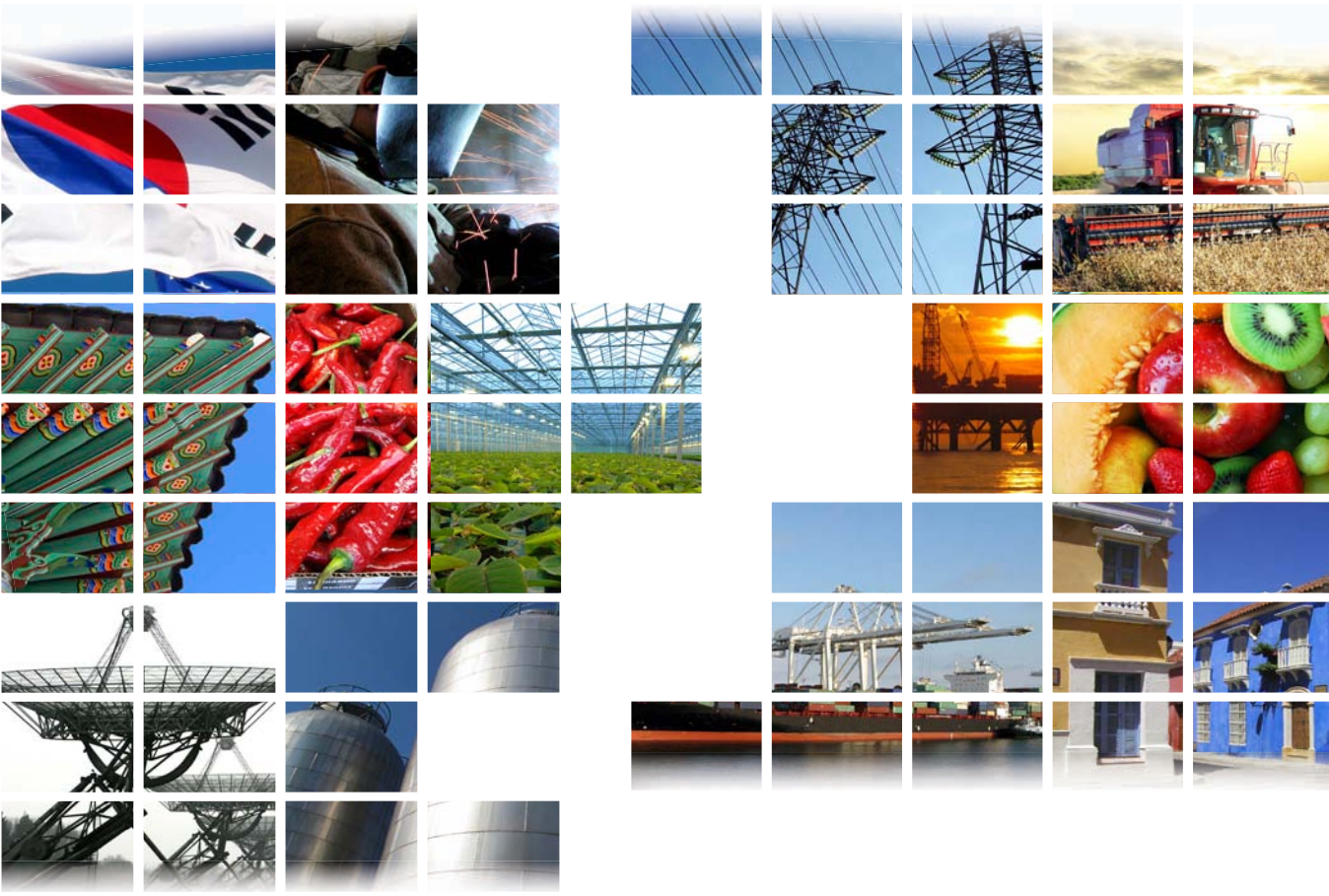
Korea

Breaking the Mold of the Asia-Latin America Relationship



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It is the product of a collaborative research effort within the Trade and Integration Sector **(INT)** of the IDB, under the general supervision of **Antoni Estevadeordal**, Sector Manager. The report was coordinated and written by **Mauricio Mesquita Moreira**, INT Research Coordinator, in collaboration with Cecilia Heuser, INT Research Fellow. Kyungjo An was responsible for the Korean version and Cristóbal Vásquez managed the editing of the document.

Introduction

China's meteoric emergence in the last decade and its profound impact on the economic performance of Latin America and the Caribbean (LAC) has eclipsed the importance of the region's other Asian partners. Yet, LAC's governments can only ignore them at their own peril. These countries remain a major source of opportunities for trade and investment and Korea is a case in point. It has a one trillion dollar economy, with an impressive growth record (a 7% annual average growth since the early 1960s) and a population of nearly 49 million, sitting on a very limited pool of natural resources.

It is clearly another important market for the region's commodities, but not just that. The complementarity between the two economies goes beyond natural resources and extends to the manufacturing sector, where Korea has already upgraded beyond labor-intensive and basic capital-intensive sectors, offering less of a competitive threat to the bulk of LAC's industries. At the same time, its US$ 20 thousand per capita income offers opportunities for more sophisticated and diversified exports, something that is already visible in the current pattern of bilateral trade, which is one of the most diversified among LAC's Asian partners.

Korea is also an important source of foreign direct investment with a worldwide stock of approximately US$120 billion, US$ 20 billion of which was invested just in 2010. LAC has been one of the beneficiaries of these flows, accounting for a still small but growing share of the total. Breaking with the pattern of other Asian investments, manufacturing has frequently been the target of Korea's investments in the region, providing the basis for a more balanced and diversified relationship.

Apart from trade and investment, Korea is also a major source for policy lessons, which can be drawn from its remarkable and no less than spectacular growth trajectory. In less than 30 years, the country went from a broken-down economy, ravaged by civil war and with half of the per capita income of the average developing country, to a highly sophisticated developed economy exporting a wide array of technology-intensive products and backed by a highly educated workforce and a world class private sector.

This report draws attention to these opportunities and the challenges of fully exploiting them. It highlights the fact that there is more to Asia than

just China and that the relationship with Korea has the contours of what can be a model for a sustainable Asian-LAC relationship. But it also points to the obstacles that still hold back bilateral trade—currently standing at US$ 44 billion or only 2.5% of LAC's trade—and that call for decisive action to address both traditional and non-traditional trade barriers. More trade will bring more investment and more cooperation, which eventually, in a virtuous circle, would create even more opportunities to trade.

