been significant for Korean SMEs
- This would be the **first** FTA between **six** Central American countries (5+Panama) as a group and an Asian economy (cf. **China**-Costa Rica bilateral FTA)
- At the last minute, Guatemala reserved their membership for later time

The Ongoing FTA Negotiation

- Ecuador

- Ecuador preferred **SECA** “Strategic Economic Cooperation Agreement”
 - Korea will become the **first Asian** FTA partner for Ecuador
- Korea expects to expand resource cooperation and diversify oil import sources by concluding an SECA with Ecuador
- Ecuador expects a new exports window while **competing** with other **Andean** economies

The Deadlocked FTA: Mexico

- The timing of FTA proposal to each other was mismatched
 - Korea-Mexico **SECA/FTA**
 - Sept. 2005 Summits agree to negotiate “SECA”
 - Feb.-Jun 2006 Concluded 3 rounds of negotiation
 - July 2007 Ministers agree to re-open negotiation
 - Aug 2007 Decision to negotiate “high-level & comprehensive FTA”
 - Dec. 5-7, 2007 Started FTA negotiations
 - June 2008 Second round FTA negotiation in Seoul, then stalemated
- Korea has invested large projects in the steel industry by Posco, and in the automobile industry by Kia Motors, etc.
- The two governments agreed in April 2016 to jointly study to resume the negotiation soon.
- Whether Korea takes an **indirect** path by joining **TPP lost** significance since the Trump administration came in.
- Mexico and Korea become sharing common **interests** to **diversify** trade

The Pre-Negotiation: MERCOSUR

- Korea and MERCOSUR completed a joint feasibility **study** on a trade agreement in November **2007**

 - No further measures since the “**MOU** for the Establishment of a Joint Consultative Group to Promote Trade and Investments between the Republic of Korea and MERCOSUR” in July **2009**

 - With government changes in Argentina and Brazil, MERCOSUR policy direction has changed
 - 1st Exploratory Dialogue in Jun. 2016**
 - 2nd Exploratory Dialogue in Feb. 2017**
 - Completion of Exploratory Dialogue; the Joint Statement for Initiating Negotiations for Korea-Mercosur Trade Agreement in Mar. 2017**
- Currently,**
- 1) Korea is in the internal process for initiating TA negotiations.**
 - 2) Mercosur needs to complete internal process in each member countries**

