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

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# Shift of Korea's "Economic Diplomacy" Paradigm

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

# 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**)

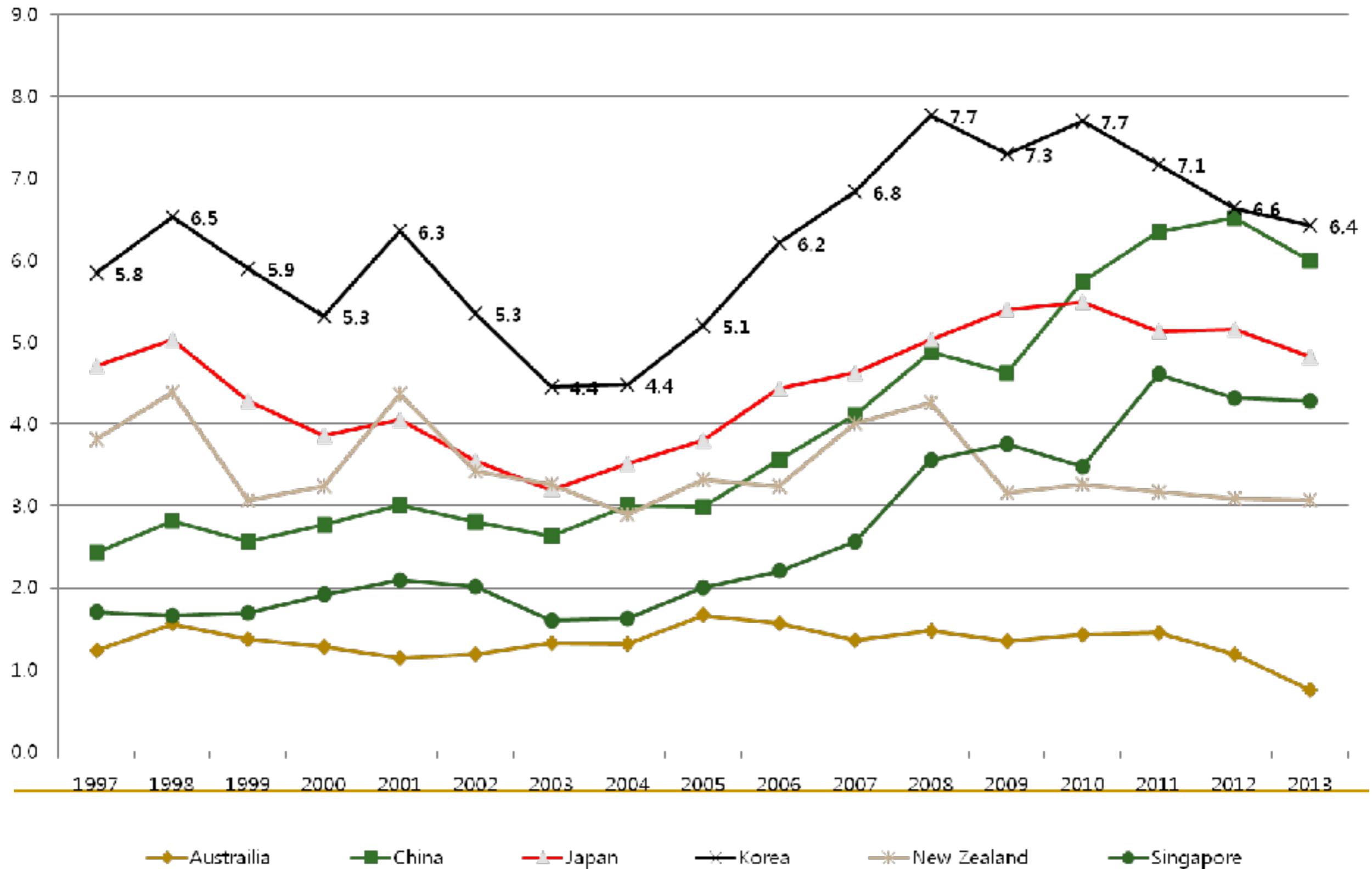
## ... As result

- 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

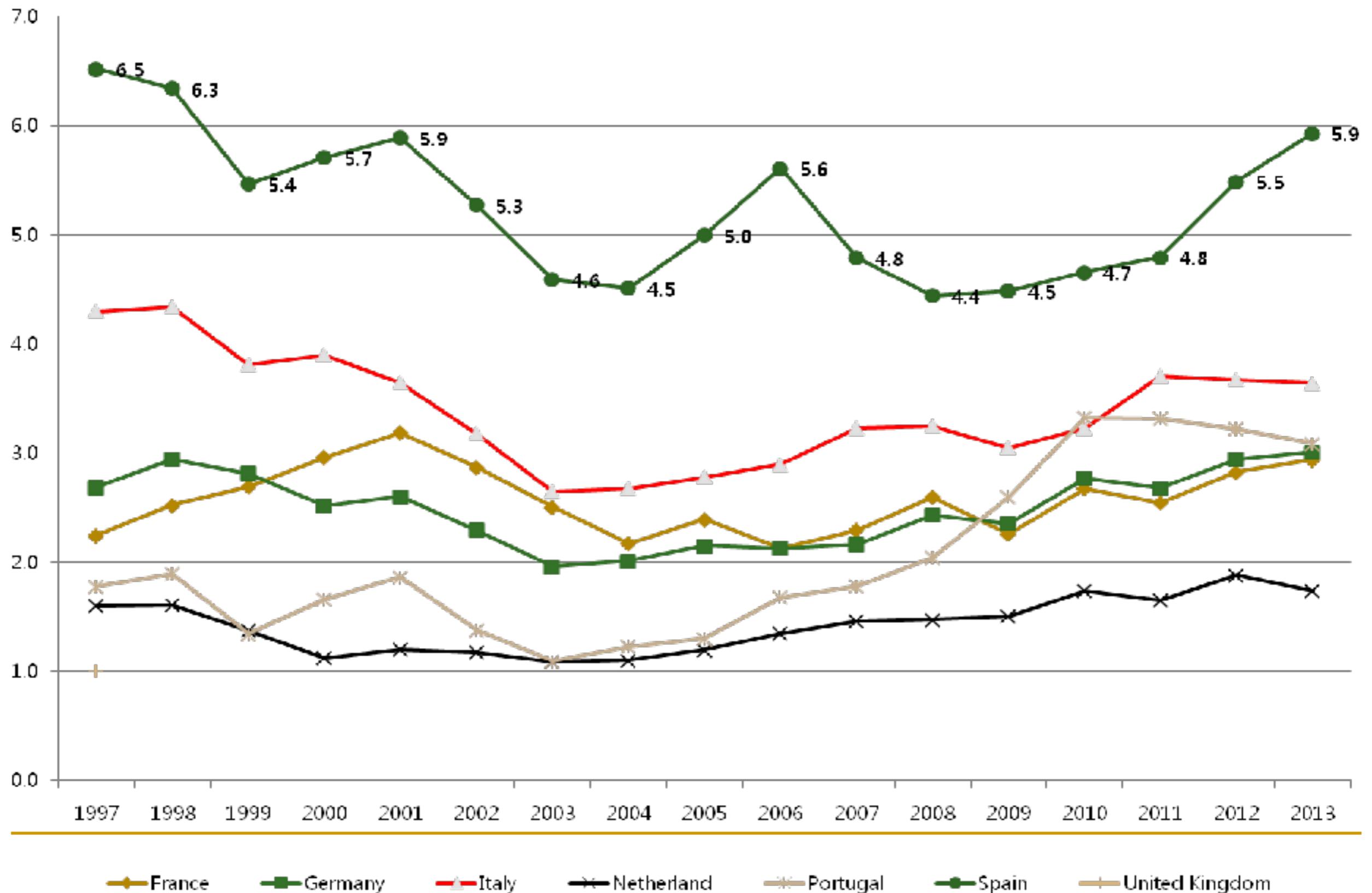
# Korea's Economic Interests in LAC

- 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”	<b>Crisis management?</b>
Deep Integration*	Deep Integration*	<b>Against protectionism</b>
<ul style="list-style-type: none"> <li>• Compensate liberalization with further penetration into overseas markets</li> <li>• Respond to <b>regionalist discrimination</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Mega-FTAs</b> such as RCEP and TPP</li> <li>• Upgrading existing FTAs</li> <li>• <b>New FTAs</b> with emerging economies</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Trump</b> pressure to renegotiate KORUS</li> <li>• <b>China’s</b> commercial retaliation with THAAD</li> </ul>

\*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

<b>FTAs in effect</b>	<ul style="list-style-type: none"> <li>- Chile</li> <li>- Peru</li> <li>- Colombia</li> </ul>	<ul style="list-style-type: none"> <li>- Apr. 2004 Effective</li> <li>- Aug. 2011 Effective</li> <li>- Jul. 2016 Effective</li> </ul>
<b>FTA concluded</b>	Central America 5	Signed on Mar 10 2017
<b>Negotiation underway</b>	Ecuador (SECA)*	5th round Nov 2016
<b>Deadlocked negotiation</b>	Mexico	Since 2008; Working-level meeting Feb 2017
<b>Pre-negotiation</b>	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
    - 1<sup>st</sup> Exploratory Dialogue in Jun. 2016**
    - 2<sup>nd</sup> 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**