Bilateral Trade: Small But Booming

Over the past two decades, bilateral trade between LAC and Korea has expanded rapidly, growing at an annual average rate of 16.1%. This is a faster rate of growth in trade than LAC experienced with East Asia (15.1%),[1] the U.S. (9.8%), the European Union (E.U.) (7.4%) and Japan (7.7%). Only trade with China grew at a more rapid pace (27.5%). Despite this remarkable dynamism, Korea's share of LAC's trade is still fairly small. Since 1990, its share has risen from a little over 1% to 2.5%, whereas China's share reached the 13% mark in the same period. LAC's share of Korea's trade, though, is higher (5.1% in 2010) and not very different from the region's share of China's trade (see Figure 1).

As is the case for trade with other Asian economies, resource complementarity seems to be the main driver of the trade between LAC and Korea. As shown in Figure 2, Korea's scarcity of natural resources is even more severe than that of the other large Asian economies, in marked contrast with LAC's abundance. Yet, resource complementarity cannot, by itself, explain the timing of the recent trade boom, which started roughly two years after LAC's bilateral trade with China took off. Neither can trade liberalization, since both economies began to open up much earlier, in the late 1980s and early 1990s. It is true that Korea has signed important preferential trade agreements with countries in the region (see below), but they were limited to a small number of countries and were put into effect well after the take-off. The explanation probably lies in China's emergence, both because of its impact on the price of LAC's

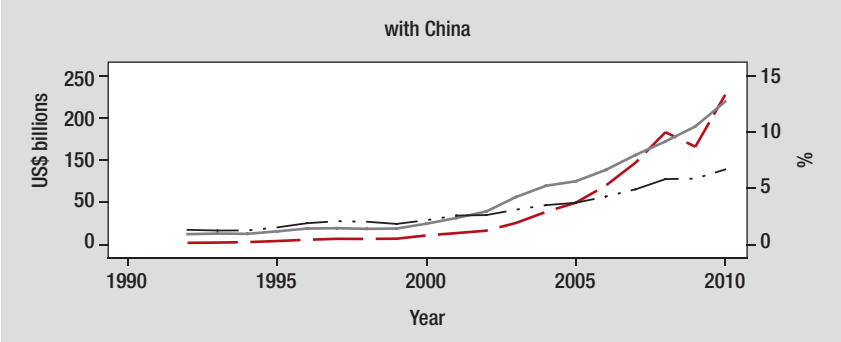
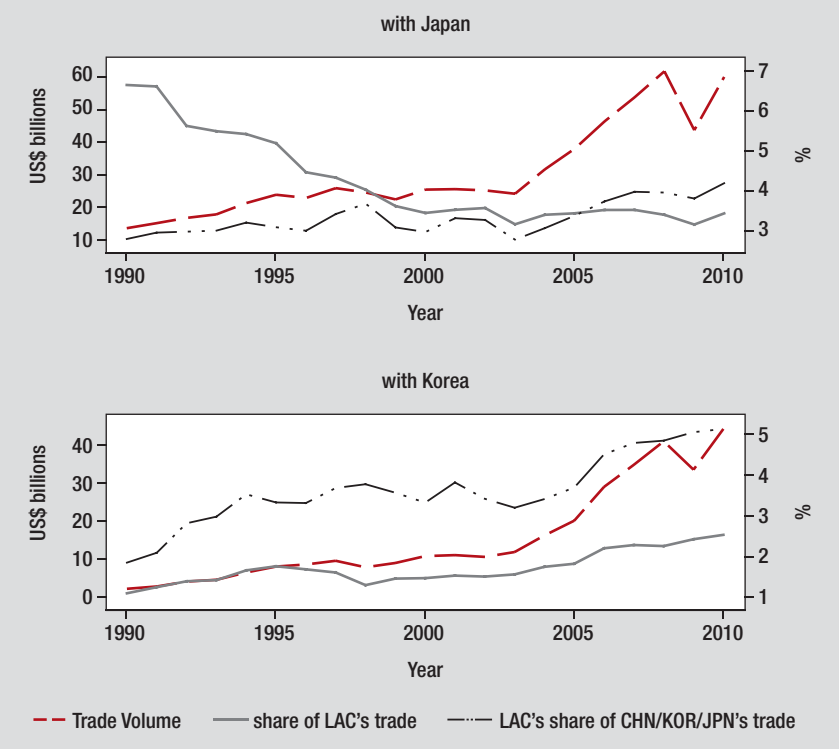


FIGURE 1/
LAC's Bilateral Trade 1990–2010

(Continues on next page)

[1] East Asia includes Indonesia, Malaysia, Singapore and Thailand.

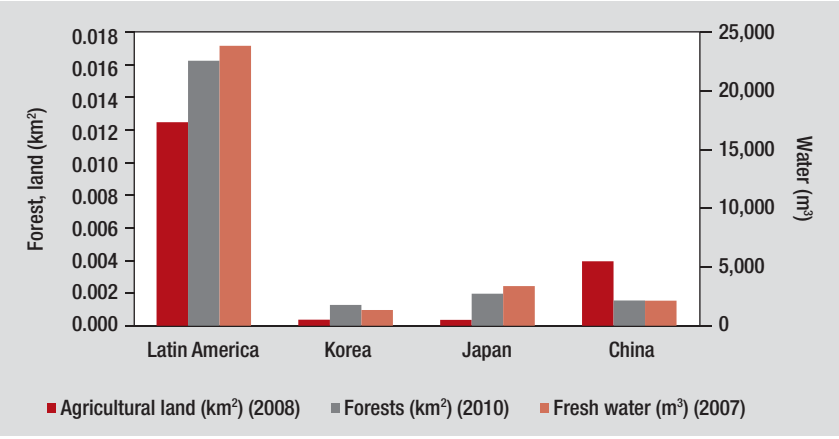
FIGURE 1/
LAC's Bilateral Trade 1990–2010
(Continued)



Source: IDB-INT using data from COMTRADE, ECLAC, OECD and MOFAT Korea.

commodities and its positive effect on the growth of LAC and Korea. Higher growth in both economies fed LAC's demand for Korea's manufacturing goods and boosted Korea's demand for LAC's natural resources at higher prices.

FIGURE 2/
Selected Natural Resources Per Capita: China, Japan, Korea and LAC



Source: WDI.