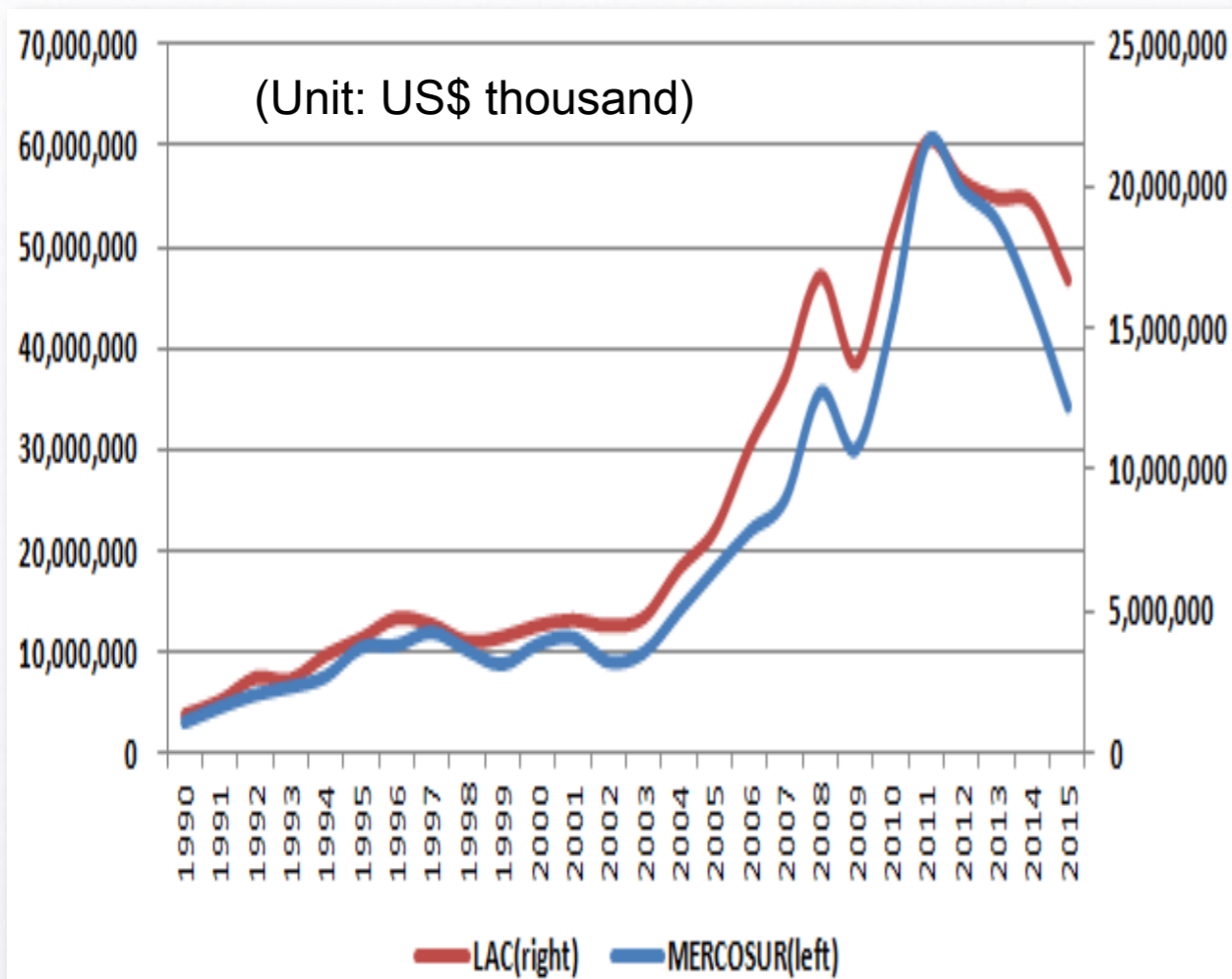
Possible Issues of KOREA-MERCOSUR FTA

- Market Access
 - High tariff areas: agricultural items (Korea), Automobile, textile, shoes, watches (MERCOSUR)
- Concerns of each party
 - Korea: Anti-dumping measures and non-tariff barriers in MERCOSUR
 - MERCOSUR: Agricultural market opening (beef, rice, chicken), non-tariff barriers in Korea
- CGE Model estimation confirms
 - Korea's agricultural sector would be negatively affected
 - MERCOSUR's automobile, and auto parts industry would be damaged seriously.

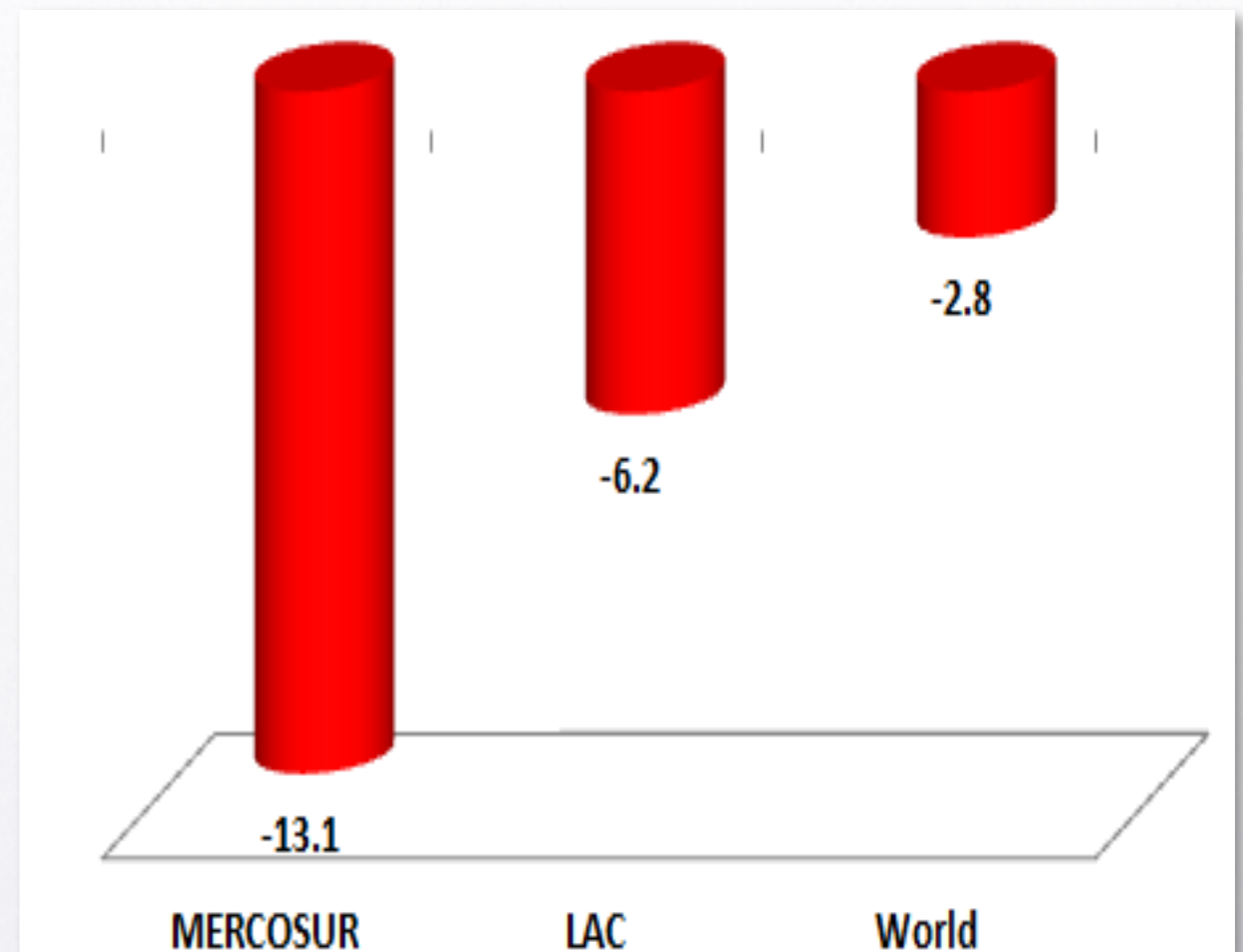
Korea-MERCOSUR trade since 2011 has decreased significantly.