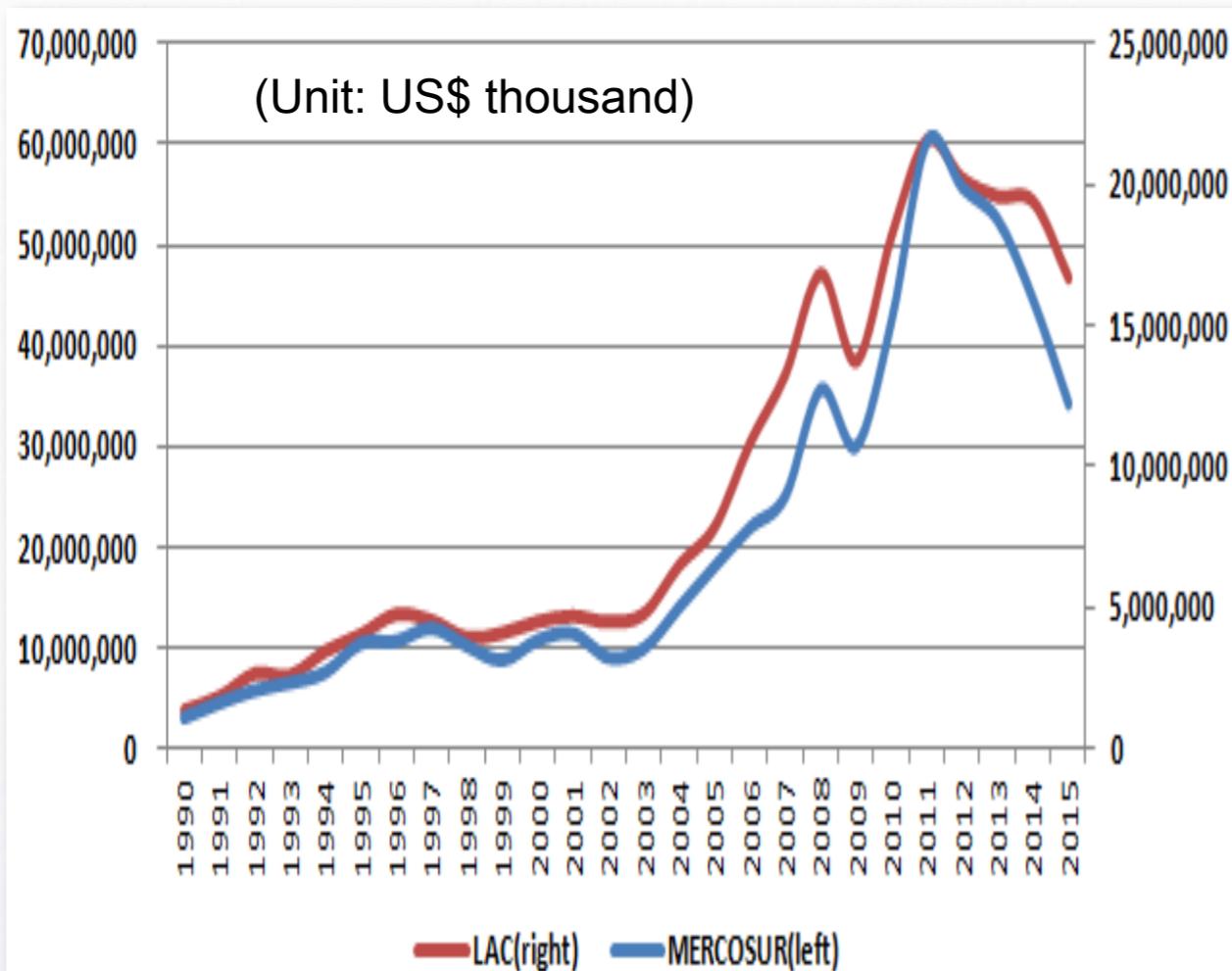
# Possible Issues of KOREA-MERCOSUR FTA

- 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.

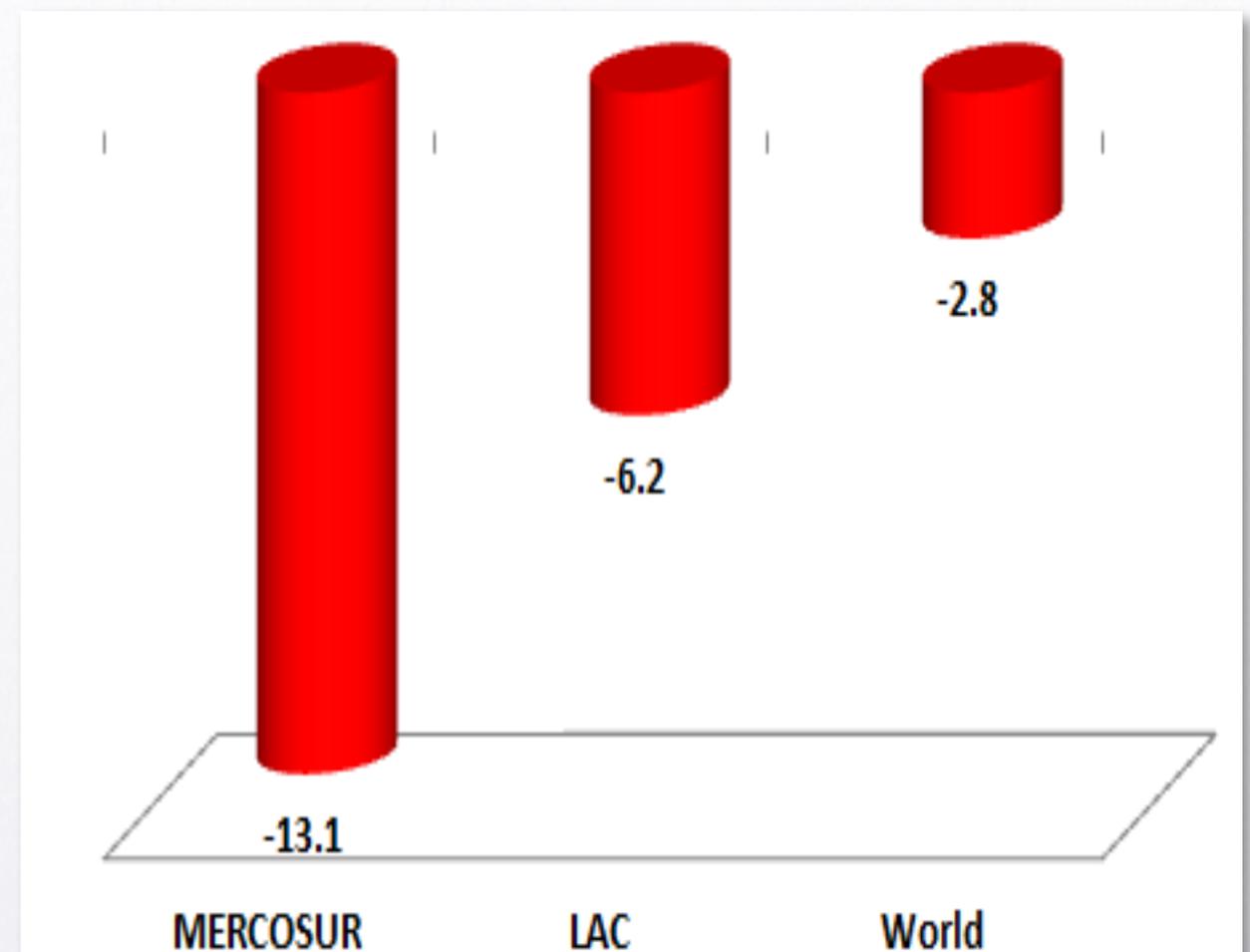
## Korea-MERCOSUR trade since 2011 has decreased significantly.