With Some Hope of a More Balanced and Diversified Relationship

This recent bilateral trade boom has been concentrated in a few LAC countries and products, reflecting differences in the size of the economies and in their natural resource wealth. Concentration is relatively high in both LAC's exports to and imports from Korea. In the case of the former, which have been growing 11% a year in the last two decades (25% in 2010), the top 5 exporters, three of which are in the Southern Cone, are responsible for 83% of total exports (Table 1), whereas the top 10 products, mostly raw materials, account for nearly 60% of all exports (Table 2). Although high, these levels of geographic and product concentration are lower than is the case for LAC's exports to China, with figures for the top five exporters and top ten products around 84% and 78% respectively. Figure 3 examines two different indicators of concentration—one of which takes into account the whole distribution of exports (HHI)—which corroborate this fact. These indicators show not only that the levels of concentration are much lower than for the region's exports to China, but also that they are closer to those of the traditionally more diversified exports to the E.U. and U.S.

TABLE 1/
Top Five LAC Exporters to Korea, 2007–2011*

Country	Share (%)
Brazil	30.2
Chile	29.2
Mexico	9.5
Peru	8.1
Argentina	5.9

Source: IDB/INT using data from MOFAT Korea.
* Data for 2011 reflects information from January to August.

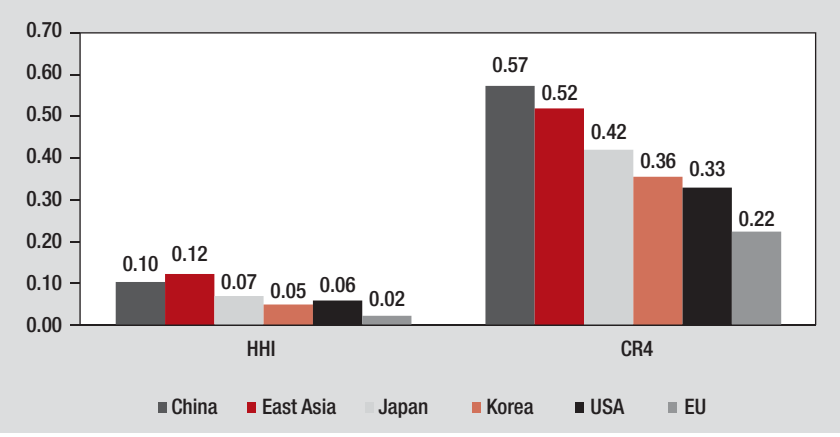
LAC's exports to Korea are more diversified not only in terms of products, but also across sectors. Figure 4 shows that the concentration on resource-based goods is less dramatic than in the region's exports to other Asian countries, with manufacturing accounting for nearly 30% of LAC exports—twice the share of the region's manufacturing exports to China.

TABLE 2/
Top 10 LAC Exports to Korea, 2008–2009

Products (HS2002, 6 digits)	Share (%)	Cum. Share (%)
Copper ores and concentrates	13.4	13.4
Refined copper: cathodes and sections of cathodes	10.6	24.0
Iron ores and concentrates	6.6	30.6
Semifinished products of iron or nonalloy steel	4.9	35.5
Tankers	4.4	39.9
Oil-cake, solid residues resulting from extraction of soya-bean oil	4.1	44.0
Zinc ores and concentrates	4.0	48.0
Iron ores and concentrates (agglomerated)	3.3	51.4
Natural gas (liquefied)	3.2	54.5
Vessels for the transport of both persons and goods	3.1	57.6

Source: IDB/INT using COMTRADE data.

FIGURE 3/
Concentration of LAC's Exports. CR4 and HHI, 2008–2009



Source: IDB/INT using COMTRADE data.
Note: HHI refers to the Herfindahl-Hirschman normalized concentration index, which ranges from 0 (diversified) to 1 (concentrated). CR4 refers to the aggregated share (in decimals) of total exports held by the top 4 exported products. Products were defined at the HS6 level of aggregation.

In the case of bilateral imports, which have been growing an average of 22% a year (35% in 2010) for the last two decades, the share of the region's imports of the top five importers (67%) is lower than that of the top five exporters. Mexico is the leading importer, reflecting the size of its domestic market and its preferential access to the U.S. market. The degree of product concentration is not that different from that for exports, but the composition, as expected, is radically different, made up of mostly manufacturing products (Tables 3 and 4).

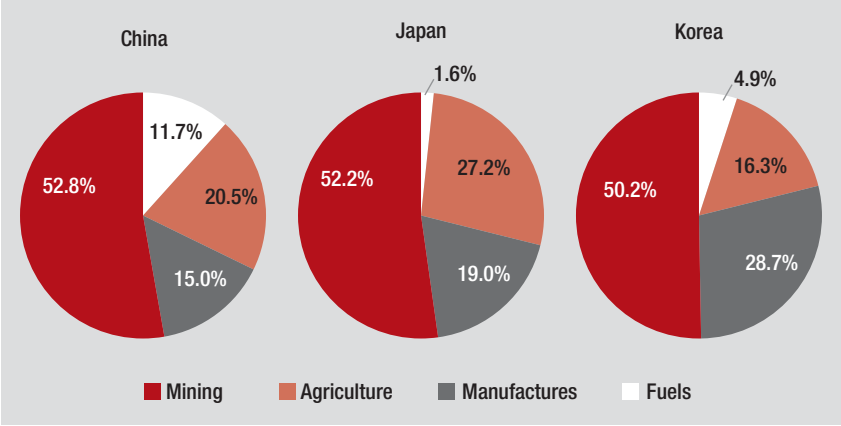


FIGURE 4/
Composition of LAC's Exports to Korea and Selected Markets, 2008–2010

Source: IDB-INT using COMTRADE data. Data for Korea is 2008–2009.

TABLE 3/
Top Five LAC Importers from Korea, 2007–2011

Countries	Share (%)
Mexico	26.4
Brazil	21.1
Peru	8.9
Chile	8.7
Colombia	2.4

Source: IDB/INT using data from MOFAT Korea. Data for 2011 reflects information from January to August. Tax havens are excluded.

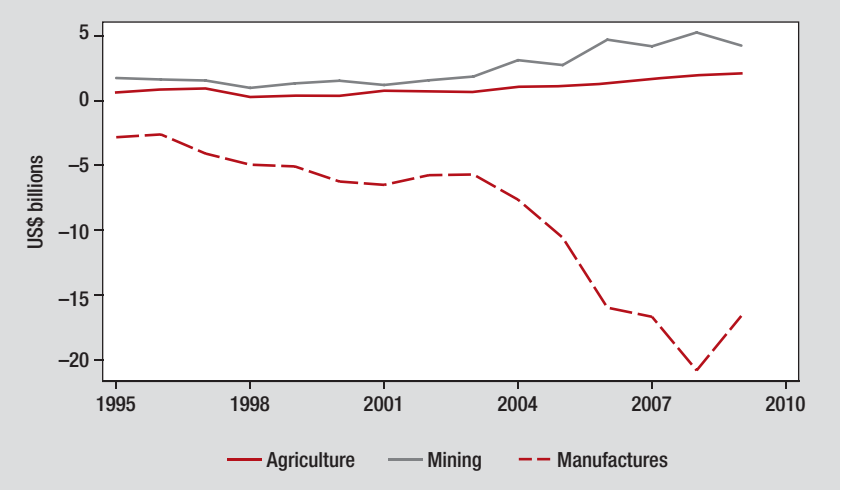
TABLE 4/
Top 10 LAC Imports from Korea, 2008–2009

