Korea
New Frontiers in the Asia-Latin America Relationship

INTEGRATION AND TRADE SECTOR

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Highlights

- Trade between Korea and Latin America and the Caribbean (LAC) has experienced sustained, fast growth, increasing by 14 percent a year on average since 1990
- Despite a slowdown since 2013, total bilateral trade stood at US$ 41 billion in 2016—greater on a per-GDP basis than LAC's trade with China
- While Korea-LAC trade shares many similarities with the region's typical trade pattern with Asia, there are important differences: LAC's exports to Korea are both more diversified and more weighted towards manufacturing products
- Foreign direct investment (FDI) from Korea to LAC has also grown impressively, increasing more than six-fold between 2006 and 2016, with over 80 percent in manufacturing sectors
- Korea is the region's most active free trade agreement (FTA) partner in Asia after signing a major FTA with five Central American nations, adding to existing agreements with Chile, Colombia, and Peru
- Deepening and expanding these and other cooperation initiatives are critical to reducing lingering trade and investment barriers and making the most of this key trans-Pacific relationship

Introduction

Across Latin America and the Caribbean (LAC) and Asia, policymakers are grappling with the dual challenges of a tepid global economic recovery and policy uncertainty stemming from a rise in protectionism among developed economies. If there is a silver lining in this scenario, it is that governments and firms on both sides of the Pacific have responded by pursuing opportunities to strengthen and diversify economic relations between LAC and Asia with renewed vigor. These efforts are also opportune because trade between the two regions, after experiencing an unprecedented boom beginning in 2003, has contracted since 2014 amid low commodity prices and slower growth in China.

Korea is at the forefront of these trends. In the past year and a half alone, the Korea-LAC relationship has been bolstered by the entry into force of an FTA with Colombia, the signing of another major FTA with five Central American nations, and renewed discussions towards an additional agreement with Mexico. Korea has also deepened ties with the Pacific Alliance—a regional trade bloc made up of Chile, Colombia, Mexico, and Peru—and participated in talks aimed at reviving a LAC-Asia mega-regional trade agreement after the U.S. walked away from the Trans-Pacific Partnership (TPP) in January 2017.

In addition to this movement on the trade policy front, Korean and LAC firms are helping bring the relationship into a new era, seeking out opportunities for trade and investment in sectors such as software, entertainment services, and smart infrastructure that go beyond the scope of the "typical" LAC-Asia relationship. Small and medium enterprises (SMEs) are increasingly taking advantage e-commerce and social media to forge new commercial links between LAC and Korea. Meanwhile, the Korean government is sharing its expertise in innovative areas such as smart cities with officials in the region. Underscoring this future-looking orientation, President Moon Jae-in of Korea cited adapting to the "Fourth Industrial Revolution"—shorthand for the digital or big data revolution and advances in artificial technology, 3-D printing, and the Internet of Things—as a promising area for engagement with LAC during the 2017 Forum for East Asia-Latin America Cooperation (FEALAC) summit, which Korea hosted.

In advancing towards these goals, Korea and LAC have a solid basis to work from. Even at the height of the commodity boom, the Korea-LAC relationship distinguished itself from the broader LAC-Asia trend with greater diversity of LAC exports and a higher share of manufacturing goods in the region's export basket. In addition, the trade boom of the 2000s—LAC-Korea trade grew at an annual average of 21 percent between 2003 and 2011—was accompanied by a strong influx of investments in LAC by Korean firms. Total FDI flows amounted to 14.1 billion between 2003 and 2016, of which over 80 percent has been in manufacturing—a sharp contrast with China's FDI in LAC, which has overwhelmingly targeted natural resources. Importantly, investments remained strong over the past few years even as trade between LAC and Korea declined 6 percent a year on average since 2014. Korea has also carried out a robust cooperation agenda in the region, in areas such as trade facilitation, clean energy, and smart infrastructure, drawing on the country's technological leadership and remarkable experience of rapid growth since the 1960s.

While LAC and Korea are taking important steps to reignite trade and move the economic relationship in promising new directions, this is no time for complacency. Korea still lacks FTAs with LAC's three largest economies, and tariffs and non-tariff barriers continue to pose considerable obstacles to trade, including in sectors such as high-value added foods and beverages where LAC enjoys competitive advantages. In addition, while Korean FDI in LAC has been a strong point of the relationship, LAC could do more to attract investments in research and development (R&D) from Korea's innovative multinational firms. Meanwhile, LAC's own multilatinas have, on the whole, barely scratched the surface of Korea's large and affluent consumer market, although there are some important exceptions to that trend.

This report discusses the current state of play in LAC-Korea economic relations and its evolution over the past couple decades. Trade between Korea and LAC actually began to gain steam in the 1990s, presaging the epic Asia-LAC trade boom of the 2000s. As the LAC-Asia relationship enters a new phase, Korea continues to show the way forward, reflecting the key opportunities and challenges of LAC's all-important ties to the world's largest region.

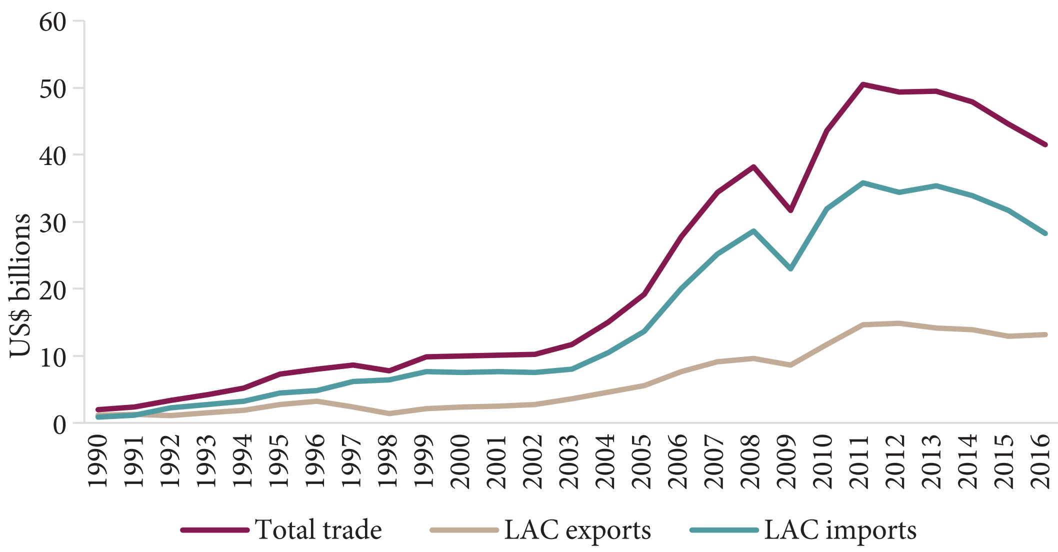
II

Trade: A New Twist on the LAC-Asia Story?

The region's trade with Korea has for the most part adhered to what we can now call the "typical" LAC-Asia trade pattern: inter-industry exchange of the region's natural resources for Asian manufactured goods. Despite fitting this overall trend, however, the LAC-Korea trade relationship has several features that distinguish it from other Asian partners and are worth considering here.

First, trade between LAC and Korea experienced fast growth beginning in 1990, in some ways anticipating the next decade's LAC-Asia trade boom, although the years of the mid-2000s clearly represent a breaking point in economic ties (see Figure 1). Despite a contraction since 2013, total trade has still grown by an impressive annual average of 14 percent since 1990. This rate exceeds that of LAC's trade with Japan (6 percent) and Singapore (12 percent) over the same period, putting Korea among LAC's most dynamic trade partners in Asia despite receiving considerably less attention than China.

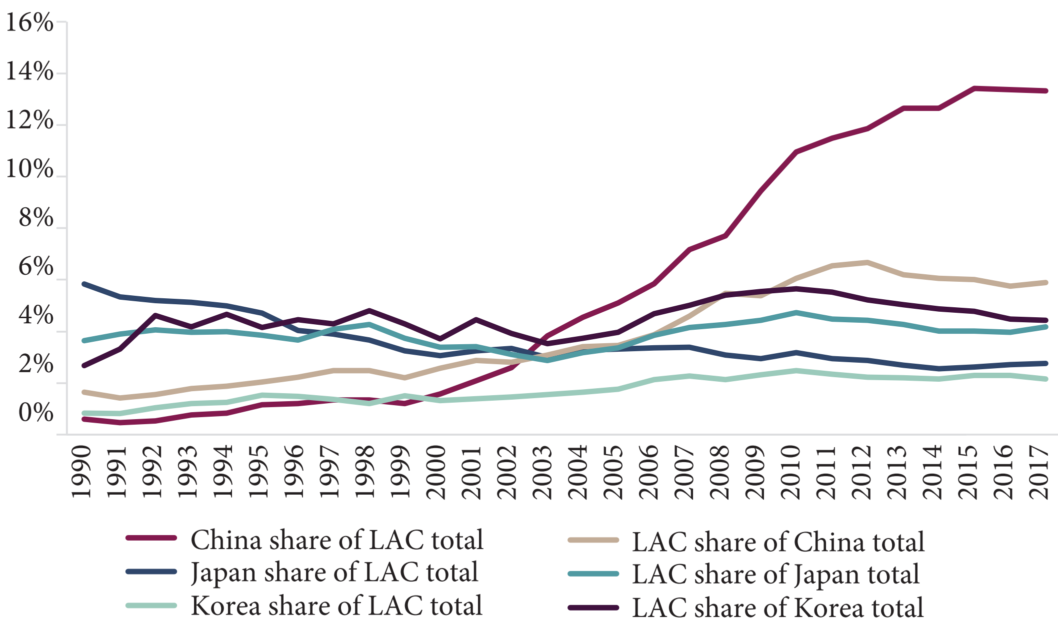
FIGURE 1: Trade between LAC and Korea



Source: IMF Direction of Trade Statistics (DOTS), as reported by LAC countries

Thanks to this steady expansion, the region became an increasingly important trade partner for Korea. LAC's share of Korea's total trade grew from 2.7 percent in 1990 to 5.7 percent by 2010 (compared with 6.1 percent of China's total trade and 4.7 percent of Japan's in the same year). However, the recent trade slump has seen that share fall to 4.5 percent as of 2016 (see Figure 2).

