

# Opinions

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## Trade and Investment Relations between Korea and Latin America in the 2000s: Performance and Challenges



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Since the beginning of the 2000s, Korea's economic relations with Latin America and the Caribbean (LAC) have developed quantitatively, but not qualitatively, in terms of trade and investment.

As for trade relations, in the 2000s (2000-2014) Korea's trade growth with LAC averaged 11.7 percent, surpassing the 10.7 percent growth rate of Korea's total trade. In 2014, Korea's trade volume with LAC amounted to US\$54.2 billion (exports US\$35.9 billion, imports US\$18.3 billion), accounting for 4.9 percent of Korea's total trade. The share of exports to the region took up 6.3 percent of Korea's total exports, while imports accounted for 3.5 percent. In spite of the rapid increase in trade on both sides,

trade relations have developed with unbalanced characteristics. LAC's trade deficit with Korea has deepened. The inter-industry trade structure has cemented. High export and import dependence on certain countries and items has been consolidated.

Investment relations between the two economies display similar patterns to trade relations. Recognizing the strategic importance of the LAC economy, the pace of investment by Korean companies in the region has been accelerating since 2004. As of June 2015, it has reached US\$28.3 billion (based on accumulation), accounting for 9.7 percent of Korea's total FDI. Entering the 2000s, the LAC region has become one of the fastest-growing regions for Korean investors. Despite a rapid increase in Korea's FDI flows to LAC, LAC countries' investments in Korea have still remained minimal. As of the end of 2014, it amounts to US\$9.5 billion (based on accumulation). However, the majority of investment comes from tax haven countries such as the Cayman Islands, Bermuda, the Virgin Islands, Panama, and the Bahamas. By country and by industry, Korea's investments are excessively concentrated in a few countries including Brazil, Mexico, and Peru, and in certain sectors such as mining and manufacturing. The participation of Korean companies in local LAC supply chains is still incipient.

To develop balanced and sustainable economic relations between Korea and LAC, the following must take place: First, Korea and LAC need to make active efforts to expand new FTAs and upgrade existing ones. Of particular importance is that Korea makes a breakthrough in FTAs with Mexico and MERCOSUR by pursuing projects such as trade facilitation agreements and signing agreements in specific sectors.

Second, both sides need to support the inclusion of LAC countries in the global supply chain through the transfer of Korea's economic development experiences and technologies. Policies and projects that help LAC components and materials industries join the global supply chain will simultaneously solve LAC's manufacturing sector challenges and create a friendly environment for Korean businesses seeking to enter the market.

Third, Korea and LAC need to foster interactive FDI. The Korean government should actively attract FDI from LAC, especially from Multilatinas: multinational firms originating in LAC. In order to attract Multilatinas investment to Korea, a "Latin America Desk" or "Multilatinas Desk" should be created under Invest Korea to enable organized promotion. Korea should also work to improve awareness on Korea's positive business environment among Multilatinas. On the opposite side, LAC companies can devise strategies to enter Asian markets, for

instance China, by using Korea's strength as a gateway to Asia on account of it being a logistics and FTA hub.

Lastly, Korea and LAC should boost cooperation in trade facilitation. One of the serious obstacles that Korean exporting firms face in the LAC market is non-tariff barriers. Drawing from Korea's experience, trade facilitation measures such as Single Window and Authorized Economic Operator (AEO) are crucial for removing non-tariff barriers. Trade facilitation is also one of the more notable opportunities, or low-hanging fruit, to reduce trade costs between Korea and LAC. UNI-PASS, Korea Customs e-clearance System, has largely contributed to economic growth and improvement of business environments in developing countries, including in Latin America. Among LAC countries, the Dominican Republic and Ecuador successfully adopted an e-clearance system based on UNI-PASS. Authorized economic operator (AEO), one of the main trade facilitation measures, has been playing a crucial role as trade facilitator between both countries, as can be seen in the case of Korea and China. Despite being a latecomer in adopting the AEO program, Korea is regarded as a leading example thanks to its extensive range and swift enforcement. Korea has signed MRAs with ten countries, including Mexico. For this, Korea should increase exports of the UNI-PASS system to LAC countries, and initiate joint research for the AEO MRA, including an assessment of the program's effectiveness. 