- Korea's trade growth rate(2011-2015, on average): MERCOSUR -13.1%, LAC -6.2%, World -2.8%

Korea's trade with MERCOSUR and LAC



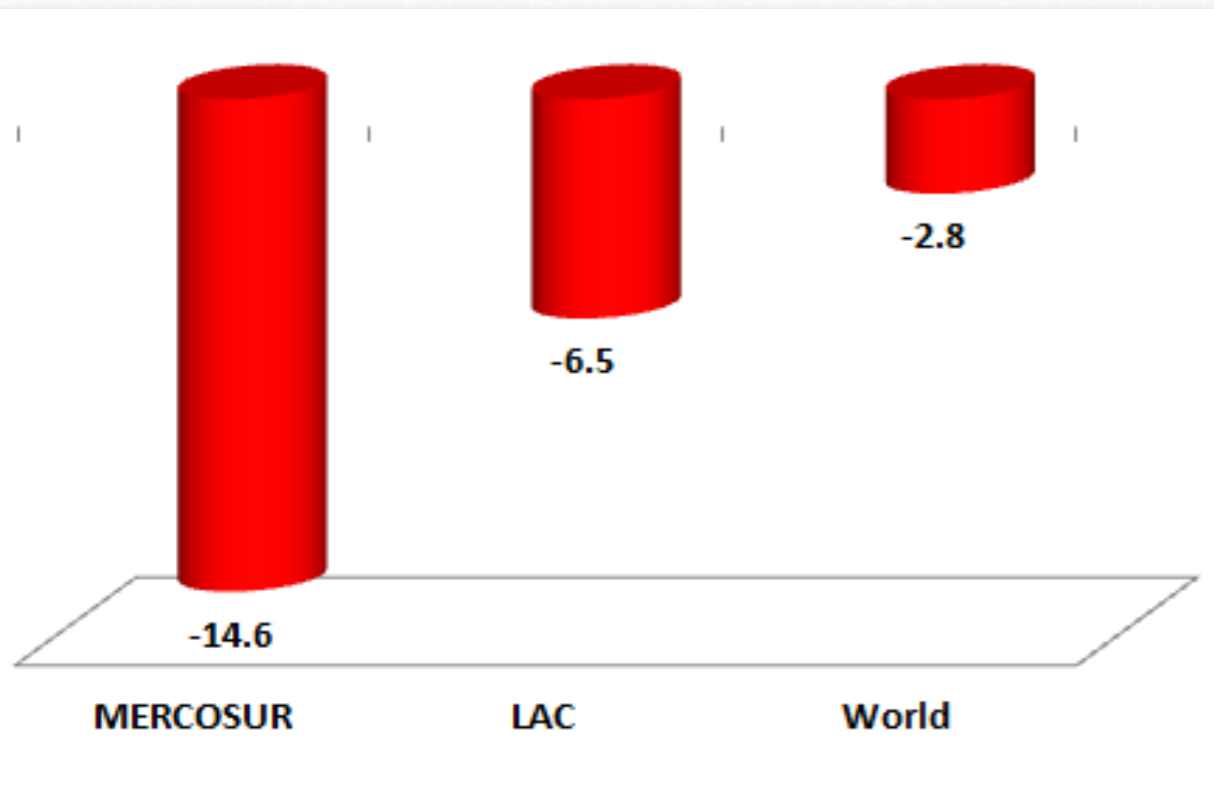
Korea's Trade Growth with MERCOSUR and LAC(2011-2015, %, on average)