- 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



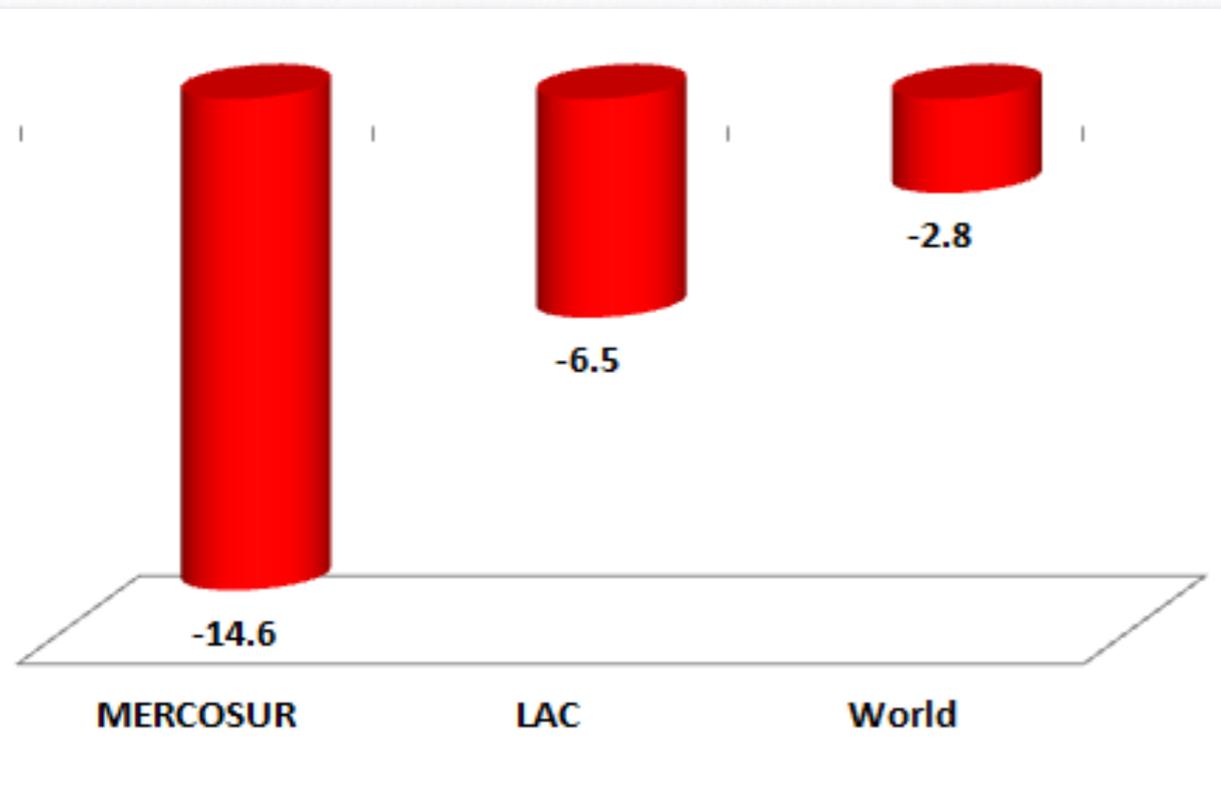
### Korea's Trade Growth with MERCOSUR and LAC(2011-2015, %, on average)



