

# WORLD ECONOMY

## UPDATE

July 1, 2013 | Vol.3 No.29

### How to Promote Economic Cooperation with Resource-Abundant Andean countries: Focus on Venezuela, Ecuador, and Bolivia

ISSN 2233-9140

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#### Background

Due to the world's rising energy demand and political instability in Middle East, the importance of resource-abundant countries in Latin America is being emphasized. This is especially true in the case of three Andean countries, Venezuela, Ecuador, and Bolivia, which remain to be a major challenge in terms of economic cooperation and as investment destination despite their rich resources and Korea's large interest in different sectors. It is mainly due to Korea's lack of understanding of the concerned countries and these countries'

less favorable investment climate compared to their neighbors.

In this sense, this study suggests practical ways to enhance comprehensive economic cooperation between Korea and these countries and the suggestions are not limited to resource development cooperation. These include creating a friendly environment for Korean companies to encourage investment in the resource development sector of the region, as well as building a sustainable economic cooperation model. Also, additional emphasis is put in finding measures to minimize the risks of doing business in those countries.

## Economic Importance of the Three Andean Countries

The economic importance of the three Andean countries can be pointed out as follows. First, because they are all natural resource abundant countries, they can be partners for resource development. The proven oil reserves in Venezuela are claimed to be the world's highest followed by Saudi Arabia and Ecuador is one of the two OPEC member countries in Latin America. Bolivia has the world's largest lithium reserves. Second, they recently demonstrated stable and fast economic growth rate compared to other Latin American countries, proving their economies to be stable with growing export markets for Korean companies. Third, Bolivia and Ecuador have high demands for economic development, thus they can be proper target countries for Korea's Official Development Cooperation (ODA), sharing Korea's development experience.

## National Development Plan and Cooperation Opportunities

The medium- and long-term development plan of each country has been analyzed in-depth to seek their priority economic sectors that have great potential to promote and enhance cooperation with Korea. The analysis of the national development plan concentrates on the following: "Government Plan 2010–2015 (Programa de Gobierno 2010–2015, in Spanish)" for Bolivia; the "National Plan for Good Living (PNDBV 2009–2013)" for Ecuador; and the "Simon Bolivar National Development Plan 2007–2013 (PNDSB 2007–2013)" and the "Second Socialist Plan of the Nation 2013–2019" for Venezuela. It is found that there is a high demand from the Bolivian gov-

ernment for the cooperation in power generation and petrochemical plants, as well as support in planning the development of strategic industries, such as natural gas, power generation, and railroad. For Ecuador, cooperation opportunities are identified in higher education, technology transfer, IT, industrial plant construction, and transportation infrastructure. Lastly, promising areas for cooperation with Venezuela are proposed as resource development, construction of oil refinery, gas plants, and power plants, and raising common fund.

## Case Study for Cooperation between Foreign Countries and Three Andean Countries

Specific cases of cooperation between three Andean countries and major countries, such as China, Spain, India, Brazil, Canada, and the U.S., are analyzed in order to find some implications for Korea.

First, in the area of ODA, an introduction is made regarding Spain's support for national development plans, Canada's "Think Tank Initiatives," and Brazil's economic development experience sharing. Those cases suggest two implications. One is that Korea's ODA policy and related programs need to reflect more of the recipient country's demands. Another is that Korea can support the recipient country's policy institutes for their self-reliance and capacity building.

Second, in industrial technology cooperation, China's communication satellite development, and information and communication sector cooperation are also described in detail. Those cases demonstrate that the Andean countries have strong demand of cooperation in industrial technology.

Third, in resource development cooperation, India-based JSB's investment failure in the mining sector in Bolivia and U.S.-based Chevron's successful corporate social responsibility (CSR) activities in Venezuela are introduced. The former case presents that conducting a feasibility study before making any investment decision is vital. The latter case shows that CSR activities can reduce investment-related risks.

Lastly, in financial cooperation, Brazil, China, Italy, and Korea's exemplary cases are presented. Those cases indicate that the role of the government in financing differs in each country and firms' competence in financing plays crucial role.

## Assessment of Cooperation between Korea and the Three Andean Countries

The current state of economic cooperation between Korea and the three Andean countries has been examined, particularly in trade, investment, resource development, plant construction, ODA, and institutional cooperation. The results propose that Korea's trade with the three countries is insignificant and investment is in the incipient phase. Investment in construction of industrial plants, however, has been increasing recently. Development cooperation has been focused in Bolivia since its selection as a priority recipient country. Moreover, Korea's economic development experience has been shared with Bolivia and Ecuador since 2010. The institutional cooperation is insufficient on account of lack of interest of each party.

## Suggestions for the Enhancement of Economic Cooperation

Several suggestions for economic cooperation between Korea and the three Andean countries at the government level are presented here. The first is to build and to strengthen the cooperative network. Setting up bilateral committees, such as Korea-Bolivia resource cooperation committee, holding a high-level policy consultation meeting, and signing memorandum of understanding (MOU) among national companies will facilitate communication between the two countries. The second is to support each country's industrialization strategy by providing policy consultation and raising cooperation fund. Utilizing Korea's development experience and collaborating with regional development banks or organization, such as Inter-American Development Bank (IDB), Development Bank of Latin America (CAF), and Economic Commission for Latin American and the Caribbean (ECLAC), can generate synergy. The third is to establish risk management system. It is recommended to set up a risk management committee for each country in order to monitor the risks. The fourth is to reinforce cooperation with CAF. Although CAF is not well known to Korean firms, it is a leading development bank in Latin America and the main source of financing for major infrastructure projects in this region. In the immediate term, collaboration with CAF will make Korean firms recognize the role of CAF and utilize it. In the long run, Korea can consider making a contribution to cooperation funds or joining as a member of CAF. The fifth is to develop a triangular ODA model. Traditionally, developed countries have leading role in ODA. Recently developing countries, however, are emerging as new donors. Triangular cooperation is an ODA model where the role of developing country is

emphasized along with the advanced country; both countries participate as donors. Korea can be associated with one of the developing Latin America countries or regional development bank in providing ODA. Venezuela, Ecuador, or CAF are possible appropriate partners. The last is to improve the public awareness of Korea or to make effort to improve Korea's image in the three Andean countries.

More suggestions are proposed for cooperation at the corporate level. The first is to utilize public communication channels. In the three countries, large-scale projects are mainly ordered by governments, and in many cases, related information is provided through public channels. Several public channels, such as resource cooperation committees with Venezuela and Ecuador, are already working. Thus Korean firms need to make full use of them. The second is to establish strategic partnerships with Chinese companies. Chinese firms actively invest in the region on the basis of financial capability and political alliance,

which Korean companies are in short of. Korean firms, however, have technology and more experience in overseas market that will make complementary relations possible with Chinese firms. The third is to actively engage in corporate social responsibility (CSR) activities. CSR is not optional but rather essential. Local communities have higher expectation for CSR and it also can reduce the investment-related risks. The fourth is to apply the Hub & Spoke strategy. The three Andean countries have a lot in common from business environment to politics. Accordingly, a success in investment in one country can be reproduced in another country. It is recommended to develop a successful investment model in one country and to apply it to nearby countries. The last is to diversify financing methods; establishing a common fund between Korea and the three Andean countries, financing from Japanese and Chinese banks, making use of regional development banks, export credit agency, and international financial organizations. 