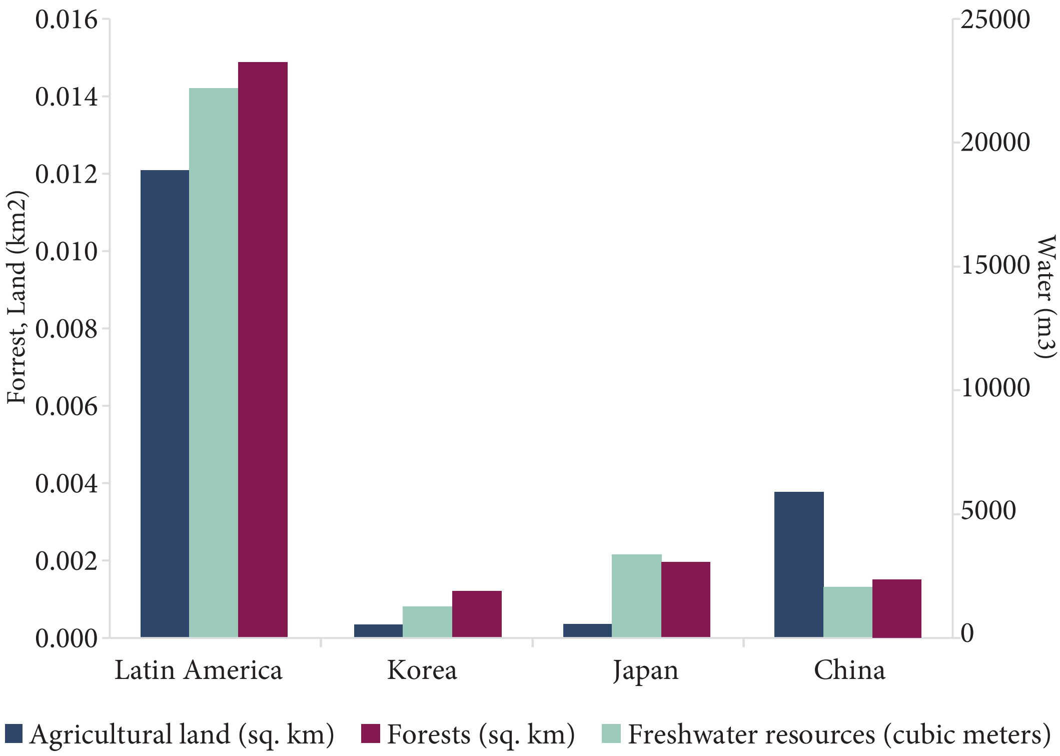
Figure 2: LAC Share of trade with selected Asian partners



Source: DOTS, as reported by LAC countries
Note: Data for 2017 is through July

The same structural dynamics underpinning the broader LAC-Asia relationship are also clearly at play in the region's trade with Korea. A net importer of energy, metals, and many agricultural commodities, Korea enjoyed 4.2 percent growth on average from 2000 to 2016. Even with a notable slowdown starting in 2012, this performance generated strong demand for imports of these raw materials and natural resources. At the same time, commodity prices rose sharply during the first decade of the 21st century, driven by demand from Asia and China in particular. As Figure 3 underscores, basic differences in endowments make LAC a likely source of natural resource exports to Korea.

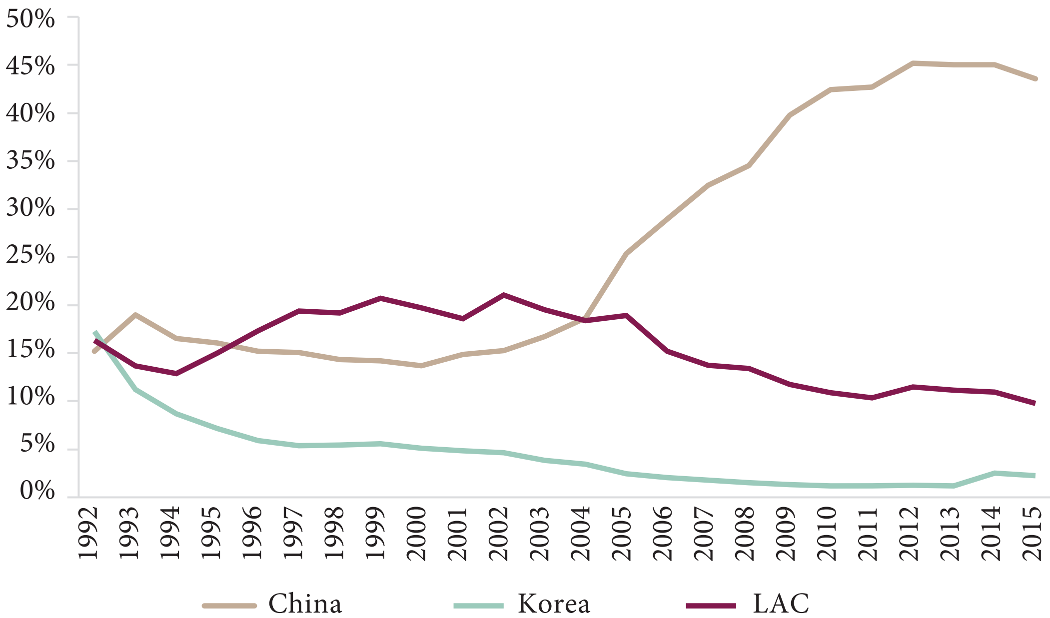
FIGURE 3: Selected natural resources per capita: China, Japan, Korea and LAC, 2014



Source: World Bank, World Development Indicators

On the import side Korea, like Asian economies in general, has mostly provided manufactures to the region (see Table 1). In the case of Korea, however, manufacturing exports to LAC have tended to be in more high-tech, capital-intensive industries, in contrast to China's exports to the region, which continue to be relatively more weighted towards labor-intensive sectors (even as China has upgraded in recent years). One can clearly see the diverging specialization of Korean and Chinese exports, and the implications for LAC manufacturers, from the trajectory of each economy's share of US textile and apparel imports—a classic labor-intensive, relatively low-skilled manufacturing sector. LAC clearly lost market share to China beginning in the early 2000s, while Korea had already moved into higher value sectors by the mid-1990s (see Figure 4).

FIGURE 4: Korea, China, and LAC's share of textile and apparel exports to the US



Source: UN Comtrade
Note: Textile and apparel defined as HS categories 50-64

This pattern of trade suggests Korean producers are less likely to pose a direct competitive threat to LAC firms, leading to fewer trade frictions. In addition, Korean firms' positioning at the "high-end" of manufacturing value chains could create opportunities for intra-industry trade with LAC countries.

In terms of sub-regional patterns, Korea's exports to LAC are highly concentrated in its two largest economies: Brazil and Mexico (see Table 2), with the latter emerging as by far the most important destination for Korean exports in recent years. In addition to its large domestic market, Mexico's high share of Korean imports reflects its position as a manufacturing hub and export platform to the United States. Korean auto and electronics producers have invested heavily in Mexico in recent years, and these operations boost demand for imported intermediate and capital goods (see section IV).

TABLE 1: Top LAC imports from Korea, 2013-2016

Product description	Share	Cumulative share
Parts of radio, television, and radar equipment	8.4%	8.4%
Vehicles with cylinder capacity between 1500cc and 3000cc	6.6%	15.0%
Electronic integrated circuits, memories	4.7%	19.7%
Motor cars and other motor vehicles with cylinder capacity between 1000 cc and 1500 cc	3.4%	23.1%
Parts of telephone sets, including telephones for cellular or other wireless networks	3.0%	26.1%
Other liquid crystal devices, appliances, and instruments	2.7%	28.7%
Other electronic integrated circuits	1.9%	30.7%
Petroleum oils and oils obtained from bituminous minerals, other than crude	1.8%	32.5%
Electronic integrated circuits, processors	1.8%	34.3%
Telephones for cellular or other wireless networks	1.3%	35.6%

Source: UN Comtrade

LAC's exports to Korea, meanwhile, are concentrated in a handful of countries and products that reflect their strong bias towards mineral and agricultural commodities (see Table 3). Chile and Brazil alone account for nearly 60 percent of LAC exports to Korea since 2012, driven overwhelmingly by a few commodities: copper in the case of Chile, which made up 62 percent of its exports to Korea (including refined copper); and iron ore, soya extract, and maize for Brazil (49 percent combined). It is worth noting that Mexico has seen its share of the region's exports to Korea grow in recent years to 15.4 percent, compared with 9.2 percent for the previous five-year period. However, even for Mexico, the story is much the same: a handful of commodities such as petroleum, lead and zinc make up over 40 percent of total exports to Korea.

Despite these broad trends, LAC's exports to Korea do diverge somewhat from the typical LAC-Asia pattern in two additional important ways. As Figure 5 shows, they are notably less concentrated than the region's exports to China, Japan, or the ASEAN bloc. This diversification, based on two commonly-used measures of export concentration, reflects LAC firms' greater success selling more sophisticated, manufactured goods to Korea than to Japan or China.