Products (HS2002, 6-digit)	Share (%)	Acc. Share (%)
Parts of transmission apparatus, radar apparatus or television receivers	19.0	19.0
Monolithic integrated circuits	7.0	26.0
Vehicles with spark-ignition engine (1,500 cc–3,000 cc)	6.9	32.9
Liquid crystal devices	6.5	39.4
Petroleum oils, oils obtained from bituminous minerals (light oils)	5.8	45.3
Transmission apparatus incorporating reception apparatus	3.1	48.3
Parts of electrical apparatus for line telephony or line telegraphy	2.8	51.1
Vehicles with spark-ignition engine (1,000 cc–1,500 cc)	1.5	52.6
Parts and accessories of the automatic data processing machines	1.3	54.0
Petroleum oils, oils obtained from bituminous minerals (other)	1.3	55.2

Source: IDB/INT using COMTRADE data.

Overall, these figures suggest that LAC's pattern of trade with Korea parallels that with China and other Asian countries, but not without some qualifications, particularly with respect to export diversification. Given the increasing concern among LAC's governments about the risks of excessive specialization in the export of a few basic raw materials, these differences, however small, are significant and raise the hope that trade with Asia may become more diversified in the future. There is no reason, though, to be complacent with the status quo. As shown in Figure 5, there seems to be a trend toward further concentration and specialization indicated by both increasing LAC surpluses in agriculture and mining and growing deficits in manufacturing.

FIGURE 5/
LAC's Net Exports to Korea by Product Category, 1995–2009



Source: IDB – INT using COMTRADE data.

Moving away from the typical pattern of trade between LAC and Asia is particularly important in light of Korea's growing trade imbalances with the majority of the countries in region. The ill effects of the trade imbalances are further exacerbated by the deepening of a commodity-for-manufacturing relationship (Figure 6). As the recent trade tensions with China show, sizeable and growing imbalances can have important political economy implications, which can eventually undermine integration between the two economies.

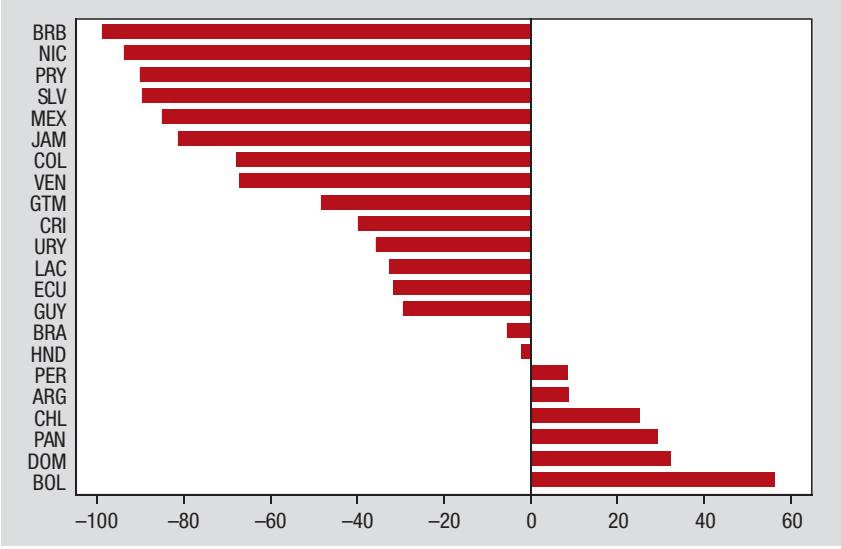


FIGURE 6/
Accumulated Trade Balances as a Share of Total Trade. Selected LAC Countries, 2000–2009 (%)

Source: IDB/INT using COMTRADE data.

But Important Barriers Still Remain in Relation to Tariffs and Non-tariff Measures…

There is little doubt that bilateral trade between LAC and Korea has benefited substantially from the far-reaching liberalization of trade which has occurred in both economies since the late 1980s and early 1990s. Korea has drastically reduced non-tariff barriers (NTBs) and lowered the average import tariff from 25% in the early 1980s to the current level of 11.2%.[2] LAC's average import tariff, in turn, dropped from 40% in the eighties to less than 9% during the same period while at the same time widespread NTBs were virtually eliminated. However, important obstacles remain. Table 5 shows that exporters from LAC are still constrained by significant tariffs in the Korean market, particularly in agriculture, where unduly high average tariffs are compounded by significant tariff escalation (i.e. the higher the amount of processing, the higher is the tariff levied on the good), hindering the region's ability to add value and sophistication to its raw materials (Figure 7). Table 6 reveals that there are also problems on Latin America's side, with Korean manufacturers still facing two-digit tariffs in some of LAC's main markets.

TABLE 5/
Average Tariffs on Exports, Selected LAC Countries

Sector	Argentina	Brazil	Colombia	Mexico	Peru
Overall	12.54	7.82	10.78	8.24	6.69
Agriculture	14.27	8.06	14.09	26.83	10.77
Manufacturing	7.43	7.83	5.48	7.33	9.75
Mining	5.79	3.96	0.08	2.28	2.67

Source: BID-INT using data from TRAINS and COMTRADE data.
Note: Averages are weighted using exports to the world. Trade and tariff data is for 2009.

