

# Revitalization of Korea's Exports of Consumption Goods to Southeast Asia

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## I. Overview

China's gradual introduction of "open-door" policy in the late 1970s had the effect of expanding the country's influence in the global market. This is especially true in the Northeast Asian region, where China is the major destination for intermediate goods from Korea and Japan, and all three countries benefit from the supply chain. However, Korea's excessive dependence on China for exports was found to be problematic with the rise of the THAAD issue and China's consequent economic retaliations, driving home the need for Korea to diversify its export destinations. Moreover, China's technology level is developing at a rapid speed, replacing imported intermediate goods with domestic ones, further warranting a change in Korea's export strategy.

Southeast Asia is one of the emerging alternative markets in the world economy. The region has been growing at a faster rate than the world average, even with the rest of the world experiencing a slow pace of growth. In addition, Southeast Asian countries such as Indonesia, Vietnam, and Thailand are a promising marketplace for Korea due to the popularity of the Korean Wave in the region. While there is

a plethora of studies concerning intermediate goods trade in Korea, China, and Japan, there is a considerable lack of research on consumption goods trade, despite it also being a very important tool in achieving trade diversification.

As such, this study seeks to derive policy implications for Korea's exports of consumption goods to the Southeast Asian market, by comparing and analyzing the current status and competitiveness of Korea against China and Japan—its main competitors—in the three Southeast Asian countries of Indonesia, Thailand, and Vietnam. In doing so, we attempt to provide suggestions for the diversification and enhancement of Korea's exports.

## II. Trends and Determinants of Trade in Consumption Goods in East Asia

### Trends of Trade in Consumption Goods in East Asia

The consumer goods import market in Southeast Asia is not yet large in terms of its size and demand compared to that of the world

market<sup>1</sup>. However, the Southeast Asian market shows strong growth potential. Vietnam and Thailand, in particular, exceeded the CAGR of the consumer goods market worldwide between 2011 and 2016. On the other hand, Indonesia's consumer goods import market decreased during the same period but only due to the agriculture sector, which accounts for over 75% of total consumption goods imports.

Within the Southeast Asian market, the size of the cosmetics and household goods import market in Thailand exceeded that of Indonesia and Vietnam in 2016, while agriculture, fashion and pharmaceuticals were the largest in Vietnam. Comparing the CAGR of 2011 to 2016, Vietnam's agriculture, household, fashion, and pharmaceutical products showed the highest growth rate while the cosmetics sector's growth rate was the highest in Thailand.

The proportion of consumer goods exports by Korea, China and Japan in the Southeast Asian market differed across markets. Overall, Chinese products were significant in terms of their market share and growth rate, especially in fashion and household products. Korean products showed higher competitiveness in cosmetics in Thailand and in cosmetics and household markets in Vietnam in terms of the growth rate during 2011 to 2016.

To explore the competition in exports among Korea, China and Japan in the Southeast Asian markets, we applied the export similarity index (ESI). As a result, based on the average ESI in 2014–2016, Korea and Japan showed a higher competition level in the overall Southeast Asian markets compared to Korea-China and China-Japan. Korea and Japan showed the

highest competition level mainly in the sectors of cosmetics and pharmaceuticals, and the competition level increased during the period of 2004–06 and 2014–16. Comparing the average ESI of 2004–06 and that of 2014–16, the level of competition between Korea, China and Japan rose in the sectors of household goods in Vietnam and fashion in Thailand.

Korea's e-commerce exports showed rapid growth from USD 154.3 million in 2015 to USD 524.5 million, and 93% of total e-commerce exports were consumer goods in 2016. Focusing on the Southeast Asian market, in 2016, Korea's e-commerce export to Indonesia reached USD 2.15 million, followed by Thailand (USD 480 thousand) and Vietnam (USD 190 thousand). SMEs accounted for more than half of the total e-commerce exports to Southeast Asian countries. Meanwhile, the proportion of the unknown category increased significantly from 2015 to 2016. In 2016, the unknown category's export amount increased by more than 100 times from 2015 to 2016 in e-commerce export to Indonesia, while the amount increased by more than 10 times and 5 times in Thailand and Vietnam, respectively, which shows the need for further improvement in the accuracy of e-commerce statistics.