TABLE 2: Top LAC importers from Korea, 2012-2017*

Country	Share (%)
Mexico	44.6
Brazil	24.9
Chile	6.7
Peru	4.6
Colombia	3.7

Source: DOTS, as reported by LAC countries
*Data for 2017 through July

TABLE 3: Top LAC exports to Korea, 2013-2016

Product	Share	Cumulative share
Copper ores and concentrates	12.4%	12.4%
Refined copper cathodes and sections thereof	10.4%	22.8%
Lead ores and concentrates	6.2%	29.0%
Other maize	5.7%	34.7%
Non-agglomerated iron ores and concentrates	4.9%	39.6%
Zinc ores and concentrates	4.7%	44.4%
Oil-cake and other solid food residues	4.4%	48.7%
Crude petroleum oils	4.3%	53.1%
Silver ores and concentrates	3.2%	56.2%
Unrefined copper; copper anodes for electrolytic refining	2.5%	58.8%

Source: UN Comtrade

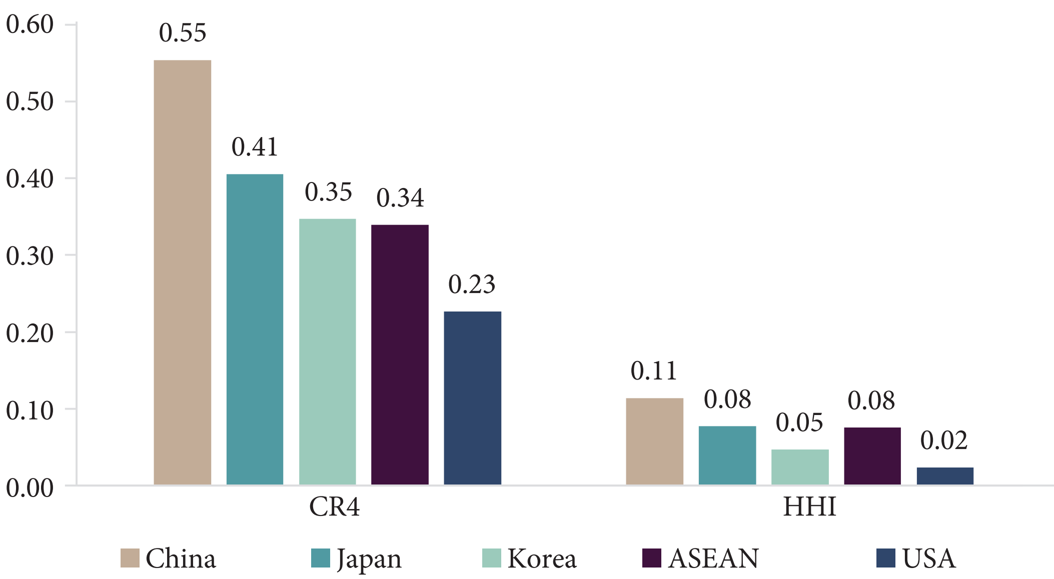
Korea absorbs a considerably higher share of manufacturing exports from LAC than does China or Japan (see Figure 6). In addition, among the region's top ten manufacturing exports to Korea since 2013, five are high-or medium-technology products, including telecommunications equipment, vehicle parts, and medical instruments. However, the share of manufacturers declined from 28.7 percent between 2008 and 2010 to 22.2 percent between 2013 and 2016, suggesting that greater efforts by policymakers to overcome trade barriers, discussed in more detail below, are needed to support LAC's ability to export manufactures to Korea.

TABLE 4: Top LAC exporters to Korea, 2012-2017*

Country	Share (%)
Chile	31.2
Brazil	27.6
Mexico	15.4
Peru	9.1
Argentina	6.6

Source: DOTS, as reported by LAC countries.
*Data for 2017 through July

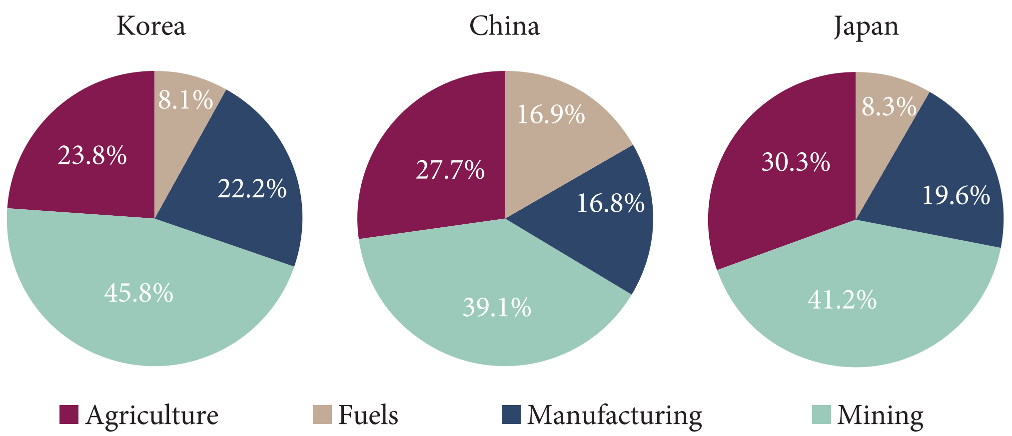
FIGURE 5: Concentration of LAC's Exports to Selected Partners, 2013-2016



Source: UN Comtrade
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.

One area where trade with Korea clearly does follow the broader LAC-Asia pattern is trade balances. The region maintains a considerable overall trade deficit, despite the fact that its exports have grown slightly faster (7 percent annual average) than its imports from Korea (4 percent) since 2010. As Figure 7 shows, every LAC country has accumulated a trade deficit with Korea, with the exception of Chile and Bolivia—two major commodities exporters with small domestic markets that limit the capacity to absorb Korean manufacturing imports.

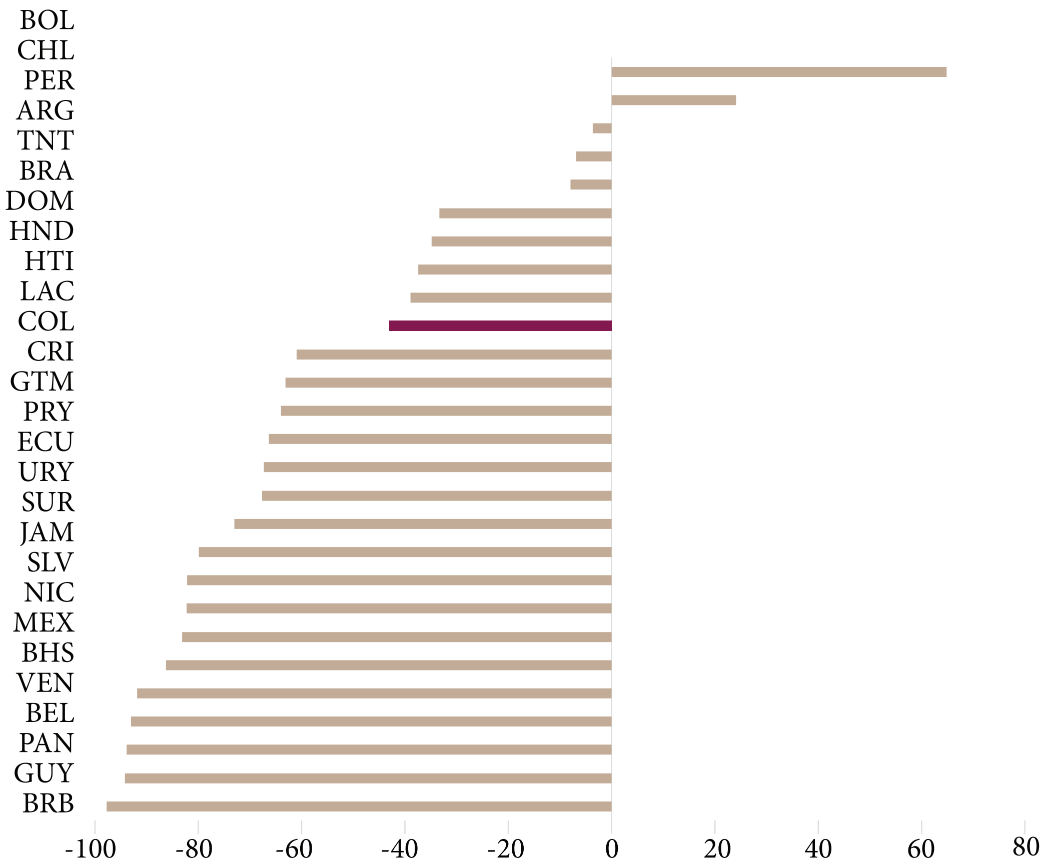
FIGURE 6: Composition of LAC exports to selected Asian countries, 2013-2016



Source: UN Comtrade

To sum up, trade with Korea exhibits several distinguishing features even within the broad commodities-for-manufactures pattern. The Korean market has proven more accessible to a wider array of LAC products, including a higher share of manufacturing goods, while Korea's exports are less likely to represent a direct competitive threat for the region's producers. In addition, trade between Korea and LAC began to grow rapidly at least a decade before the now-famous post-2003 LAC-Asia trade boom. These stylized facts are largely a reflection of Korea's more advanced level of development—after decades of rapid growth, Korea occupies the high-end of global manufacturing chains and, with a GDP per capita of over US$ 27,500 in 2016, boasts a large and prosperous consumer market.

FIGURE 7: LAC-Korea accumulated trade balances as a share of total trade, 2000-2016 (%)



Source: DOTS

The challenge for the region is to take full advantage of this opportunity moving forward. The structural characteristics of the Korean economy mentioned above will not automatically translate into dynamic Korea-LAC production chains and increasing value-added in the region's exports to Korea. As evidence of this, one need only look at the share of manufactures in the region's total exports to Korea, which, despite being higher than the shares for China and Japan, declined considerably between 2008-2010 and 2013-2016. In order to reverse this trend, and to capitalize on the opportunities of the LAC-Korea relationship, governments need to take a proactive approach to addressing the lingering barriers to trade and discovering new areas for trade and investment. As the next section discusses, some important trade barriers remain despite the expansion of FTAs and other cooperation initiatives between Korea and LAC. These issues must be front and center on the agenda as policymakers look to strengthen LAC-Korea ties.

Trade Costs: Progress and Pending Tasks

On the whole, both Korea and LAC are far more open to trade today than in the past. Both economies have considerably reduced average tariffs, done away with a host of non-tariff barriers, and developed extensive FTA networks, including a growing number of bilateral Korea-LAC deals. Despite these advances, trade costs—arising both from "traditional" tariff barriers, non-tariff barriers, and transport costs—continue to inhibit deeper LAC-Korea integration, and are especially prominent in sectors with large potential for LAC-Korea trade.

For starters, bilateral tariffs between Korea and several large LAC economies remain quite high in certain sectors despite the steady advance of trade deals in recent years (see Table 5).[1] LAC exporters face double-digit tariffs on agricultural goods to Korea, and in the cases of the region's three largest economies, these reach nearly prohibitive levels. In some cases, these goods also have to contend with tariff escalation, whereby products with more processing (and therefore generally higher value added) must pay higher tariff rates. Meanwhile, Korea's manufacturers and agricultural producers face high duties in several important markets in the region (Table 6).