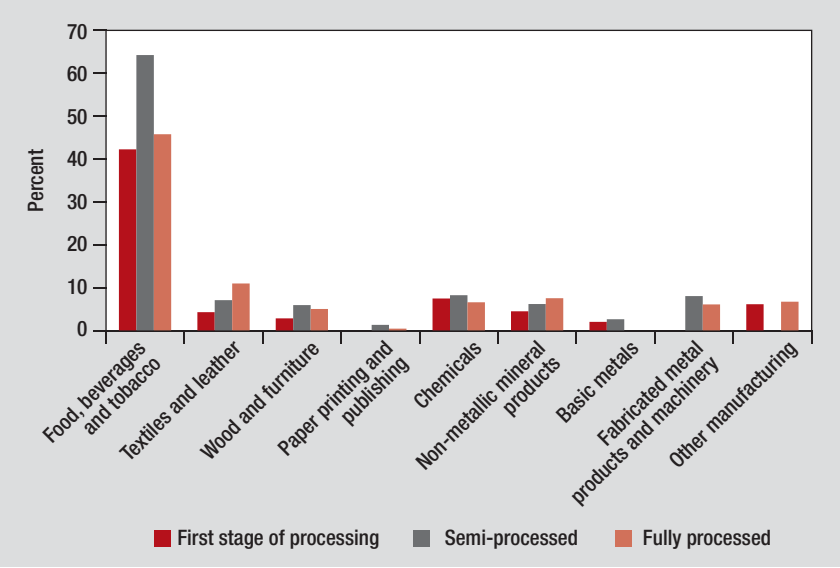
TABLE 6/
Average Tariffs on Korean Imports, Selected LAC Countries

Sector	Argentina	Brazil	Colombia	Mexico	Peru
Overall	10.38	12.33	9.58	5.95	2.44
Agriculture	13.44	14.02	15.64	13.16	1.41
Manufacturing	10.38	12.42	9.61	5.93	2.47
Mining	10.87	9.15	9.95	5.95	2.29

Source: BID-INT using data from TRAINS and COMTRADE data.
Note: Averages are weighted using exports to the world. Trade and tariff data is for 2009.

[2] Mesquita Moreira, *Industrialization, Trade and Market Failures*. Macmillan, 1995 and Korea's Trade Policy review and WTO tariff data.

FIGURE 7/
Korea's Tariff Escalation by 2-digit ISIC Industry, 2008



Source: WTO Korea Trade Policy Review 2008.

High tariffs are also compounded by non tariff barriers (NTBs), which on the Korean side mainly take the form of tariff rate quotas (TRQs) to LAC's agricultural exports, with "in-quota" tariffs ranging from 0 to 46% and "off-quota" rates as high as 750% (see Table 7).[3]

On Latin America's side, there are concerns about the use of non-automatic import licenses, reference prices and discriminatory taxes against Asian exports, particularly in Mercosur countries, as well as concerns about the growing use of anti-dumping measures. However, Table 8 shows that Korea has not been the main target of these measures and that the number of new anti-dumping investigations actually decreased in the last decade.

[3] TRQs are a protection mechanism that raises import tariffs after a certain volume of imports is reached. See Korea Trade Policy Review, 2008, WTO.

TABLE 7/
Korean Tariff-Rate Quotas (TRQs) for Selected Agricultural Products

Products	Quota (tons)	Average in-quota tariff	Average out of quota tariff
Live animals[1]	466,051	0.0	58.9
Dairy, eggs, honey and edible products	406,782	28.6	105.0
Products of animal origin	9,968	6.5	21.8
Live trees & other plants	1,983,500	8.0	18.0
Edible vegetables	282,213	29.1	455.1
Edible fruits and nuts, peel of citrus/melons	70,370	46.4	311.0
Coffee, tea, mate & spices	16,246	40.0	388.9
Cereals	93,924	8.2	397.7
Milling industry products	278,150	9.6	431.2
Oil seeds/misc. grains / med.plants / straw	1,299,490	18.5	496.8
Lac, gums, resins, etc	170	20.0	754.3
Animal or vegetal fats, oils and waxes	668	40.0	630.0
Sugar & sugar confectionary	18,806	20.0	114.0
Preps of vegetables, fruits, nuts, etc	4,907	40.0	63.9
Misc. edible preparations	114	20.0	754.3
Beverages, spirits and vinegar[2]	10,333,800	30.0	270.0
Residues from food industries, animal feed	52,868	4.7	49.0
Oils & resinoiods, perfumery, cosmetic or toilet preps	57	20.0	754.3
Albuminoidal sub, starches, glues, enzymes	456,920	8.0	360.4
Silk, inc. yarns & woven fabrics thereof	10,159	6.8	51.1

Source: Trade Policy Review Korea 2008, WTO.
[1] Unit are birds or heads. [2] Units are liters.

TABLE 8/
Year and Number of Anti-Dumping Investigations Launched against Korea, Selected LAC Countries

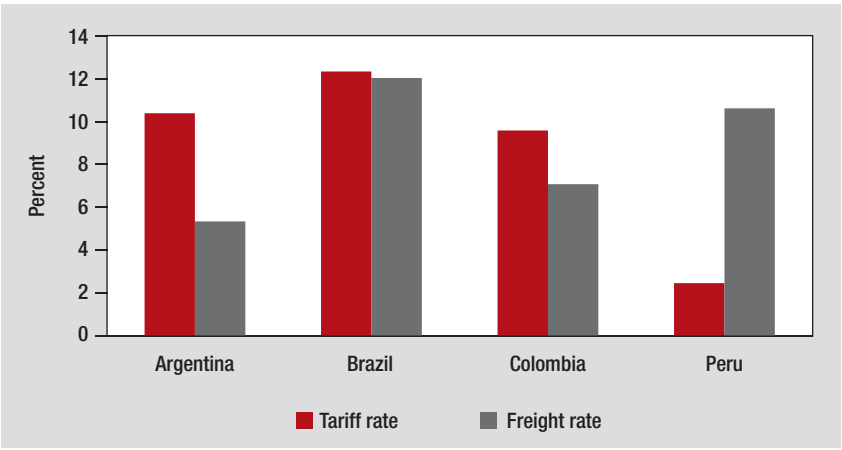
Argentina	1995 (1), 1998 (1), 1999 (2), 2000 (1), 2001 (3), 2002 (1), 2004(2)
Brazil	1993 (1), 2000(2), 2001 (1), 2004 (1), 2007 (1), 2010 (3)
Chile	2000 (3)
Colombia	1995 (1), 1998 (1), 2001 (1)
Mexico	1992 (3), 1993 (4), 1999 (1), 2000 (1)
Peru	1994 (1), 1995 (1)

Source: World Bank Global Anti-dumping database.

…and Transport Costs

It has been shown that because of trade liberalization, crumbling infrastructure and the characteristics of the goods being exported, transport costs for LAC are often as high as or higher than traditional trade barriers such as tariff and non-tariff barriers.[4] Transport costs are particularly relevant for the region's trade with Asia because of the distance involved and the composition of the region's exports, which include "heavy" products such as high weight-to-value natural resources, whose freight costs are a significant part of the final CIF (cost plus insurance plus freight) price.

Unfortunately, transport cost data are not readily available for both sides of the bilateral trading relationship. There is, however, reliable information for some LAC countries on the transport costs of their imports from Korea. As can be seen in Figure 8, ad-valorem freight rates for imports from Korea (measured as freight expenditures divided by the value of imports) are in most cases close to or even higher than tariff rates.