### Determinants of Trade in Consumer Goods Compared with Trade in Intermediate and Capital Goods

According to an empirical analysis of the determinants of trade among Korea, China, Japan and Vietnam, Thailand and Indonesia, the consumer goods trade is influenced by cultural similarity factors. That is, higher cultural similarity between countries results in increased trade in consumption goods. Meanwhile, the analysis showed no evidence in the cases of capital and intermediate goods. This is partly because of the characteristics of consumer

<sup>1</sup> In this paper, demand is defined as the share of consumption goods in one's country total imports.

goods, in which the demand heavily relies on the individual preferences which are subjective in nature, while the demand for capital and intermediate goods comes from enterprises, which make more objective decisions. In this context, trade in recreational services, such as broadcasting and education, may play a complementary role in the trade of consumption goods. The empirical results also show that higher trade service is positively associated with trade in consumption goods while no such effect was visible in the case of capital and intermediate goods.

Another important result to note is the effect that e-commerce infrastructure level has on consumption goods trade. The e-commerce infrastructure level appears to have a more significant positive effect on trade in consumption goods compared to that of capital and intermediate goods.

Within consumption goods, the cultural similarity factor showed stronger influence on agriculture, pharmaceuticals and cosmetics. Indonesia's sensitiveness regarding halal certification may have contributed to this result. In addition, the empirical results show that higher non-tariff measures negatively affect trade, and within the consumption goods, agriculture and pharmaceutical products were negatively affected by SPS and TBT, in particular.

### III. Trade Policies for Consumption Goods in Korea, China and Japan, and Import Barriers in Southeast Asia

#### Comparison of Trade Policies for Consumption Goods in Korea, China, and Japan

The Korean government started to promulgate policies to stimulate consumption goods exports starting in the year 2016. The Korean government mainly focused on three areas: supporting export marketing, eliminating non-tariff barriers and counterfeit products, and developing competitiveness for premium consumption goods. The government also sought to boost consumption exports by connecting it with the Korean Wave; the so-called “K-Style” industry—fashion apparel, cosmetics, and fashion accessory products with high-quality Korean brands—is one such example, which the government began to support in the year 2018.

Unlike Korea, China is not utilizing direct policy supports to promote exports of consumption goods. This is presumed to be due to its relatively high rate of consumption goods exports (the ratio of consumption goods exports to total exports in China is 29.4%, compared to Korea's 5.5% and Japan's 5.7%), and a relative policy focus on domestic growth strategy. However, trade facilitation policies such as policies to maintain quality control and simplification of customs procedures are expected to have a considerable impact on consumer goods exports, which account for a high proportion of China's total exports.

The “Cool Japan Strategy” promoted by the Japanese government includes measures to expand consumptions goods exports, with the Cool Japan Agency established as the overarching implementing organization. The Cool Japan Strategy aims to acquire overseas demand in emerging markets such as Asia, thereby creating jobs in the related industries and promoting growth in the Japanese economy. The target industries of this strategy includes various items and service industries, including contents industry, food, clothing,

and tourism. It is noteworthy that Japan is engaging in expanding not only outbound exports, but also inbound tourism.

### Comparison of Policies Promoting E-Commerce Trade in Korea, China, and Japan

While looking into Korea, China, and Japan's policy supports for promoting consumption goods trade, this study also examines the three countries' e-commerce market, noting the growth of the B2C and C2C e-commerce market globally.

The Korean government is promoting its exports through cross-border e-commerce by providing supports to e-commerce companies and implementing institutional reforms, such as upgrading its customs procedure. Regarding Korea's policy supports, while some form of development could be seen in terms of policy specialization and focus—e.g. policy in 2016 covered generally every area for online exports, while policy support in 2018 was narrowed down to more specific business types or topics—most of them were targeted at domestic support and reforms. It is important to include policies to promote international cooperation in the field of e-commerce, such as resolving customs issues with foreign countries.

Compared to Korea, China focuses more on supervising its ever-growing e-commerce market and strengthening its management system, rather than on specific policy supports. At the same time, the government is pursuing a trial-based policy in which certain cities and regions are selected as testbeds for cross-border e-commerce, then the number is increased eventually to include the entire country.