TABLE 5: Average Tariffs on LAC Exports to Korea, Selected Countries

Sector	Argentina	Brazil	Colombia	Mexico	Peru
Overall	42.40	21.35	5.97	7.90	3.99
Agriculture	69.27	60.87	15.76	33.75	18.04
Manufacturing	7.01	5.01	6.67	6.41	0.06
Mining	2.55	2.18	2.65	3.86	0.03

Source: TRAINS and COMTRADE
Note: Averages are weighted by exports to the world. Trade and tariff data are for 2015. Preferential tariffs granted by Korea to Peru are included in the calculation.

Still, tariffs are most likely not the most pressing trade cost given the general trend towards liberalization in both economies. Non-tariff barriers (NTBs), which encompass technical barriers to trade,

1 The tariff data reported here are from 2015 and therefore do not reflect tariff reductions in the recently-implemented Colombia-Korea FTA.

quotas, and sanitary and phytosanitary measures, among other policies, often pose "hidden" but still formidable costs on firms. One example is tariff-rate quotas, where exporters pay a higher rate after a certain level of quantity, or quota, is reached. As Table 7 shows, LAC exporters to Korea face very high "out of quota" rates on several agricultural goods where the region enjoys a comparative advantage such as grains, fruits, and animal products. On the other hand, several of these products saw quota levels increase since 2012, meaning that larger quantities can be exported under the lower, in-quota rate. In addition, the WTO reported that a large share of tariff quotas imposed by Korea (40.5 percent) were not filled in 2015.

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

Sector	Argentina	Brazil	Colombia	Mexico	Peru
Overall	11.21	12.28	5.32	5.17	1.38
Agriculture	15.25	14.42	13.78	22.94	2.37
Manufacturing	11.92	13.15	5.96	5.91	1.62
Mining	7.15	7.59	2.09	1.01	0.34

Source: TRAINS and COMTRADE
Note: Averages are weighted by exports to the world. Trade and tariff data are for 2015 (Argentina, Brazil) and 2014 (Colombia, Mexico, and Peru). Preferential tariffs granted by Peru to Korea are not included in the calculation because of missing data.

Sanitary and phytosanitary requirements and similar product regulations, another important NTB, present further obstacles to exports that are generally hard to quantify. LAC countries, for example, have had to go through lengthy, product-by-product negotiations in order to gain sanitary approval for fresh fruits—a potentially important group of products where LAC could add value to its natural resource exports. Governments in LAC, meanwhile, have at times made use of import licensing requirements and special taxes against Asian imports, as well as anti-dumping measures. The latter, however, have become less common over the past decade, and only continue to be used in a couple of the region's major economies. Meanwhile, Korea has only initiated anti-dumping measures against LAC in two cases (see Table 8).

TABLE 7: Korean Tariff Quotas on Selected Agricultural Products, 2015

Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels	Change in quota level from 2012
Pure-bred breeding animals	0	89.1	1,067 heads	none
Milk and cream: in powder, granules or other solid forms, of a fat content, by weight not exceeding 1.5%	20	176	1,034 tonnes	none
Butter	40	89	420 tonnes	none
Natural honey	20	243% or ₩1,864 per kg	420 tonnes	none
Fresh manioc	20	887.4	50,000 tonnes	+45,000 tonnes
Malting barley	30	513	30,000 tonnes	+27,000 tonnes
Maize (corn) starch: for food	1.8	226	6,102.1 tonnes	none
Soya beans: for feeding	5	487% or ₩956 per kg	1,032,152 tonnes	+185,787
Rice flour	5	513	408,700 tonnes	none
Flour, meals and pellets, of meat or meat offal	5	9	3,210 tonnes	none

Sources: Trade Policy Review: Korea 2016 and 2012, WTO

Beyond tariffs and NTBs, firms wishing to trade between Korea and LAC face the challenge of moving their goods between the distant economies. It has been well-documented that transportation costs represent a major trade barrier for LAC due to a combination of poor quality domestic infrastructure, inefficient ports, lack of competition in transportation services sectors, and the high weight-to-value ratio of the region's main commodity exports.[2] As a result, freight rates exceed tariff levels for many of the region's trading relationships.

It is likely that this finding holds true for many products traded between LAC and Korea given the great distances involved and the large share of "heavy" goods—especially mineral and agricultural commodities—in LAC's exports to Korea. For these products, freight costs comprise a considerable portion of CIF (cost plus insurance plus freight), and thus cut into exporters' margins.

TABLE 8: Year and number of antidumping investigations launched by selected LAC countries against Korea and by Korea against selected LAC countries

Argentina	1992 (2) ,1993 (1) ,1994 (2) ,1995 (1), 1998 (1) ,1999 (2) ,2000 (1), 2001 (3), 2002 (1), 2004 (2) ,2010 (2) ,2012 (1), 2013 (1)
Brazil	1993 (1) ,2000 (2) ,2001 (1) ,2004 (1), 2007 (1) ,2010 (3) ,2011 (2) ,2012 (5), 2013 (3), 2014 (3), 2015 (1)
Chile	2000 (3)
Colombia	1995 (1) ,1998 (1) ,2001 (1), 2013 (1), 2014 (1)
Mexico	1992 (3) ,1993 (4) ,1999 (1) ,2000 (1), 2012 (1)
Peru	1994 (1), 1995 (1)
Korea	2006 (Argentina; 1), 2006 (Brazil; 1)

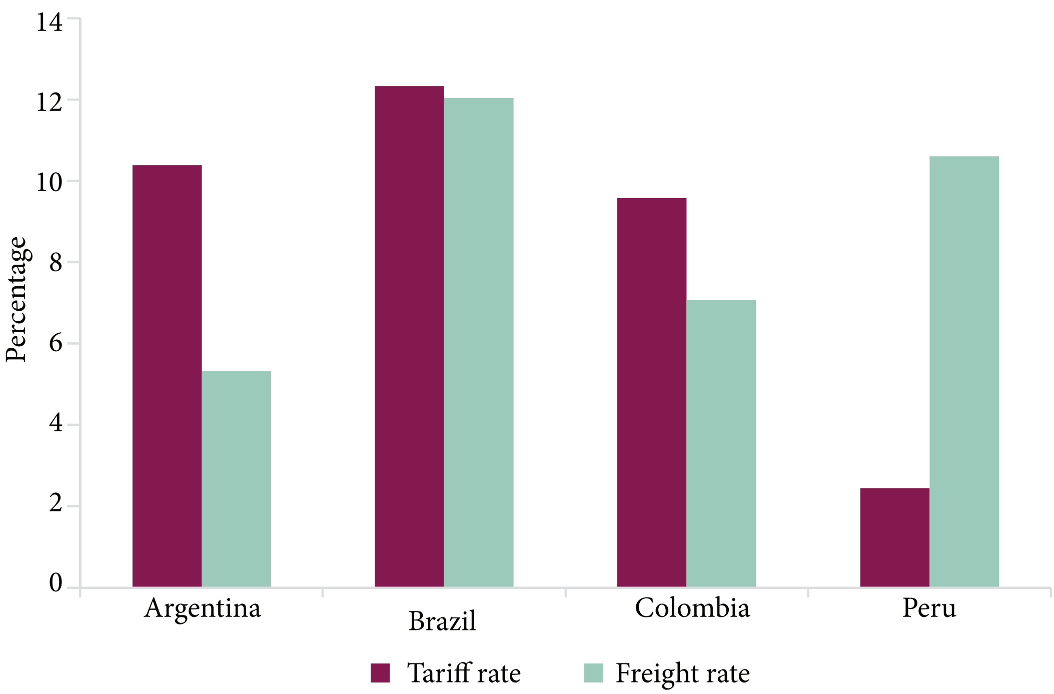
Source: World Bank Global Antidumping Database

Of course, important policy initiatives in these areas are underway, and many have been for several years. In response to the surge in LAC-Asia trade after 2003, governments on both sides sought out formal agreements to consolidate the gains and deepen integration. Korea was a pioneer in this regard, signing the first LAC-Asia FTA with Chile in February 2003, and continues to be a leader in promoting closer LAC-Asia ties as its recent trade deals with Colombia and Central America illustrate.

2 Mesquita Moreira et al Unclogging the Arteries: The Impact of Transport Costs on Latin American and Caribbean Trade. Inter-American Development Bank, 2008 and Mesquita Moreira et al, Too Far to Export: Domestic Transport Costs and Regional Export Disparities in Latin America and the Caribbean. Inter-American Development Bank 2013"

The Korea-Chile FTA set a high standard for fast and extensive liberalization. By 2013, Chilean exporters faced zero tariffs on a full 96 percent of tariff lines, covering over 99 percent of total exports to Korea that year.[3] Trade between the two economies grew at an impressive annual average rate of 22.3 percent in the five years after the agreement entered into force, far outstripping overall trade growth for each side.

FIGURE 8: Tariffs and ad valorem freight expenditures on LAC's imports from Korea, 2009



Source: INT-BID using data from UN Comtrade and INTrade

Despite this impressive record, the original agreement did not lower tariffs on Chilean exports of several agricultural products including apples, pears, and rice, while Chile exempted important Korean imports such as refrigerators and washing machines from

3 DIRECON. "Evaluación TLC Chile y Corea del Sur – A 10 años de entrada en vigencia"

preferential tariff rates. In addition, Chile has faced lengthy approval processes—in some cases up to eight years—to export certain meat, poultry, and fruit products included in the FTA. However, there is now the possibility of addressing these lingering barriers after the two sides began a formal process to deepen the agreement in the Fall of 2016. One priority for the Chilean side is to secure tariff reductions on priority agricultural goods such as meats, cheeses, dairy products, fruits, vegetables, and prepared foods, among others.