Source: INT-BID using COMTRADE and INTrade data. Averages are weighted using Korea's trade data.

FIGURE 8/
Tariffs and Ad Valorem Freight Expenditures on LAC's Imports from Korea, 2009

[4] Mesquita Moreira, Mauricio; Christian Volpe and Juan Blyde: *Unclogging the Arteries: The Impact of Transport Costs on Latin American Trade*. IDB and Harvard University Press, Washington DC, 2008.

Some Important But Still Limited Initiatives to Address These Obstacles

In the last five years, there have been important initiatives to address these issues, such as Korea's free trade agreements (FTA) with Chile in 2004, and with Peru this year. Table 9 shows the key statistics for the Korea-Chile liberalization schedule, which is quite comprehensive, involving goods, services and investment. But, it also includes some notable exemptions. Korea's elimination of agricultural tariffs is limited to 70% of the goods, with just 15.6% of them being granted duty free status in the first year. Chile, on the other hand, agreed to the gradual elimination of 99.8% of its tariffs on manufacturing goods, but only granted duty free lines to 30.6% of them in the first year and excluded some of Korea's most important exports, such as refrigerators and washing machines.[5]

A rigorous and comprehensive evaluation of this agreement has yet to be made, but since the agreement was signed bilateral trade has grown at an average annual rate of 22.3%, which is particularly impressive when compared to the growth of Chile's and Korea's trade with the rest of the world (15.2% and 10.6% respectively). Over 90% of Chile's exports are concentrated in copper, ores slag, wood pulp, organic chemicals and meat, whereas Korea's exports are mainly vehicles, mineral fuels, electrical equipment and plastic products.

TABLE 9/
FTA Korea-Chile, Schedule of Reductions

			Years after the Agreement			
Grantor	**Beneficiary**	**Tariff Lines**	**5**	**10**	**15**	**20**
Korea	Chile	11,322	93.0	96.0	96.0	96.1
Chile	Korea	7,957	75.5	94.8	98.5	98.5

Source: INTrade, BID.

Peru's FTA with Korea is as comprehensive as Chile's, involving goods, services and investments. Under this agreement, complete tariff elimination will take place on most items over the next 10 years, except for approximately 100 agricultural products, such as rice, onion and garlic, that were excluded from this rule. Korea will eliminate tariffs on 87% of the products right away (for example: minerals, tires, coffee, sugar and bicycles), and Peru will do the same in respect to 69% of all products (for example: TV's, large vehicles and

[5] Inkyo Cheong and Jungran Cho. *Journal of Korea Trade* Vol. 13, No. 2, May 2009, 109–126.

automobile parts).[6] Since the agreement just recently came into effect (August 2011), it is too early to evaluate its impact, but some estimates project a 15% increase in Peru's exports to Korea and a 27% gain in Korea's exports to Peru.[7]

Although important, particularly for showing the political will to improve the status quo, the regional coverage of these agreements is still too limited to make a significant dent on the existing barriers. This picture can change if the agreements being negotiated with Mexico and Colombia go ahead and, particularly if the preliminary evaluations of FTAs with MERCOSUR and Central America, currently underway, come to fruition.

Government initiatives, though, do not have to be restricted to FTAs, whose complexity usually means extended periods of negotiation and implementation, particularly in the current volatile global environment. Policy measures to improve trade facilitation and reduce transports costs can be implemented much faster and reap sizeable benefits. Customs cooperation and changes in the regulatory environment to boost competition in transport services are examples of initiatives that could be rapidly implemented.

[6] Arirang News Korea, 08/01/2011. http://www.arirang.co.kr/News/News_View.asp?code=Ne2&nseq=118738

[7] "Korea-Peru Free Trade Agreement. Joint Feasibility Study." May 2008. Available at: http://www.acuerdoscomerciales.gob.pe

Investments are Following Trade, but Only on the Korean Side

The recent boom in trade between LAC and Korea has been followed closely by a considerable amount of Korean foreign direct investment (FDI), in sharp contrast with the region's recent experience with China. As can be seen in Figure 9, China's investments only took off in the late 2000s and even then these investment flows were significantly lower than those of Korea, despite a trade volume that was nearly five times higher at the end of the period. This performance put Korea behind only Japan in the ranking of Asian investors in LAC, accumulating 5.1 billion in FDI in the last seven years, an amount that is close to three times that of China's (Figure 10).

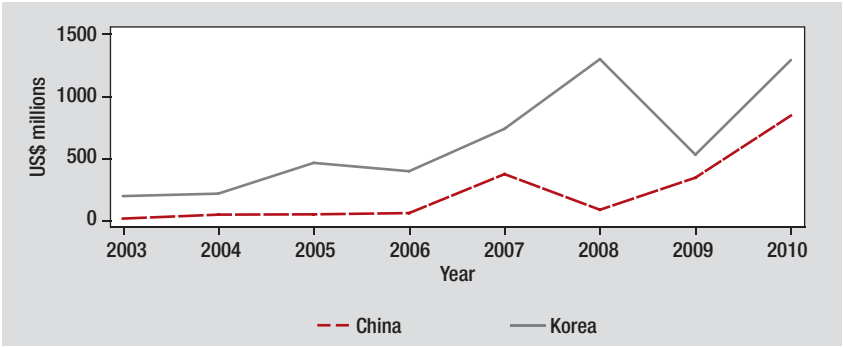


FIGURE 9/
Korea and China, FDI in LAC, 2003–2010

Source: IDB with data from Korea Eximbank and Ministry of Commerce of China.

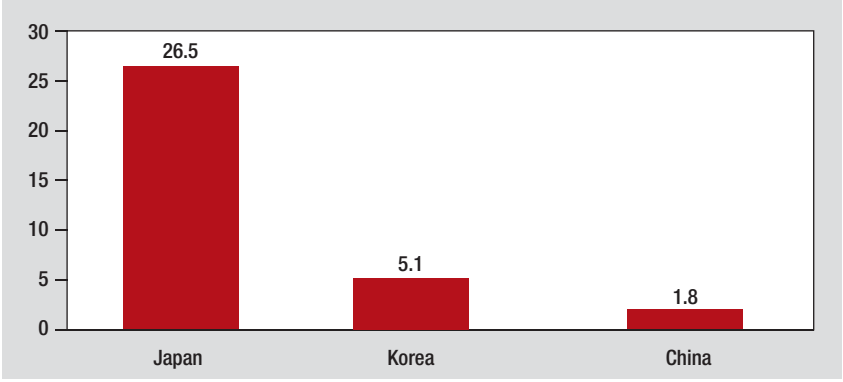


FIGURE 10/
Japan, Korea and China Foreign Direct Investments in LAC. Cumulative Flows, 2003–2010 (US$ billion)

Source: IDB-INT with data from Jetro, Korea Eximbank,Ministry of Commerce of China.