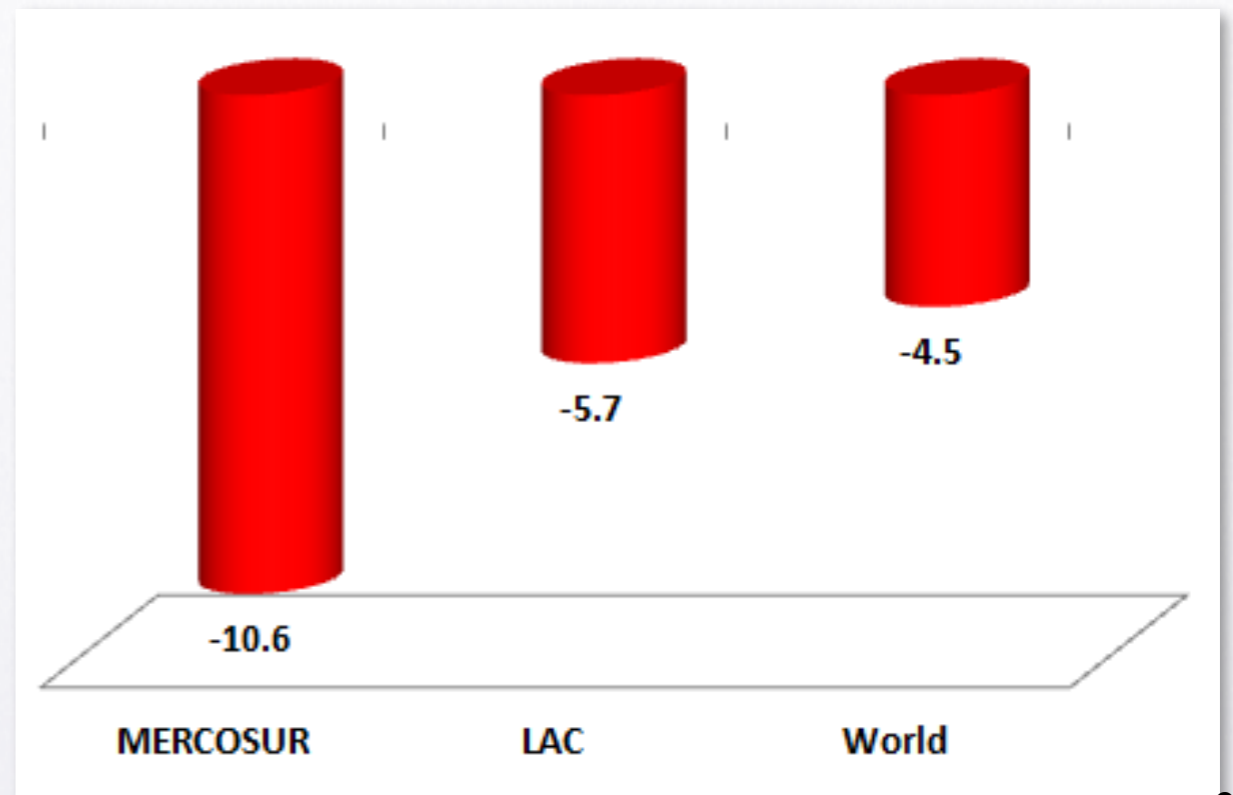
Korea-MERCOSUR trade since 2011 has decreased significantly.

- Korea's export growth rate(2001-2015, on average) : MERCOSUR -14.6%, LAC -6.5%, World -1.3%
- Korea's import growth rate(2001-2015, on average) : MERCOSUR -10.6%, LAC -5.7%, World -4.5%

Korea's export growth with LAC and MERCOSUR(2011-15, %, on average)