In 2011, an FTA between Korea and Peru entered into force, which calls for the elimination by 2021 of tariffs on all goods with the exception of just over 100 "sensitive" products such as rice, beef, and other agricultural products. Importantly, the agreement also features robust provisions in disciplines such as trade in services, investment protections, and rules of origin, which go beyond the measures included in the agreement with Chile.[4] Two years later, Korea and Colombia inked an FTA, which entered into force in July 2016. The agreement is also characterized by extensive and fast liberalization that will eliminate tariffs on nearly all traded products within a decade (representing 96.1 percent of bilateral imports in the case of Korea and 96.7 in the case of Colombia), including eventual liberalization of key goods for bilateral trade such as automobiles, cosmetics, and medical devices, which are currently subject to high tariffs. A preliminary analysis estimated the deal would boost Colombia's exports to Korea by 8.25 percent and increase its GDP by 0.52 percent.[5]

Most recently, Korea and five Central American nations (Costa Rica, El Salvador, Honduras, Nicaragua, and Panama) signed an FTA in early 2017 that calls for the eventual elimination of tariffs on 95 of all goods traded among the countries and also liberalizes services trade and competition for major infrastructure contracts. Korea has also been in talks with the region's largest economies, although the prospects here are still uncertain. Korea and Mexico

4 See Shaping the Future of the Asia-Latin America and the Caribbean Relationship
5 Análisis de Factibilidad de un Acuerdo de Libre Comercio entre Colombia y la República de Corea. Fedesarrollo 2009.

have restarted FTA negotiations initially begun in 2008 but later suspended. Discussions of a trade agreement with Mercosur, which includes Argentina, Brazil, Paraguay, and Uruguay began in 2004 but have made little headway.

Taken together, Korea's FTAs in the region have some of the fastest liberalization schedules of Asia-LAC agreements and represent thoroughly "modern" agreements with extensive coverage of new and emerging trade disciplines. With FTAs currently in force with eight LAC countries, Korea now has the most extensive FTA network in LAC of any Asian economy. In addition to bilateral deals, Korea has been actively engaged with regional integration projects in LAC. In particular, Korea has developed close ties with the Pacific Alliance (AP) bloc, where it participates as an observer country. The AP countries have carried out joint investment and trade promotion activities in Korea, and the recent creation of the category of Associate Member, which entails a trade agreement with the AP as a bloc, creates the possibility of even deeper relations between Korea and the Pacific Alliance moving forward.

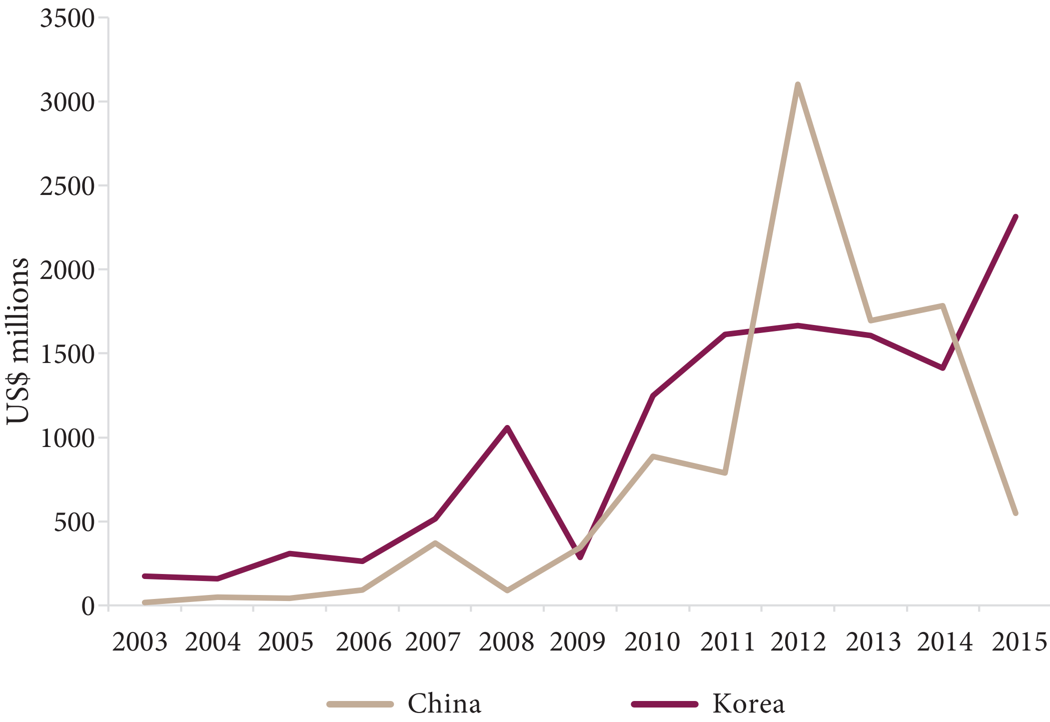
These initiatives ensure that Korea will be an important player in the evolving LAC-Asia trade architecture. Underscoring this fact, Korea participated alongside China and Colombia in a March 2017 summit in Chile with the remaining eleven members of the Transpacific Partnership (TPP). The objective of the meeting was to discuss options to deepen integration among Asia, LAC, and North America in the wake of U.S. withdrawal from the TPP. Regardless of the future of this project, Korea has clearly demonstrated its commitment to forging deeper economic and cooperation ties with LAC. This engagement goes well beyond FTAs to include technical cooperation, knowledge sharing, and capacity building on trade facilitation, port management, and other issues outside the realm of traditional trade policy that are nonetheless critical for bilateral commerce. These initiatives, discussed in more detail in Section V, are especially important in deepening integration with LAC economies outside of Korea's FTA network. They also encourage investment between Korea and LAC, which we turn to next.

IV

Investment: the New Driver of LAC-Korea Integration

The surge in trade between Korea and LAC in the 2000s set off a corresponding influx of FDI flows from Korea to the region. As Figure 9 indicates, Korean investment in LAC entered a period of strong growth in 2006, a few years after the trade takeoff, which saw annual FDI inflows grow nearly six-fold by 2016. This investment is critical in pushing the economic relationship beyond the commodities-for-manufactures exchange that has characterized the region's trade with Asia and making the most of the additional complementarities discussed above. In recent years, FDI flows from

FIGURE 9: Korea's and China's FDI flows to LAC, 2003-2015



Sources: Korea Ex-Im Bank and China MOFCOM

Korea to LAC have remained strong amid a generalized trade slowdown, helping keep the overall relationship on solid footing. In this regard, Korea strikes a contrast with the case of China, where, according to official figures, investment has lagged well behind booming trade flows. Despite a spike in 2012, Chinese FDI inflows have actually been lower than Korea's for most of the last decade and have overwhelmingly targeted natural resource sectors.[6]

This activity has turned the region into an increasingly important investment destination for Korean firms. LAC's share of total outward FDI from Korea, as measured by official statistics, was 6.3 percent between 2014 and 2016—up from only 2.4 percent in 2004. This trend has been driven by Korean manufacturers' growing footprint in Brazil and Mexico, which accounted for nearly 80 percent of the total FDI inflows from Korea between 2013 and 2016. These economies boast large domestic markets with growing middle classes and, in the case of Mexico, dense links to North American value chains. The strong presence of Korean firms in the LAC market has been an important factor behind the spate of new trade agreements discussed above.

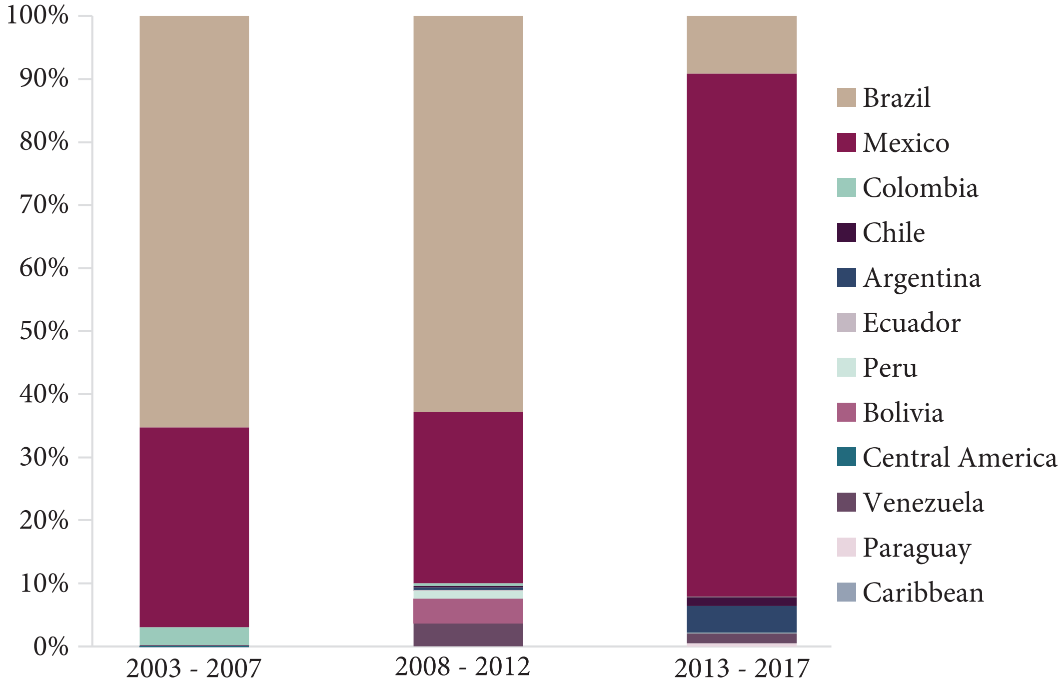
Mexico in particular has seen its share of total Korean FDI in the region grow significantly in recent years. From a starting point of 17.5 percent between 2006 and 2010, Mexico accounted for a full 43.5 percent over the past four years.[7] Nor is there much hope for a considerable diversification in the coming years. Mexico's share of recently-announced greenfield investments is even larger than its share of recorded investments to date (see Figure 10).[8] Of the 52 announced new investments by Korean firms in LAC since 2015, 38 correspond to Mexico.

6 This analysis is based on official FDI statistics, which provide only a limited picture of the investment relationship between LAC and China. For one, much Chinese investment in the region is routed through third countries and therefore does not figure in official bilateral statistics. Estimates of the total amount of Chinese FDI in LAC that attempt to overcome this limitation by drawing on (unofficial) announced investment data and news reports have come up with significantly higher figures, ranging between US50 billion and US$ 100 billion. However, this approach risks overestimating the total given the number of announced investments that fail to materialize.