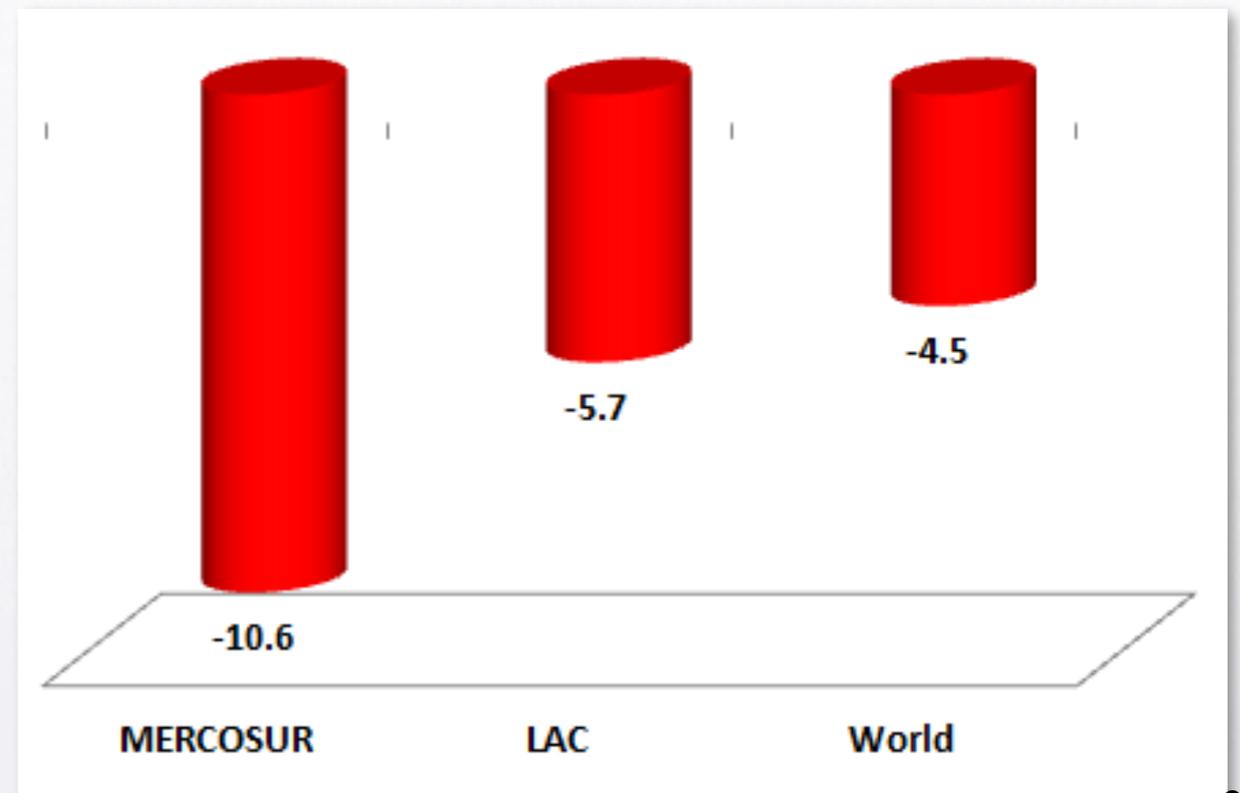
## Korea-MERCOSUR trade since 2011 has decreased significantly.

- 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)