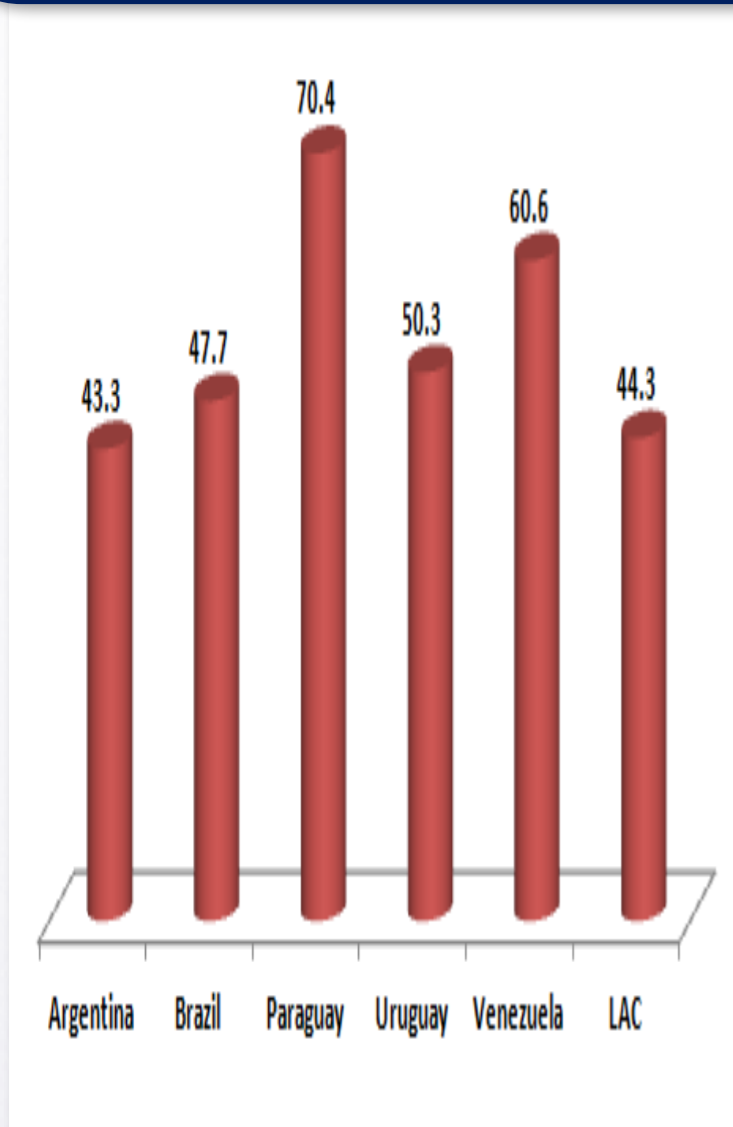


Korea's import growth with LAC and MERCOSUR(2011-15, %, on average)

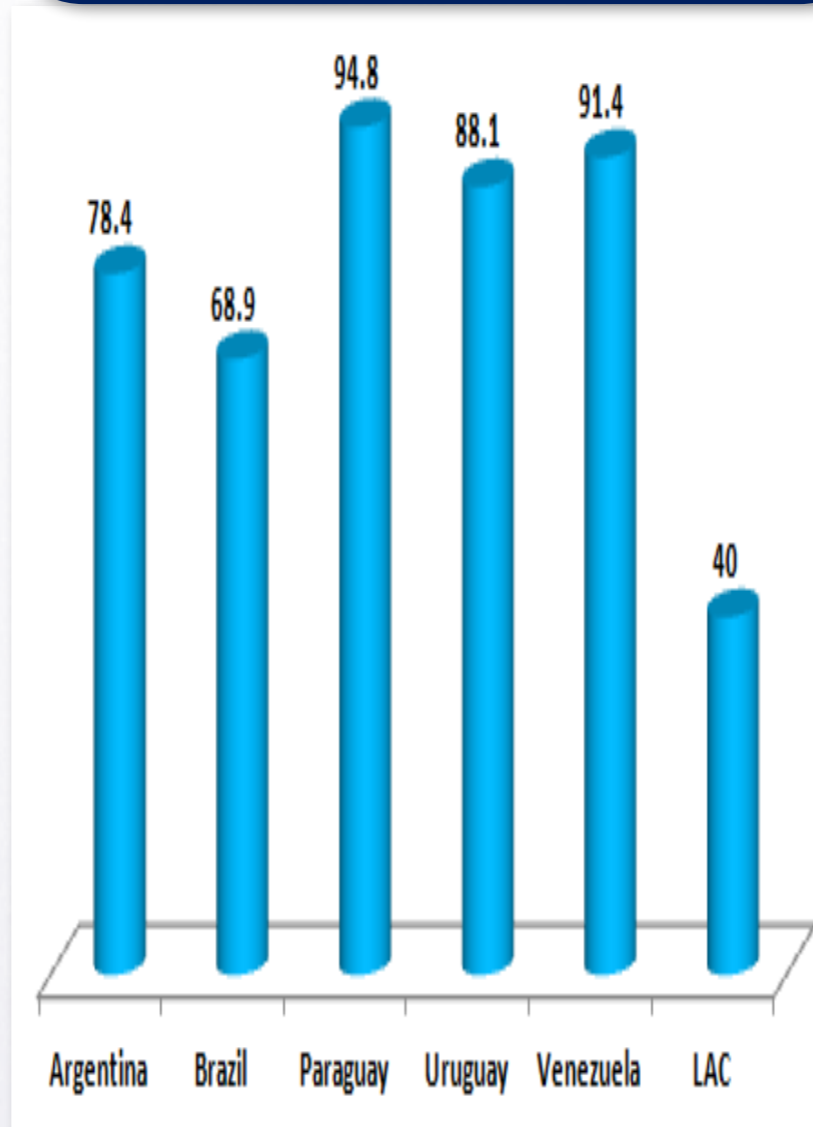


High dependency on small trade products → high sensitivity to economic fluctuations