7 Based on official statistics from the Korea Export-Import Bank

8 Based on data from FDi Intelligence. Greenfield investments refer to investments in new production facilities, which add to the capital stock of the host economy, as opposed to foreign acquisitions of existing assets (also called Brownfield investment). Data on announced investments are unofficial and inherently forward-looking because they reflect firms' announced plans rather than recorded investment flows. Although they often overstate actual investment levels, they should give a good indication of general country- and sector-level trends. Because the amounts corresponding to announced investments are necessarily speculative, we use number of deals for this part of the analysis.

FIGURE 10: Sub-regional distribution of Korean investments in LAC, 2003-2017

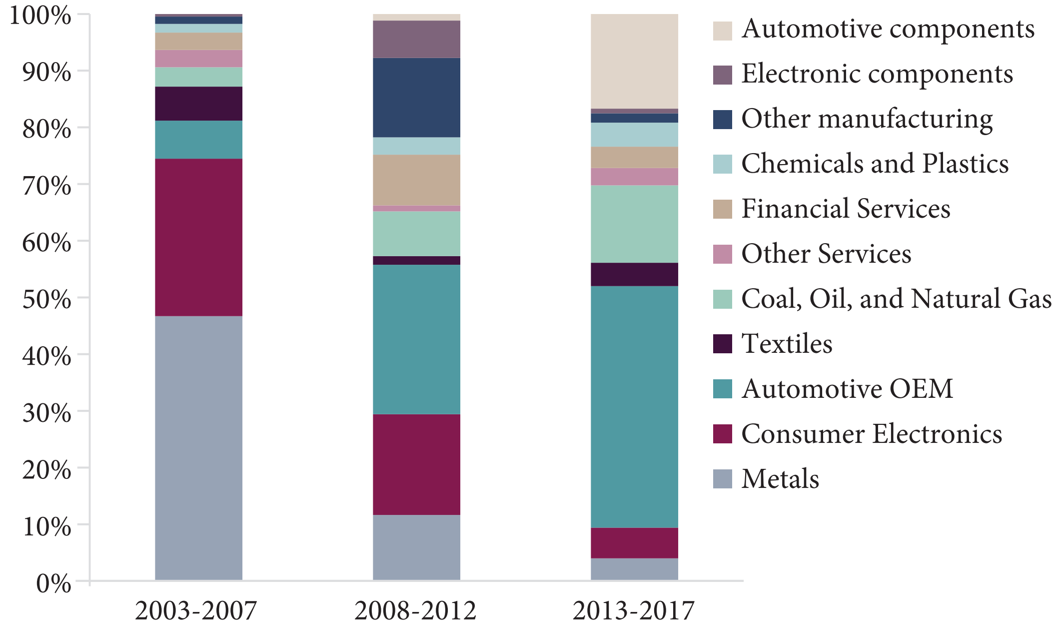


Source: FDi Intelligence
Note: Data for 2017 are through July

Importantly, Korea's investments in LAC have been mostly in manufacturing, helping diversify the economic relationship by contributing productive capacity, technology, and employment in LAC sectors such as automobiles, high-end electronics, and industrial machinery. Looking at announced investment data, 83.9 percent of Korean investment in LAC has been in manufacturing, with services and primary goods making up about equal parts of the remaining investments. Korea's FDI in LAC is thus practically a mirror image of China's, where between 85 to 90 percent of investments go to the primary sector.[9]

9 Based on analysis of investment projects in the Heritage Foundation's China Investment Tracker

FIGURE 11: Sub-sector distribution of Korea's FDI in LAC, 2003-2017



Source: FDi Intelligence
Note: Data for 2017 are through July

Looking at the industry level, several clear trends emerge. First, the share of the automotive sector has grown steadily—especially if we include auto parts, which accounted for 17 percent of total announced investments since 2013, compared with 0.5 percent between 2003 and 2012 (see Figure 11). Meanwhile, basic metals have declined from 47 percent of the total between 2003 and 2007 to 4 percent in 2013-2017 in a clear indication of the diversification of Korean FDI into more high-tech manufacturing sectors.[10] On the other hand, investment in services such as IT/software, financial services, and communications, among others, shows no discernible trend, fluctuating between six and nine percent of the total in the three time periods considered.

10 Based on announced investments

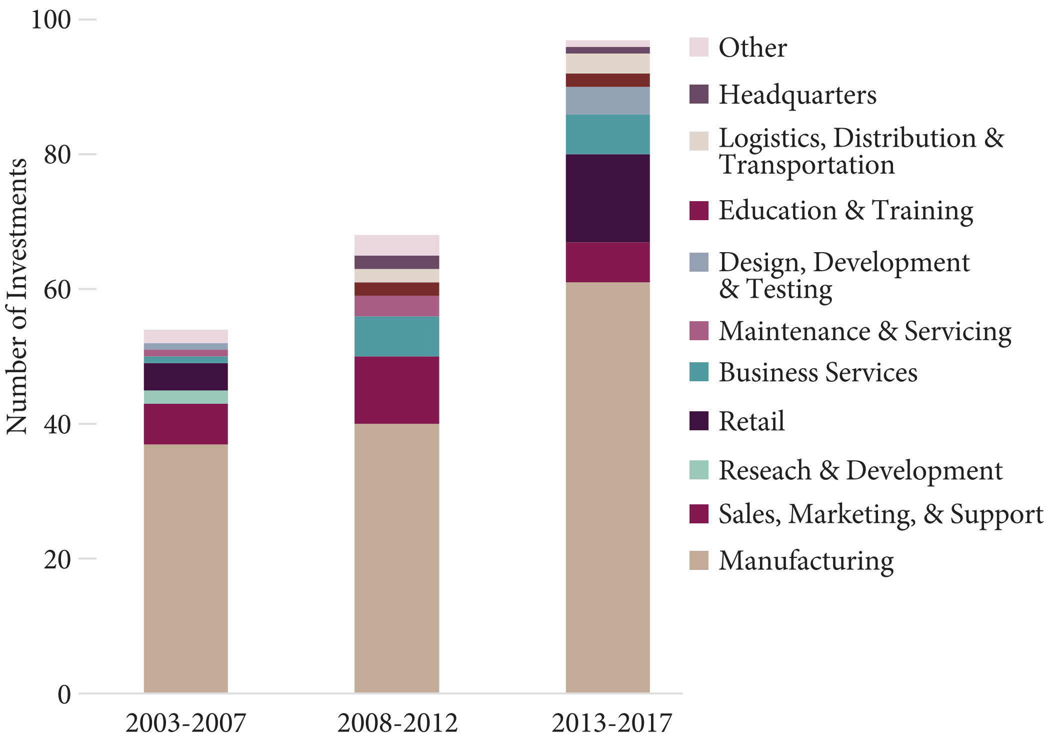
It is also useful to look at the type of activities Korean MNCs carry out in LAC in order to better understand the potential development impact of this FDI. Given the complexity of modern production chains, manufacturers such as carmakers also perform research and design, distribution, retail, and other service activities tied to their core manufacturing business. Choices about where to locate these different activities thus affect the type of employment opportunities and potential to transfer technology and know-how to the host country.

Figure 12 presents the breakdown by business activity—manufacturing, logistics, R&D, etc— of announced Korean investments in LAC. The majority of investments in each time period has been in manufacturing plants, reflecting firm strategies to use LAC as a production base to better serve domestic markets and, in some cases, as an export platform to third markets.

The share of manufacturing facilities in total investments has, however, decreased somewhat since the mid-2000s. The activity with the largest increase in recent years has been retail, which accounted for 13 percent of investments since 2013. This uptick reflects moves by major global brands such as Samsung, LG, and Hyundai to reach LAC consumers directly through retail outlets, but the trend is not confined to the big players. Recently, a wave of young Korean cosmetics firms has made inroads in LAC, through a combination of online marketing and investment in brick-and-mortar retail outlets (see Box 1).

On the other hand, Korean firms have only set up seven research and development (R&D) or product design facilities in LAC over the past dozen years, although four have come in the last two years. Both Hyundai and Samsung have established R&D and product development operations in Brazil and Mexico, covering areas such as hybrid fuel cars, software, and consumer electronics design. Still, the data suggest that R&D in LAC has been limited, and the region should look to attract this type of investment from Korea as the relationship evolves.

FIGURE 12: Activities of Korean firms in LAC, 2003-2017



Source: FDi Intelligence
Note: Data for 2017 are through July

Still, we can point to encouraging signs that the strong presence in LAC of major Korean manufacturers is having spillovers to other sectors and activities. For example, a Korean-Brazilian joint venture recently established one of the first semi-conductor packaging and testing facilities in Brazil, an important step towards developing the local capacity to provide inputs for the country's large consumer electronics sector (see Box 1). Such upstream investments bring additional employment opportunities, technologies, and know-how to the region.

Of course, Korean investment in LAC is only one side of the story. Latin American firms have also invested in Korea in response to growing economic ties, although FDI flows from LAC to Korea

TABLE 9: Accumulated FDI Flows into Korea, 2000-2015

Country	(million USD)
Mexico	96.1
Uruguay	25.4
Brazil	7.7
Chile	5.4
Paraguay	5.2
Venezuela	1.5
Peru	0.4
Total	151.9
% of LAC's outflows	0.02
% of Korea's inflows	0.4

Source: OECDStat and World Investment Report 2015. Tax havens are excluded from totals.

totaled only 151.9 million between 2000 and 2015 according to official statistics (see Table 9). More than half of that total has come in the past three years, however, suggesting more LAC firms are looking to the Korean market. The low level of LAC FDI in Korea likely reflects a number of factors including the challenge of penetrating a mature market with strong domestic and multinational incumbents, lack of cultural familiarity, and geographic distance, as well as the fact that many multilatinas have been focused on the Chinese market.

However, as mentioned above, Korea's high GDP per capita and advanced manufacturing base create opportunities for LAC firms to sell high value-added products and services. A direct presence in a foreign market can give firms an important competitive edge by increasing brand recognition, establishing direct ties with local distributors and retailers, and in some cases making products tailored to that market. Several LAC firms have seized this opportunity, and Box 2 highlights three notable examples.