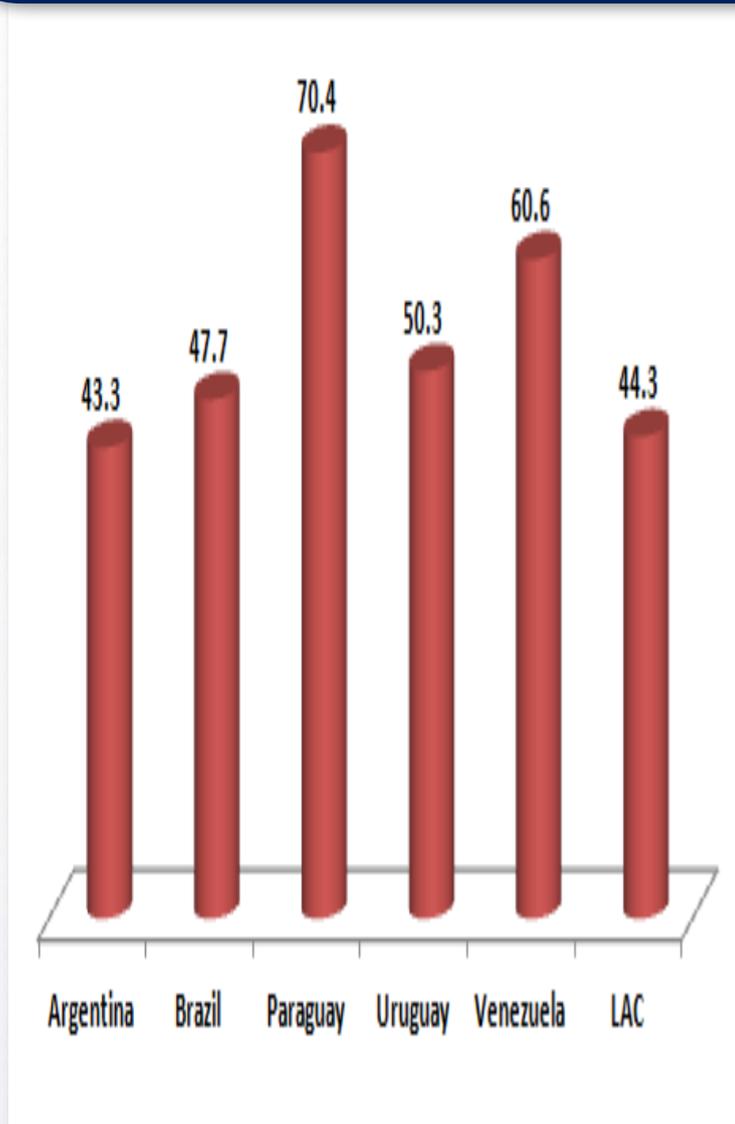


### Korea's import growth with LAC and MERCOSUR(2011-15, %, on average)

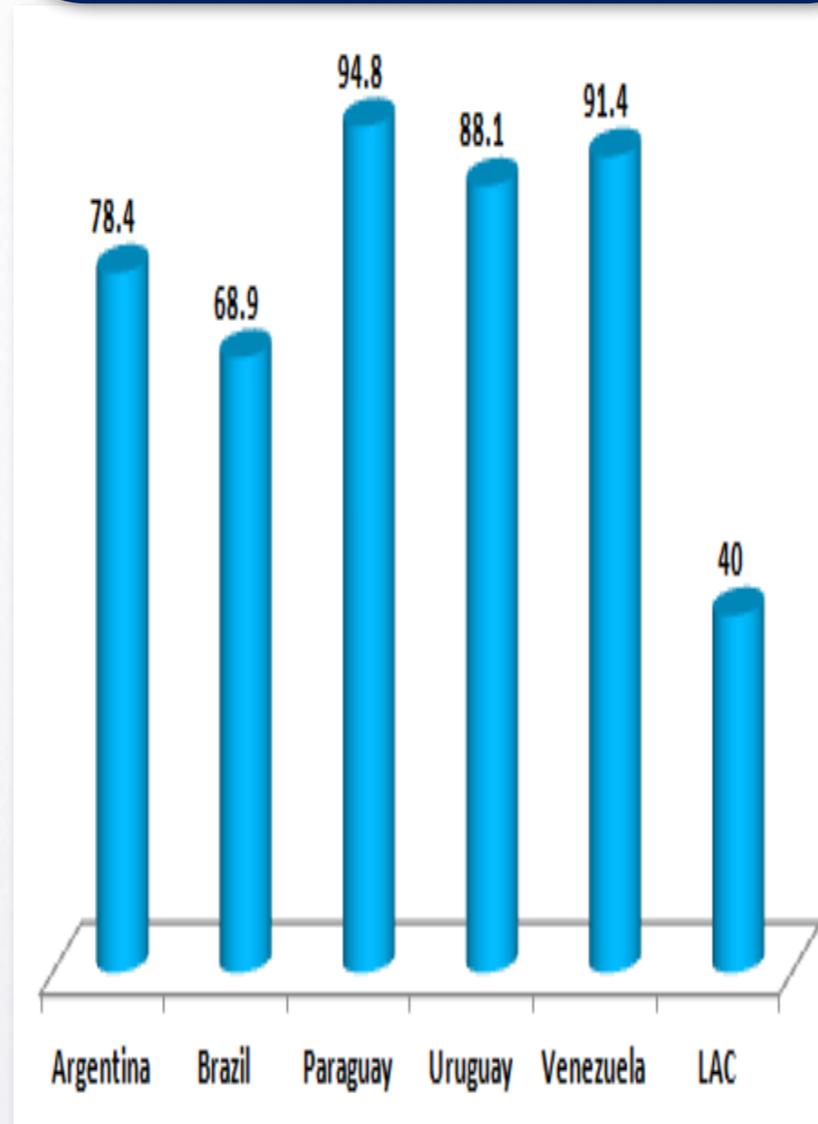


**High dependency on small trade products → high sensitivity to economic fluctuations**

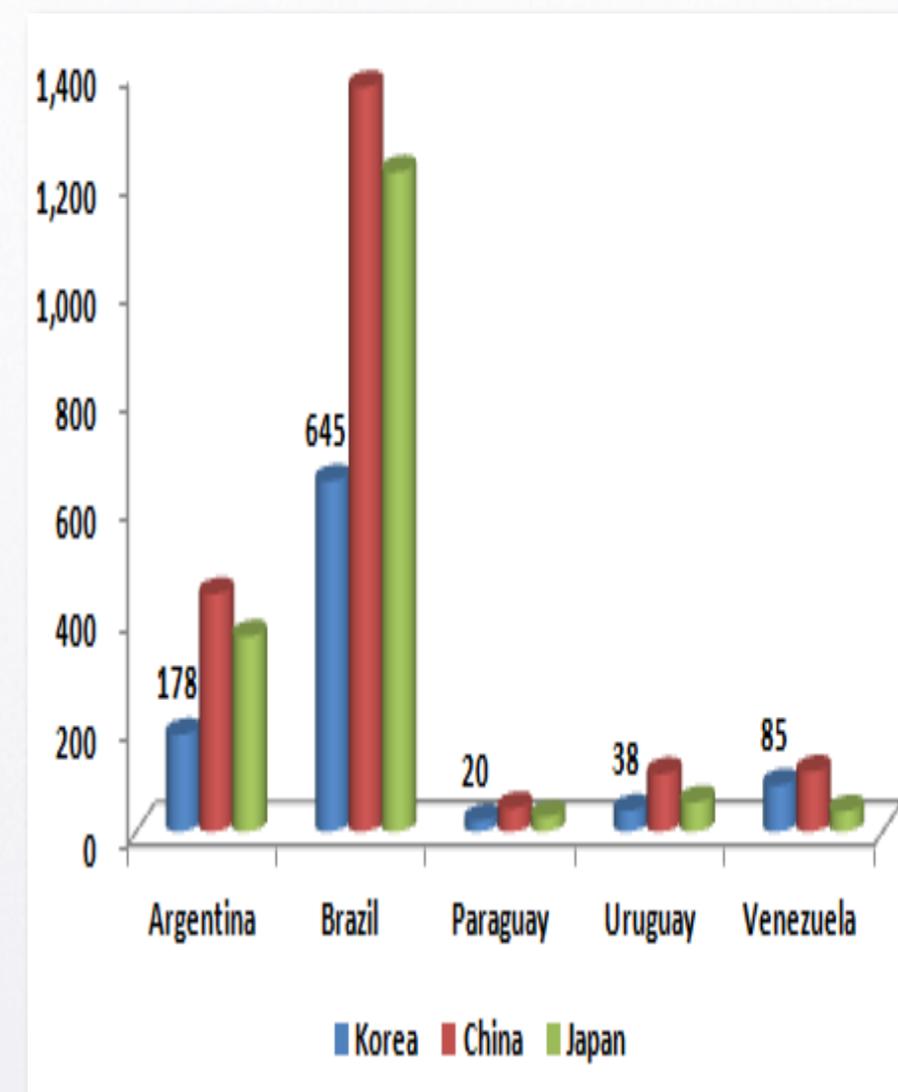
**Share of Korea's 5 main products exported to MERCOSUR(2014, %)**