As is the case with trade, Korean FDI flows are less geographically concentrated than China's (Table 10). The Southern Cone also comes on top, with Brazil (nearly half of the flows), Peru and Colombia being among the most important destinations, but Mexico bucks this trend—with a volume of investments only second to Brazil. Central American countries such as Guatemala and Honduras also appear among the top ten recipients in the last decade. As a share of total LAC FDI inflows, Korea's share is still modest, but has been increasing steadily, reaching 1.1% in 2010. LAC represents a slightly more relevant destination for Korea's FDI outflows, with an average of over 5% a year for the past decade, excluding tax havens.

The bulk of Korea's investment went into mining, with an accumulated share over the last ten years of approximately 36%, with manufacturing coming in second with 20%. Services played a minor yet relevant role, and investment in agriculture was virtually nonexistent. All in all, these numbers paint a more diversified picture across sectors than those presented for China (which might also explain the differences in geographic allocation). This impression is reinforced in a country by country analysis. Over 95% of Korean investments in Peru were allocated to mining, but in Brazil (see Box 1) and Mexico (Box 2) manufacturing attracted 21% and 60% of the inflows respectively, helping form the basis for a more balanced and diversified bilateral relationship.[8]

On a negative note, Korea's robust investments in LAC are far from being matched by the region's investments in Korea. These investments

Box 1/ Hyundai – Establishing its Manufacturing Footprints in Brazil

Earlier this year, Hyundai Motor Company, the largest automaker in Korea, started construction of a new plant in Piracicaba, Sao Paulo, which is to become its first in Latin America. Total investment by Hyundai on this project amounts to 600 million dollars, and it was accompanied by an effort by local authorities who have provided support to the project in the form of tax incentives and infrastructure investments among others.

This plant will have complete vehicle production facilities, and it is expected to be up and running by the second half of 2012, although not immediately to its fully planned capacity of 150,000 units per year. All cars produced in this plant will be flex-fuel (ethanol-gasoline) to address the characteristics of the local markets.

In addition, 8 parts suppliers will enter the market with Hyundai to provide for the plant's needs, creating 3,800 in total.

Source: Hyundai Motor (http://worldwide.hyundai.com) and press.

[8] Korea Eximbank.

TABLE 10/
Korea's Outward Foreign Direct Investment in LAC (flows, million US$), 2000–2010

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Argentina	1.28	5.26	6.66	0.00	0.23	0.00	5.09	4.13	7.24	2.73	2.03
Belize	0.00	0.00	0.00	0.00	3.44	0.00	0.00	3.00	0.00	0.00	0.00
Bolivia	10.20	1.36	4.33	3.92	0.65	0.97	0.15	0.00	0.31	3.87	9.86
Brazil	28.51	18.82	3.07	6.98	19.89	174.66	110.20	264.79	635.09	131.53	1051.15
Chile	1.00	0.00	0.00	5.50	11.51	0.60	4.31	26.30	2.63	6.05	18.93
Colombia	11.00	0.00	0.00	0.10	0.01	0.49	4.86	21.93	0.02	13.08	26.31
Costa Rica	0.00	0.00	0.25	0.27	5.80	0.12	3.63	1.75	0.00	1.13	0.00
El Salvador	3.23	0.49	5.00	0.20	1.70	1.35	7.29	5.30	0.00	2.00	5.00
Guatemala	10.45	2.01	4.50	9.82	3.30	14.27	0.11	17.10	5.70	4.04	0.60
Haiti	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.00	6.13	3.20
Honduras	0.51	8.85	18.48	10.20	5.10	6.77	9.06	0.00	2.00	6.73	0.00
Jamaica	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.12	0.01
Mexico	21.32	17.87	45.70	21.14	25.34	71.05	53.08	119.98	304.98	55.15	64.01
Nicaragua	0.81	0.01	0.50	2.68	7.76	4.50	3.46	1.03	0.60	10.05	2.65
Paraguay	0.00	0.00	0.60	0.86	0.62	0.12	0.28	0.00	0.00	0.00	0.00
Peru	25.02	16.64	86.92	113.72	76.80	33.32	61.64	94.10	82.15	40.14	48.27
Puerto Rico	0.00	0.00	48.43	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Uruguay	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.09	4.23	2.97
Venezuela	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.14	0.00

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TABLE 10/
Korea's Outward Foreign Direct Investment in LAC (flows), 2000–2010
(Continued)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
LAC	113.66	88.59	229.34	196.41	216.06	462.87	395.95	736.64	1295.70	528.67	1287.89
Share of LAC's total inflows	0.10	0.10	0.40	0.40	0.30	0.60	0.50	0.60	1.00	0.70	1.10
Share of Korea's total outflows	2.70	4.40	7.90	4.90	3.80	7.30	3.50	3.70	6.40	3.10	6.70

Source: Korea Eximbank. LAC's total does not include tax havens.

Box 2/ Samsung Electronics – Mexico

Samsung Electronics started its operations in Mexico in 1988 with the construction of an electronics complex in Tijuana, Baja California. Samsung Electronics Mexico, the local subsidiary, established its corporate offices in Mexico City in 1995 mainly dedicated to four product lines: TV, video and audio, white line, information systems, and telecommunications.

In 1996, Samsung Electronics opened a local production plant in the industrial park El Florido in Tijuana. This plant required an initial investment of 200 million dollars and it generated 2,300 jobs. Unlike traditional "maquiladoras" in the area, this vertically integrated plant sourced its materials locally, some of them through Korean suppliers that settled in the area to accommodate the new demand generated by the plant. Around 75% of its production was initially meant for the American market through NAFTA. Earlier in 2011 the company announced an additional investment of US$ 70 million to expand this plant.

In 2003 a second plant devoted to the production of refrigerators and air conditioning devices was opened in Queretaro, a city 120 miles northeast of Mexico City, with a capacity of 500,000 units a year. In this instance the intended market was not just the U.S., but also Central and South America. Announcements of further investments in this plant were made in 2008, 2009 and 2010, totaling 180 million dollars and creating over 3,000 new jobs.

Samsung Electronics Mexico is now based in Mexico City, with a presence in Veracruz, Guadalajara, Culican and Monterrey and production plants in Tijuana, for monitors and TVs, and Queretaro, for its white line, employing over 6,000 workers.