V

Cooperation: Laying the Groundwork for the Future of the LAC-Korea Relationship

Korea famously transformed itself from one of the poorest countries on the globe in the 1950s into a technological leader and prosperous member of the advanced industrial economies. As a result, Korea is now a major provider of development cooperation, including to LAC, where Korea carries out a wide range of lending, capacity building, technical assistance, and knowledge-sharing programs. Such cooperation between governments is crucial if countries wish to make the most of economic integration and ensure an equitable distribution of its benefits. It is an area where Korea-LAC relations hold great potential given the former's success in surmounting many of the challenges currently facing the region.

Cooperation between Korea and the region involves a range of agencies and policy areas. The Korea International Cooperation Agency (KOICA) provides grants for development projects, technical assistance, and capacity building around the world. In 2015, KOICA disbursed over US$ 30.6 million in total aid to LAC, around 12 percent of its total. The largest recipients in the region were Colombia (US$ 5.9 million, representing 19.1 percent of KOICA's total aid to the region), followed by Paraguay (US$ 5.6 million, 18.1 percent), Peru (US$ 4.6 million, 15.1 percent), and Bolivia (US$ 4.5 million, 14.8 percent). Korea also provides concessional loans for infrastructure projects through the Economic Development Cooperation Fund (EDCF), managed and operated by the Korea Export-Import Bank. LAC was the beneficiary of 7.2 percent of the Fund's total loan disbursements in 2015, amounting to more than US$ 45 million.

However, Korea-LAC cooperation goes well beyond development financing. Initiatives aimed at sharing knowledge, building capacity in the public sector, and exchanging policy lessons represents a critical pillar of the relationship between Korea and LAC. These initiatives—on issues ranging from alternative energy to governance of state-owned enterprises (SOEs) to trade facilitation—can bring about considerable development dividends and in turn foster new trade and investment opportunities. They can also go a long way towards addressing some of the key barriers to integration discussed above—for example through transportation services agreements that enhance connectivity and customs cooperation to facilitate the movement of goods across borders—without embarking on lengthy FTA negotiations. One important example of such cooperation has been the agreements between Korea and several LAC countries to mutually recognize firms identified as Authorized Economic Operators (AEO) by each others' customs agencies (see Box 3).

In addition, capacity building activities, which aim to enhance the knowledge and capabilities of public officials and agencies in the region in key policy areas, can play a major role in the transmission of development lessons. Recent capacity building initiatives sponsored by the IDB include a workshop for port authority officials in the region on port management strategies and governance and a seminar in Brazil conducted by Korea's foreign investment ombudsman.

Korea has been particularly active in sharing its development experiences with LAC governments, helping transmit lessons from its own "growth miracle" in the second half of the 20th Century. Based on its experience and knowledge from this fast growth, the Ministry of Strategy and Finance of Korea has launched the Knowledge Sharing Program (KSP), in order to support the economic and social development of recipient countries. The Korea Development Institute (KDI), the Korea ExIm Bank, and the Korea Trade-Investment Promotion Agency (KOTRA) provide tailored policy consultations, carry out capacity building, and conduct bilateral policy consultations or joint consulting projects with third parties, including international organizations (IOs).

In collaboration with IOs, which bring regional knowledge and networks, the Korea ExIm Bank is responsible for the joint consulting projects and helps governments tackle an array of policy challenges. As Table 10 indicates, many of these projects have been geared towards helping governments adapt to the challenges of digitalization and apply digital and ICT tools to policy design and implementation.

TABLE 10: Selected Knowledge-Sharing Programs between Korea and LAC

Year	IO	Country	Project Name
2011	IDB	Jamaica	Design and Development of National Identification System in Jamaica
2011	IDB	Brazil, Uruguay, El Salvador	Design and Implementation of the Emerging and Sustainable Cities Platform
2011	IDB	Haiti	Preparation of the Land and Tenure Security Program in Haiti
2012	IDB	Peru	Roadmap for the Implementation of the Broadband Platform for the LAC
2012	IDB	Brazil, Uruguay	Feasibility Study on Building IOCCs in Two Cities
2012	IDB	Colombia	Change Management in Colombian National Police: A Consulting on Improving Security Information System
2012	IDB	Brazil	Nurturing Micro and Small Business in Low-Income Communities of Northeastern Brazil
2013	IDB	Jamaica	Smart Design for the Integrated Operating Control Center for City Management in Montego Bay, Jamaica
2013	IDB	Nicaragua	National Policies for Fostering Broadband-applied Services for Inclusive Economic and Social Development in Nicaragua
2013	IDB	Ecuador	Smart Grid Studies in Ecuador
2013	IDB	Colombia	Support for Public Private Partnership Infrastructure in Colombia
2013	IDB	Chile	New Advances in Identity Management System in Chile 'Quantum Leap from G2C to G4C
2013	CAF	Panama	Technical and Vocational Education and Training TVET in Panama
2014	IDB	Mexico	Support for Integrated Labor System in Mexico
2014	IDB	Haiti, Dominican Republic	Support for Road Safety in Haiti and Dominican Republic
2014	IDB	Ecuador	Action Plan for Effective Spectrum Allocation for the Mobile Broadband in Ecuador
2014	IDB	Paraguay	Creating Rural Innovative Strategy for Sustainable Rural Development in Paraguay
2014	IDB	Regional	Promotion of SMEs in LAC through Connect Americas

2014	CAF	Peru	Support for Improving the Quality and Relevance of TVET in Peru
2015	IDB	Colombia	Smart City Technical Project Design and Implementation Plan for Valledupar and Villavicencio, Colombia
2015	IDB	Dominican Republic	Smart Grid Project for the Expansion of Electricity Distribution Infrastructure in the Dominican Republic
2015	IDB	Barbados	Consultancy for the Development of a Route Optimization Study in Solid Waste Collection in Barbados
2015	IDB	Colombia, Paraguay	Support for Customer Protection in Digital Financial Services in Latin America and the Caribbean LAC
2015	IDB	Nicaragua	Support for Asset Management Framework for the Pavement and Bridge Management System in Nicaragua
2015	WB	Peru	Systematic Use of Information to Improve Health Systems Governance: Phase II
2015	CAF	Colombia	Improving the Quality and Productivity of TVET in Colombia
2016/2017	IDB	Colombia	Establishment of Integrated Operations and Control Center in Villavicencio of Republic of Colombia
2016/2017	IDB	Colombia	Technology Transfer for Water and Wastewater Treatment Industry in Colombia
2016/2017	IDB	Honduras	Renewable Energy and Energy Storage Deployment on Islas de la Bahia, Honduras
2016/2017	IDB	Guatemala	Supporting Digital Broadcasting Switchover in Guatemala
2016/2017	IDB	Jamaica	Establishing IT-Based Performance Monitoring and Evaluation System of State-Owned Enterprises SOEs in Jamaica
2016/2017	IDB	Argentina	Program for the Development of a Single Window for Foreign Trade
2016/2017	IDB	Paraguay	Strengthening and Scaling-up Capacities of National Innovation System in Paraguay
2016/2017	IDB	El Salvador	Improvement of Public Investment Management in El Salvador
2016/2017	WB	Colombia	Supporting Healthcare Quality Governance and Financial Management in Colombia Supporting Universal Health Coverage Phase

2016/2017	WB	Peru	Support for Health Information Management System for Transparency and Accountability: Phase 2
2016/2017	IDB	El Salvador	Support for Development of Information Sharing & Analysis Center ISAC for the Broadband Infrastructure Protection
2016/2017	IDB	Paraguay	Support for Establishment and Feasibility Study for Integrated National Road Traffic Information Center, Central State, Paraguay
2017/2018	IDB	Argentina	Smart City Technical Project Design for Great La Plata and Great Mendoza, Argentina
2017/2018	IDB	Honduras	Supporting Customs improvement of Honduras

Source: Korea Ministry of Strategy and Finance

The Inter-American Development Bank (IDB) has partnered with Korea on several KSP programs in the region. These include projects aimed at deepening trade and investment links through trade facilitation projects in Honduras and Argentina and support for the region-wide ConnectAmericas program—a digital platform to promote SMEs from LAC. In addition, the IDB has participated in an ongoing cooperation project with Korea to enhance cyber security in Nicaragua. This initiative, in which the IDB is partnering with Korea's Science and Technology Policy Institute, underscores the potential for this type of engagement to transfer crucial technological expertise to the region.

Cooperation with Korea helps engage governments throughout the region on a diverse range of policy issues, including frontier issues surrounding the digital economy and the application of cutting-edge ICTs to different policy areas. As Korea and LAC attempt to forge closer economic ties moving forward, governments should not underestimate the importance of these cooperation initiatives in deepening trade and investment linkages.

VI

Conclusion

Fifteen years after the start of an unprecedented trade boom, the Korea-LAC relationship is taking on new dimensions. As with the region's other Asian trade partners, Korea has been a major consumer of LAC's natural resources, while Korea's cutting-edge industrial firms have made major inroads among LAC consumers and firms. However, the relationship goes well beyond the commodities-for-machines trade that has come to typify LAC-Asia economic ties.

For starters, LAC has managed to export a more diversified and sophisticated basket of goods to Korea, partly a reflection of its higher per capita income and positioning at the high end of global manufacturing chains. In addition, a steady flow of Korean FDI has boosted manufacturing sectors in LAC, creating skilled jobs, transferring technology, and boosting exports from the region's economies. Korean firms now figure among the market leaders in sectors such as automobiles, smart phones, and white goods. In recent years, investment has branched out to emerging areas such as infrastructure and cosmetics.

In recognition of the large potential, governments on both sides have taken important steps to forge closer ties. After the successful negotiation of two new trade agreements with Colombia and Central America, Korea now has more FTA partners in LAC than any other Asian country. In addition, Korea and LAC carry out an active cooperation agenda that helps strengthen the foundation for economic ties by building infrastructure, harmonizing policies, and sharing knowledge.

This increase in trade, investment, and cooperation has brought tangible benefits for both sides. As LAC and Korea confront a challenging global environment—characterized by geopolitical uncertainty and a reversal of the tailwinds behind the initial LAC-Asia trade surge—governments and firms must work to ensure that this productive economic relationship continues to bring new opportunities in the future.