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



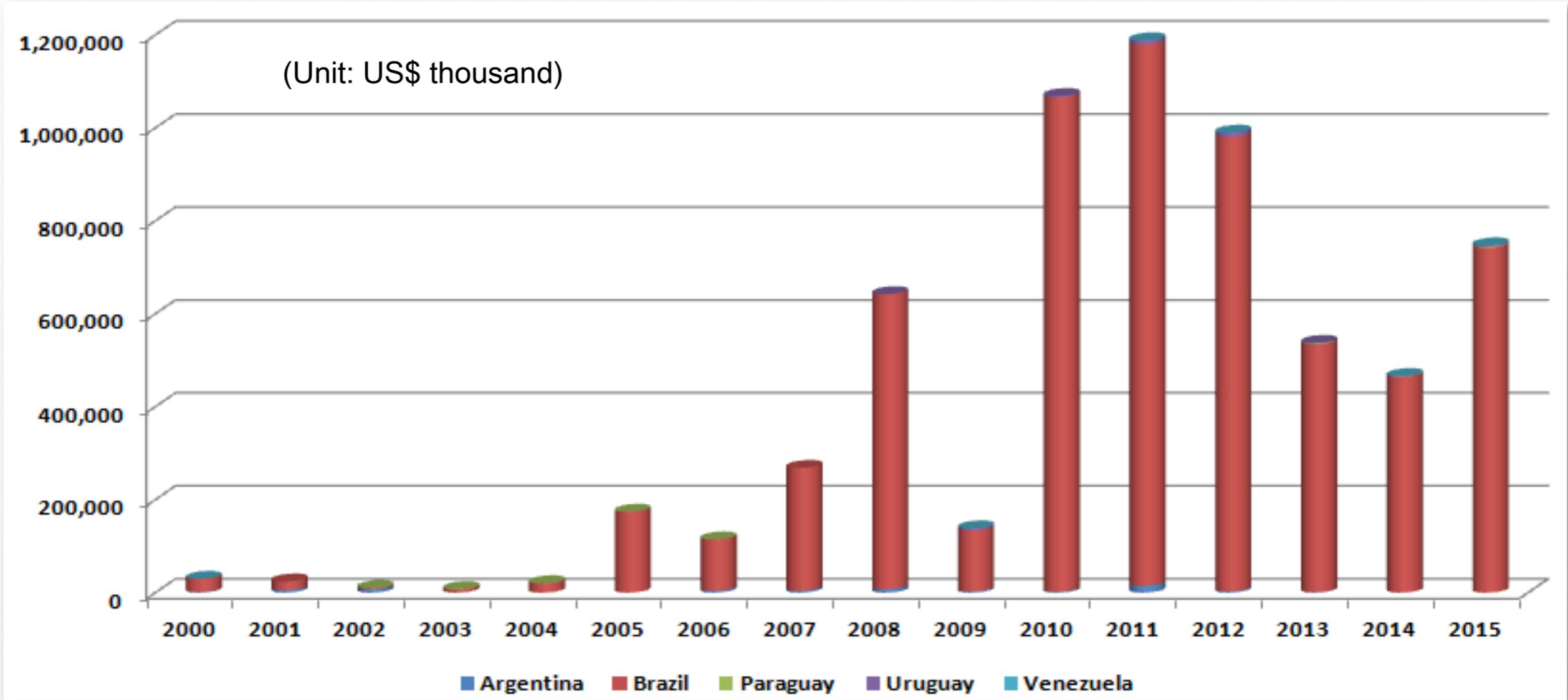
**MERCOSUR(2013): number of products exported to Korea**