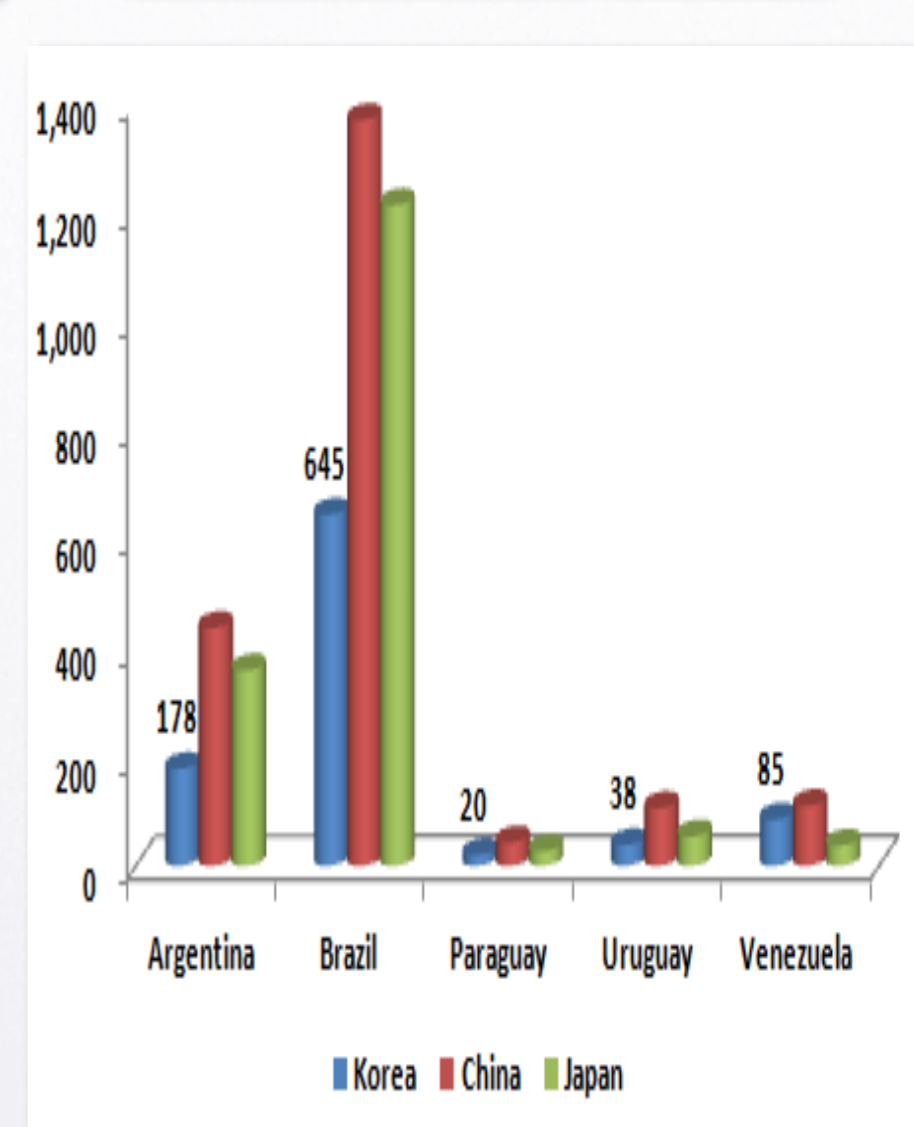
Share of Korea's 5 main products exported to MERCOSUR(2014, %)



Share of Korea's 5 main products imported from MERCOSUR(2014, %)



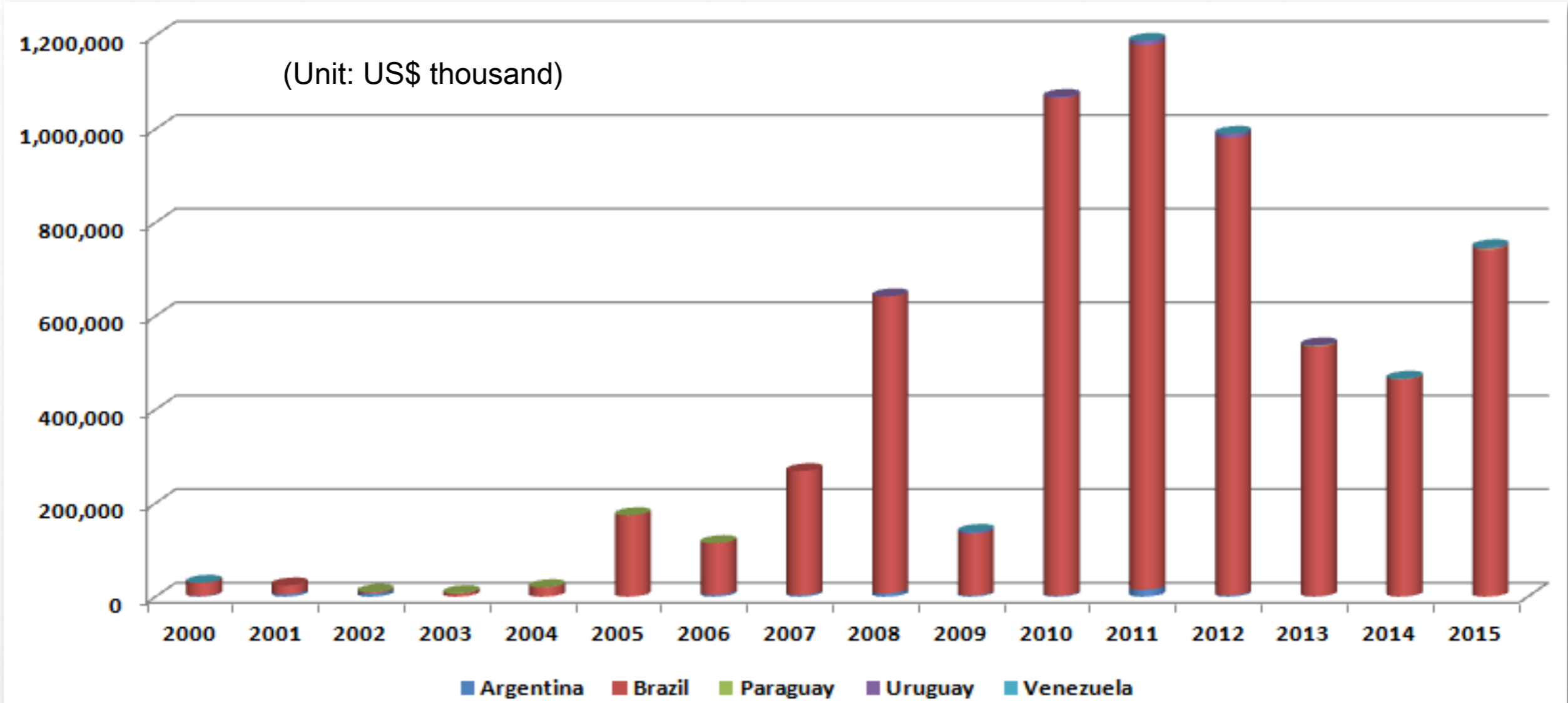
MERCOSUR(2013): number of products exported to Korea