For Japan, it was found that the government implements only a small number of direct support policies and even less subsidies, while for e-commerce, Japan provides provisions as a guideline for cross-border e-commerce. In this regard, the Korean government's e-commerce support policy is much more direct and specific compared to China and Japan's. In the future, it will be necessary to prepare a comprehensive policy response through cooperation between government ministries and spread success cases by implementing adequate policy evaluation, etc.

### Import Barriers in Indonesia, Thailand and Vietnam

The research found the import barriers of Indonesia, Thailand and Vietnam in Southeast Asia to be relatively high. According to the TradeNAVI Integrated Trade Information Service provided by the Ministry of Trade, Industry and Energy and the Korea International Trade Association, Vietnam (49 cases), Indonesia (33 cases), and Thailand (21) are imposing non-tariff measures on various items such as food and beverage, cosmetics, medicine and medical devices. The measures include certification, quarantine, quantity control, technical barriers, etc.

More specifically, the import barriers in all three countries were found to be mainly due to the lack of advanced systems in relation to their systems, equipment and human resources, especially in the fields of customs clearance procedures and certification.

Regarding customs clearance procedures, Indonesia is designating customs ports for specific items such as electronic products, clothing, food and beverages, fresh fruits and vegetables, etc. Indonesia has also concluded a Country Recognition Agreement (CRA) with

its major trading partners such as the US and Australia, streamlining the approval process for imports from those countries. For Thailand, inappropriate discretion exercised by customs officers in order to gain more incentives—a system regulated by Thailand's Customs Incentive Schemes—was presented as one of the prevalent customs problems. For Vietnam, lack of computerization and modernization of its customs system caused its customs clearance procedure to be time-consuming and costly.

Regarding certification and standards, all three countries required compulsory certification in fields such as healthcare and energy, which made the customs procedure for such products time-consuming and costly.

#### **IV. Policy Suggestions for Expanding Consumption Goods Trade in Southeast Asia**

By building up on the analyses of the previous chapters, this study produces policy suggestions for the Korean government to revitalize the consumption goods trade in Southeast Asia.

First, it is necessary to re-evaluate the effectiveness of Korea's export-promoting policies and prepare countermeasures accordingly. Korea's total exports of consumption goods continued to decline in 2017 and 2018. Therefore, detailed analysis and study into the cause of this fall in exports need to be undertaken. It is also necessary to re-evaluate Korea's consumption goods exports policy since 2016 and come up with countermeasures to any problems that have been exposed.

Second, it is necessary to design comprehensive measures to promote exports of consumer goods to Southeast Asian countries in connection with Korea's New Southern Policy. To this end, the government should consider measures to improve the utilization of FTAs and eliminate non-tariff barriers, and the establishment of a research organization that provides in-depth market information, etc.

Third, efforts to eliminate non-tariff barriers, simplify import customs, expand Country Recognition Agreements (CRA), etc. are imperative measures to prepare for the Korea-Indonesia CEPA negotiation. The tariffs on 156 items and automobiles—which are classified as very sensitive and therefore subject to a 5% tariffs rate—should be lowered or eliminated in the CEFA renegotiation. It would also be advisable to expand the scope of Korea's CRA to the whole of fresh agricultural goods, which, as of now, is only applicable to pears from Cheonan.

Fourth, continuous efforts are needed to expand and supervise the Authorized Economic Operator (AEO) Mutual Recognition Arrangements (MRA) partner countries, in order to reduce the time and cost of import customs and logistics bound for Southeast Asian countries. The Korea Customs Service has currently concluded AEO MRAs with 19 countries, thus providing preferential treatment in customs procedures. Among the 19 countries are China, Japan, and Thailand. As of December 2018, Vietnam is in the process of signing an AEO MRA with Korea. By expanding the agreement to include countries like Indonesia and other Southeast Asian countries, Korea could enjoy benefits such as reduction of import inspection rate and time, priority customs clearance, etc.



Finally, this paper proposed linking Korea's consumption goods export stimulus policy to its service export promotion policy. Linking social network services (SNS) or courier services (international express service) with consumption goods export could be one example. Exposure to Korean culture through broadcasting or education can, in the long run, contribute to narrowing down the cultural distance between Korea and Southeast Asia, which in turn can lead to expanding consumption goods exports to Southeast Asia. **KIEP**