Source: KIEP, ECLAC

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

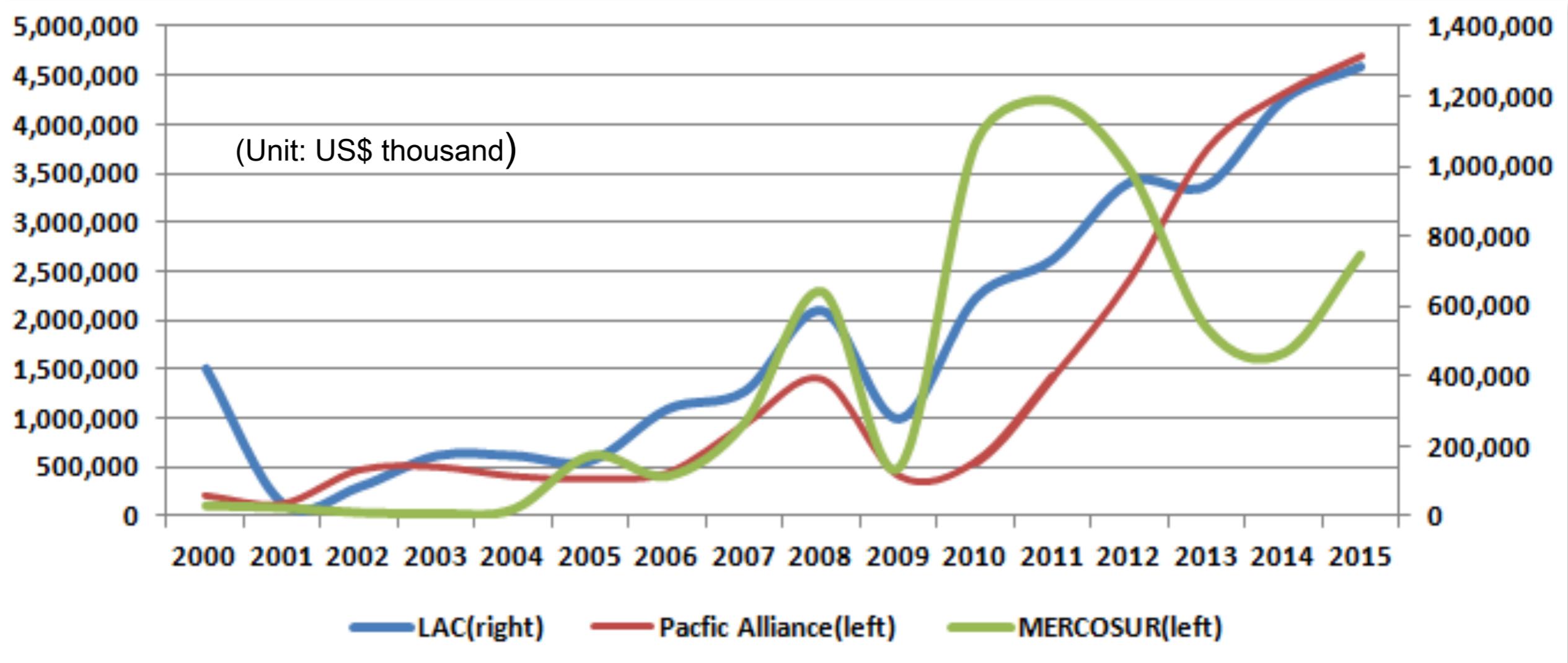
### Korea's FDI in MERCOSUR



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

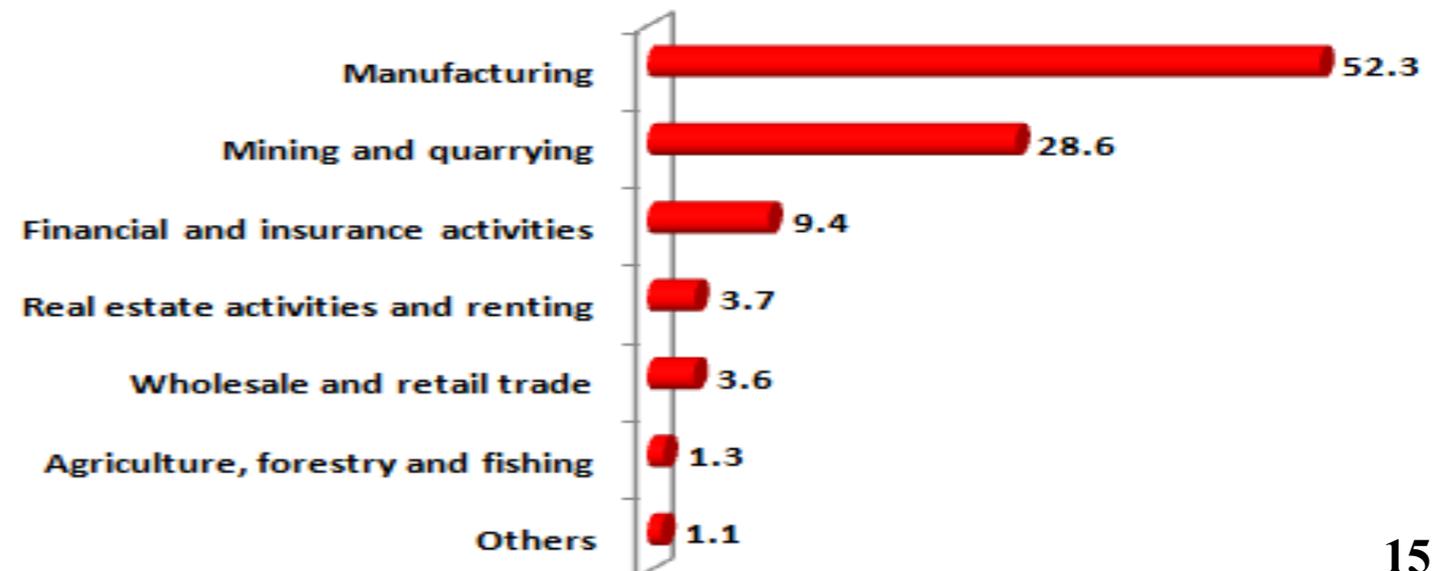
- **By country**, Korea's investments in MERCOSUR are concentrated in Brazil(95.4%), followed by Argentina(2.9%), Venezuela(1.1%), Paraguay(0.5%), Uruguay(0.1%)

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

# 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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