Source: Samsung Electronics (http://www.samsung.com/us/news) and the press

have been minimal, amounting to just US$ 47 million in the last decade, about 0.05% of total inflows into Korea, and 0.06% of outflows from LAC. The largest investors, excluding tax havens, were Uruguay, Chile and Brazil (see Table 11). These low levels of investment clearly undermine the ability of Latin American and Caribbean firms to penetrate the dynamic Korean market and to exploit opportunities to diversify their exports.

TABLE 11/
Accumulated OFDI Flows to Korea, Selected LAC Countries, 2000–2009

Country	(million US$)
Uruguay	21.10
Chile	8.70
Brazil	4.10
Belize	2.10
Venezuela	1.50
Total	46.80
Share of LAC's outflows	0.02
Share of Korea's inflows	0.04

Source: INT-IDB using data from OECDstat. Tax havens are excluded from totals.

Cooperation is on the Rise

In line with other experiences of integration, the boom in trade and investment between LAC and Korea has been followed by a number of technical and political cooperation initiatives. In the best spirit of South-South cooperation, these initiatives involve most governments in the region and cover more than 20 areas, ranging from science and technology to criminal justice (see Table 12).

However numerous and diverse, these initiatives probably just scratch the surface of a rich pool of opportunities for Korea and LAC to learn from each other. Korea can provide valuable lessons coming from its successes in mass and elite education, information technology, transport infrastructure and clean energy technologies. LAC can provide success stories in agriculture, mining, aeronautics and biofuels, just to name a few.

Moving forward, cooperation between the two economies could be expanded and strengthened in areas which can have a direct impact on trade and eventually on investments such as customs procedures and technical and sanitary and phytosanitary standards, which could help bring trade costs down and avoid costly disputes. FTAs are naturally good vehicles for addressing those issues, but they are not the only ones.

Bilateral cooperation would also benefit from a stronger institutional framework. Memorandums of understanding (MOUs) and protocols have been the institutional vehicle of choice for the overall majority of the cooperation initiatives. Although these are versatile instruments—for one thing, they do not normally require parliamentary approval—the lack of clearly defined and legally binding objectives (including the sources of funding) often means several years of delayed implementation, if not a complete failure of implementation.

One last point is about evaluation. Despite the innumerous agreements signed between Korea and LAC, there is hardly any quantitative information that would allow for an objective assessment of their impact. One has to rely on the often subjective assessment of government officials to have a sense of how effective these initiatives have been. An effort to collect data and assess results would help countries design more efficient cooperation mechanisms to maximize scarce resources.

TABLE 12/
Korea-LAC Bilateral Agreements and Cooperation Initiatives

	Brazil	Uruguay	Paraguay	Chile	Peru	Ecuador	Colombia	Mexico	Panama	Guatemala	Costa Rica	El Salvador	Nicaragua	Honduras
Cultural	X			X	X	X	X	X	X	X	X	X	X	X
Consular (diplomatic, business, journalism visas)	X	X	X	X	X	X	X	X	X	X	X	X	X	
Consular (general visas)	X			X	X		X	X	X	X	X	X	X	
Investment promotion and protection	X		X	X	X			X	X	X	X	X	X	X
Trade	X	X		X	X		X	X		X	X	X		
Technology & Science	X	X		X	X	X	X	X	X		X			
EDCF	X					X				X		X	X	X
Air Traffic	X			X	X			X	X					
Extradition	X		X	X	X					X				
Economic		X		X	X	X		X						
ADT				X				X						
Customs				X				X						

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TABLE 12/
Korea-LAC Bilateral Agreements and Cooperation Initiatives
(Continued)

	Brazil	Uruguay	Paraguay	Chile	Peru	Ecuador	Colombia	Mexico	Panama	Guatemala	Costa Rica	El Salvador	Nicaragua	Honduras
Volunteers						X			X					
Tourism	X				X			X						
Fishing					X	X								
Economic and social development								X						
FTA				X	X									
Criminal Justice	X							X						
Nuclear energy	X			X										
Driving License				X										
Telecomunications								X						
Antarctic					X									
Energy and mineral resources	X													
Taxation	X													

Source: Ministry of Foreign Affairs, Korea (MOFAT), and ministries of foreign affairs of LAC countries.

Summing Up: Taking Opportunities to Break the Mold

LAC's booming trade with Korea is a powerful reminder that the regions' opportunities in Asia are not just limited to China. A country such as Korea has the economic size and resource endowments to also sustain a robust trade and investment relationship with the region. As in the case with China, the complementarity in resources endowments has been, and is bound to be for the foreseeable future, the main driver for bilateral trade and investments. However, fundamental aspects of the two economies provide the basis for this relationship to go beyond the canonical Asia-LAC model of commodities for machines. Korea's high per capita income offers opportunities to add value to food and mining products and the greater degree of specialization of its industry in cutting edge technologies suggest more opportunities for intra-industry trade and lower risks of trade frictions. The fact that LAC's exports to Korea show a greater degree of diversification than those to other countries in Asia is one sign that this is not just a theoretical possibility.

However, the consolidation of these promising trends will hinge critically on the government's abilities to bring down the remaining barriers to trade, which are still significant on both sides of the relationship, but are particularly damaging for LAC's agricultural exports. The Korea-Chile and Korea-Peru FTAs and other initiatives of this nature being currently negotiated are hopeful signs that the political will is there and that these barriers will eventually come down. This agenda, though, should not be restricted to traditional trade barriers or FTAs and should include trade facilitation and transports costs, which, despite being usually underestimated by trade analysts, are one of the major drags on LAC's trade, particularly with distant countries like those in Asia.

The figures on bilateral investment are another good reason to believe that LAC and Korea can go beyond the canonical model. Korea's investments have been following exports closely and with a level of diversification not seen in other LAC-Asia relationships. It has not been just about natural resources. There seems to be a clear interest from Korean manufacturers to take advantage of the proximity to LAC consumers, which, in turn, helps LAC to diversify its manufacturing base and exports, while diffusing tensions brought about by the trade imbalances—almost a fixture of the commodities-for-machine model. It is worrisome, though, that that there is so

little LAC investment activity in Korea, despite the obvious attractiveness of its market. LAC firms bear the main responsibility for creating new export opportunities and foreign direct investment, for its capacity to generate information and overcome trade barriers, is a well-tested strategy for meeting this challenge.

Of course, the well of opportunities opened up by a deeper LAC-Korea relationship would not be entirely exploited without efforts to boost cooperation in public policy. There is already a critical mass of initiatives in place, but they far from exhaust the possibilities available. Moreover, more binding and better-documented agreements, to allow for the evaluation of the results, would increase the efficiency of these initiatives. Closer and more intense cooperation would not only help to improve public policies and diffuse knowledge, but it is also likely to provide another boost to bilateral trade and investment.