Source: KIEP, ECLAC

Since 2011, Korea's investments in MERCOSUR have declined substantially.

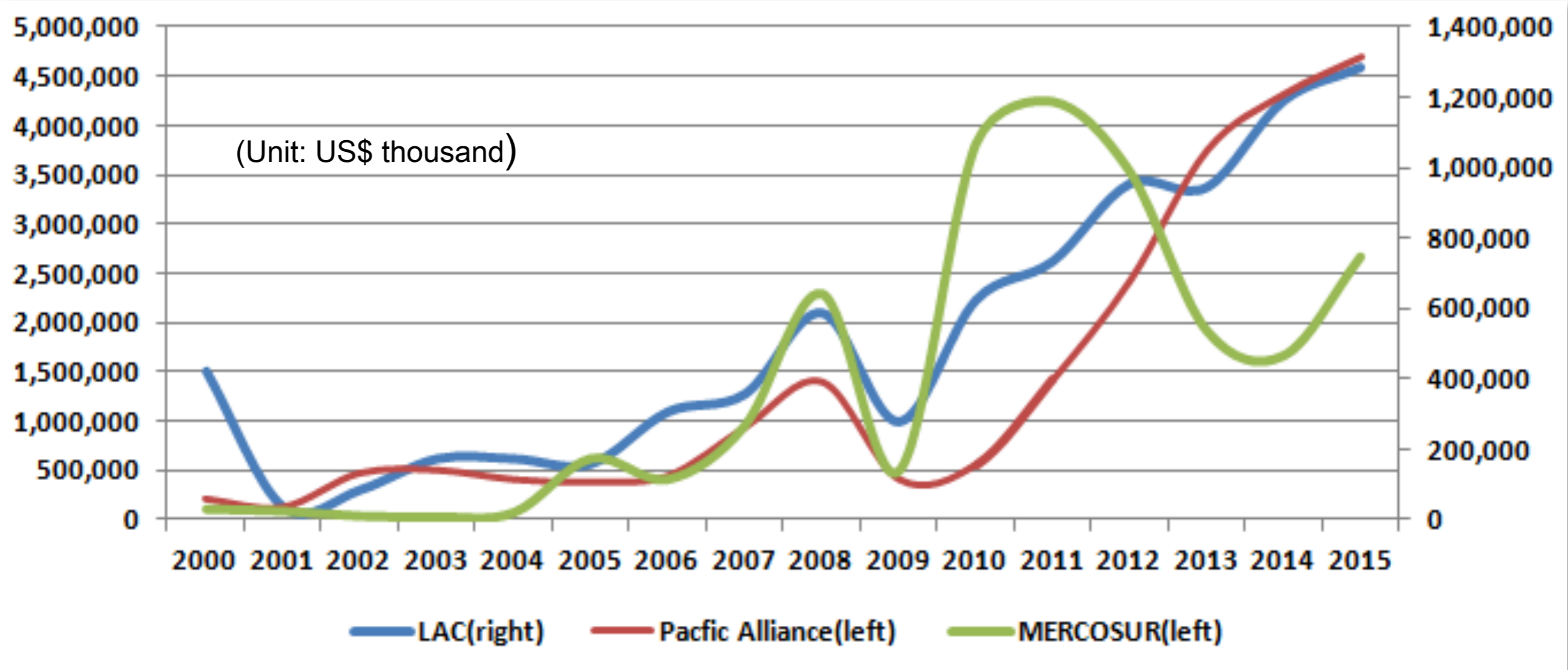
Korea's FDI in MERCOSUR



Source: Korea Eximbank

Since 2012, Korea's investments in Pacific Alliance have surpassed MERCOSUR

Comparison of Korea's OFDI in MERCOSUR and Pacific Alliance



Source: Korea Eximbank

Korea's FDIs in MERCOSUR by country and by sector

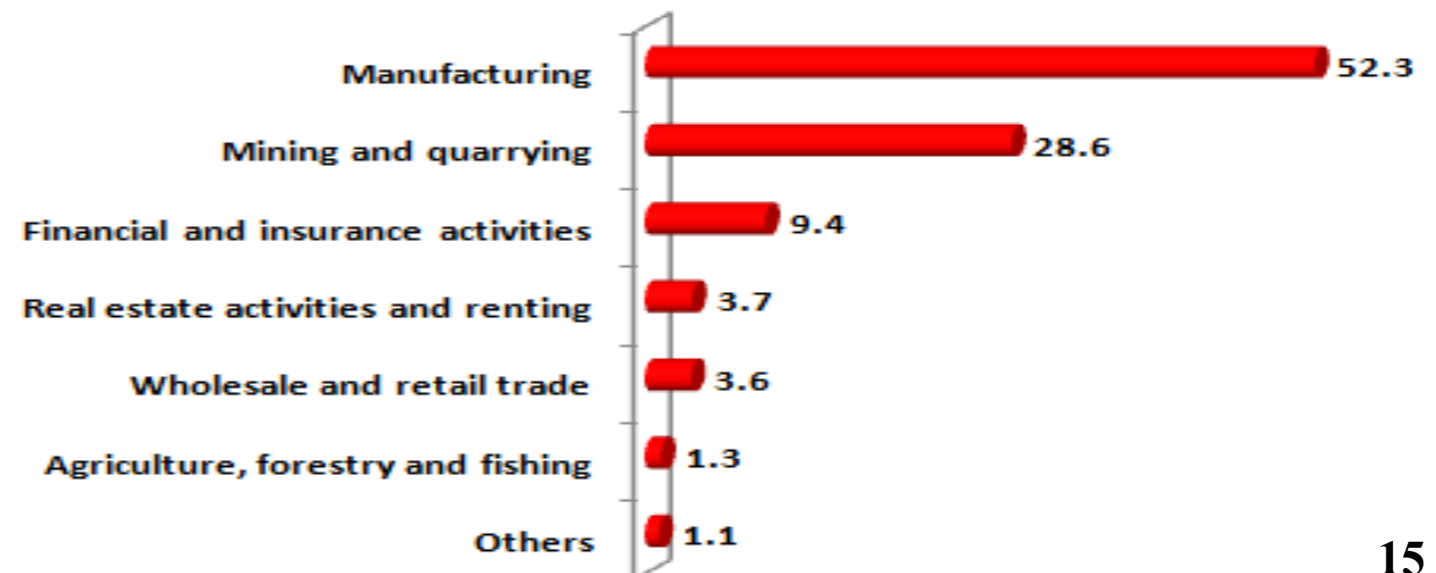
- **By country**, Korea's investments in MERCOSUR are concentrated in Brazil(95.4%), followed by Argentina(2.9%), Venezuela(1.1%), Paraguay(0.5%), Uruguay(0.1%)

- **By sector**, Korea's investments are focusing on Manufacturing(52.3%), Mining (28.6%), Financial and insurance activities (9.4%)

Korea's FDI in MERCOSUR by country (%)



Korea's FDI in MERCOSUR by sector (%)



Expected Economic Effect

Results of joint study and Korean side on economic effects of Korea-Mercosur Trade Agreement

Effect	In detail
GDP	- Korea: 0.17 – 2% - Mercosur: 0.02 – 2.74%
Export for Korea	Home appliances, Mobile phone, IT products, Chemical products, Automobile and auto parts, Machines, and Tires etc.
Export for Mercosur	Corn, Leather goods, Ethyl alcohol, Leaf tobacco, Poultry, Soybean oil, Peanut, Coffee, Beef, Jewelry, and LPG etc.

Expected Effect on Trade and Investment

- ✓ **TA to reinvigorate flow of trade** between partner countries
 - By reduction and elimination of tariff
 - By raising interest in the market and firms, thanks to favorable business conditions (Promotion effect)

- ✓ **TA tends to bring more FDI** between partner countries
 - by accelerating exchange of investment information
 - by guaranteeing investor protection and improving transparency

- ✓ **Korea's investments accompany trade**
 - By importing intermediate goods from Korea
 - By exporting final products to other countries

- ✓ **Korean FDI in Brazil is greenfield investment in manufacturing creating more jobs**
 - FDI with production facilities tends to have more economic benefit to host country than FDI in service

- ✓ **Korean FDI brings high-tech and innovation creating more Value-Added.**
 - Automation of production (Hyundai motors)
 - Development of localized new model (Hyundai motors, HB20)
 - Processing of natural resource of Brazil with technology adding higher values(CJ, lysine)

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