BOX 1: Korean Investments in LAC: Building on a Strong Base

Korean firms have become an important source of foreign investment in LAC since the mid-2000s. The success of leading Korean brands such as carmakers Hyundai and Kia and electronics giants Samsung and LG is clear from a walk through the commercial district of any city in LAC. While these big players have led the wave of Korean FDI in the region, the trend is not limited to these well-known global brands. Smaller firms are increasingly making inroads in the LAC market, helping diversify the relationship into new sectors, while established players are opening new business lines to take advantage of emerging opportunities in the region. Let's take a closer look at some of the ways Korea FDI in LAC is evolving.

K Beauty comes to LAC

Korean beauty products have grown increasingly popular in LAC. Exports of cosmetics recorded a 111 percent increase between 2014 and 2016 alone, reaching $US 8.4 million that year. These sales have been boosted by the phenomenon of "hallyu" or the Korean cultural wave that has seen young people across globe following Korean pop music, consumer trends, and new brands. Reflecting new ways of doing business in the digital age, Korean beauty products firms have used e-commerce and online marketing strategies such as video tutorials explaining their products to new consumers to capture markets in LAC. In addition to using well-known online marketplaces such as Amazon and Linio, Korean beauty products are sold through specialized online stores such as Panda Belleza Coreana and Lorelkim.

Korean cosmetics firms are now looking to take advantage of growing demand by opening retail stores in LAC. One example is Tony Moly, a company leading the global boom of Korean beauty products. Founded in 2006, Tony Moly quickly expanded into nearby Asian markets and currently has over 2,000 stores in 25 countries. It began selling in LAC, as with other export markets, via e-commerce sites. In recent years, the firm doubled down on its presence in the region by investing in brick-and-mortar stores, opening a major flagship store in the heart of Mexico City in 2015. Tony Moly has since opened three additional stores in the Mexican capital along with recently-opened stores in Bogotá and Medellin in Colombia. Another major Korean cosmetics firm, Missha, has focused on the Brazilian market, opening several retail outlets in addition to online marketplaces. The Latin American market is seen as a highly promising market for the industry, especially as sales in China face intensifying competition.

Building Value-Chains through a High-Tech Joint Venture in Brazil

The presence of Korean electronics giants in LAC has created opportunities for upstream investments in the array of complex components and parts that go into televisions, laptops, smart phones, and other high-end electronics. One interesting example of this dynamic is the Korean firm Hana Micron, founded by Chang Ho Choi, formerly the CEO of Samsung Complex Tijuana in Mexico. Hana Micron recently formed a joint venture with the Brazilian technology and industrial group Grupo Parit, aimed at launching a semi-conductor industry in Brazil. The JV, HT Micron, began commercial operations in 2013 after a two-year trial period, with an initial focus on integrated circuit packaging of memory chips for desktop and notebook computers and smart phones. Packaging is an important step in the production of semi-conductors in which the semi-conducting material is inserted in a supporting case to prevent physical damage and corrosion. The firm has since undertaken new projects to develop and test semi-conductor components such as smart cards.

The investment represents a promising step forward in Brazil's efforts to establish a domestic semi-conductor industry, which began in the early 2000s. Brazil currently imports around US$ 6 billion in semi-conductors for the country's large electronics sector. In addition to drawing on the technological and management expertise of top Korean firms, the JV has also worked closely with local educational institutions. HT Micron's 10,000-sq meter facility is located in the Tecnosinos technology park housed at the University of Vale do Rio dos Sinos (Unisinos) in the state of Rio Grande do Sul. As part of the deal to set up operations there, HT Micron committed to devote between 3 and 5 percent of its annual earnings to research and development, and one percent specifically to support projects with the Unisinos. To best take advantage of this collaboration, the university has created a Semiconductor Institute (ITT Chip) focused on research, development, and innovation in semiconductor packaging and testing.

Investing in Infrastructure for the Future

Hyundai Motor Company has established itself as a leader in Latin American auto markets through its affordable and high-quality Hyundai and Kia brands. But the role of the Hyundai group, one of Korea's largest firms, in LAC goes well beyond sedans and SUVs. The Hyundai Engineering and

Construction Company, a subsidiary of Hyundai Motor Group, is a civil and environmental engineering firm that has been at the helm of a number of major infrastructure projects across LAC, helping the region overcome its longstanding infrastructure gap and promoting regional integration. Its project portfolio in LAC includes the Chacao bridge in southern Chile, a combined cycle power plant in Uruguay, and a waste treatment facility in Colombia. Since establishing a branch office in Bogotá in 2010, Hyundai E&C has logged over US$ 8.3 billion in received orders.

The firm's first major project in the region is a design, build, operation, and maintenance contract for the Bello Wastewater Treatment Plant in Medellin, Colombia. The plant, set to begin operating early next year, will have the capacity to treat 95 percent of the overall wastewater from Medellin and the nearby municipality of Bello, receiving around 120 tons a day of industrial, commercial, and residential organic waste. This project, crucial to the environmental sustainability of the surrounding Aburra Valley area, is a component of the broader Medellin River Sanitation Program, which also included an initial wastewater treatment plant, and has been supported at each stage by financing from the IDB, which has totaled US$ 450 million. The infrastructure created and operated under the program will help meet the water-quality target of 5mg of dissolved oxygen per liter in the treated water, improving the quality of life for 3.2 million residents of the greater Medellin metropolitan area. The project is administered by Empresas Públicas de Medellin (EPM), a public utility responsible for power generation, natural gas distribution and water and wastewater services for ten municipalities in the Aburra Valley. The contract with Hyundai E&C and its partners represents one model of public-private partnership (PPP) for infrastructure—an area of growing potential for Korean investors in LAC.

BOX 2: LAC Investments in Korea: Finding a Niche in a Developed Market

While the official figures show LAC investment in Korea has been little more than a trickle, that does not mean firms from the region have poor prospects in the Korean market. In fact, a growing number of LAC companies have established important operations in Korea through direct investments, which have allowed them to better adapt to the local market. In the case of certain non-tradable services such as entertainment and restaurants, FDI is the only way to reach Korea's large and prosperous consumers. In addition, although the region's outward FDI has traditionally been dominated by the large multilatinas—often diversified business groups with a longstanding presence in their sectors—younger LAC firms are increasingly active investors abroad, taking advantage of new technologies and international connections. For all these reasons, LAC firms and governments should not neglect this aspect of economic ties with Korea.

A New Way to Add Value: Selling a Uniquely Colombian Experience

Coffee is among Colombia's largest exports to Korea, accounting for 22 percent in 2016. However, the Juan Valdez Café chain, which operates more than 270 coffeehouses worldwide, has taken the next step in helping the country's most famous export gain market share and establish a brand identity in Korea. The company opened its first store in Korea in 2014, choosing the country for its first Asia operations because of Koreans' greater familiarity with Colombian coffee. Juan Valdez Café is an arm of the Colombian Coffee Growers Federation (FNC), which was established in 1927 to advance the interests of the country's small coffee growers. The coffeehouse chain, launched in 2002, has the explicit goal of introducing Colombian coffee to more people around the world. Reflecting that mission, its first location was in the Bogotá airport.

Juan Valdez Café's move into Asia is part of a broader strategy by the FNC, which has used the iconic, poncho-clad farmer as a symbol since the late 1950s, to add value to Colombian coffee exports. By creating a consumer experience around coffee, and promoting a country brand surrounding an emblematic export, investment in restaurant chains represents an option for building on the region's traditional strengths in natural resources and the food and beverage sectors. Asian consumers have been particularly open to so-called "origin brands" with a strong association with their country of origin, according to Juan Valdez executives.

A Pioneering LAC Manufacturing Plant in Korea

Korean firms have invested heavily in the Mexican market in recent years, numbering more than 1,800 in total and contributing to strong growth in automobiles, electronics, and steel, among other manufacturing sectors. Now a major Mexican industrial firm is venturing into the Korean market. Grupo Promax inaugurated a steel dust recycling plant in Suncheon, Korea in June 2017. GSDK, the firm's Korean affiliate, uses an innovative technology to recover zinc and steel from industrial waste, resulting in more highly concentrated zinc oxides, which are used as the raw materials for zinc smelters. The facility is the most advanced plant in Korea for electric arc furnace (EAF) dust recycling, an industrial process for collecting the byproducts from steel production.

For Grupo Promax, a diversified industrial group focused on industrial plaster, construction materials, zinc derivatives, and paper, the Korea plant will allow the firm to provide key inputs to Korea's steel market, the world's fourth largest. This investment helps the firm expand its global operations to the all-important Asian market, complementing existing plants in North America, South America, and the Middle East. The investment has been hailed as the first Mexican industrial investment in Korea, and its success could encourage other large LAC business groups with an international presence to establish a more robust presence in Asia.

Serious Business in the Entertainment Sector

As consumers in Asia and elsewhere increasingly opt to spend money on experiences rather than physical goods, entertainment services represent a growing business opportunity for the region. One LAC firm that has capitalized on this trend is Kidzania, a Mexican operator of entertainment centers where children role-play in "adult" professions. Each Kidzania center is a self-contained miniature city, complete with its own currency, newspaper, and fire department. This innovative take on the traditional amusement park has won plaudits as a prime example of so-called edutainment—blending education and entertainment.

Like its target population, Kidzania is a relatively young company, having opened its first location outside Mexico City in September 1999. It now boasts 24 facilities in 14 countries and has drawn over 25 million visitors. Its rapid expansion has been possible thanks to the ambitious international vision of its founder, Xavier López, and its franchising strategy of partnering with local firms who know each market well. The firm also set its sights on Asia early on: its first location outside of Mexico, opened in 2006, was in Tokyo. Since then, Kidzania franchises have arrived in seven additional Asian markets, including Korea in 2010. The Seoul location attracted 2,400 daily visitors on average in its first two years, and the firm has since opened another center in Busan, Korea. The experience of Kidzania shows that LAC firms can have success in Korea outside of traditional sectors.

BOX 3: Customs Cooperation to Better Connect Korean and LAC Firms

Trade facilitation has been an important pillar of Korea's cooperation agenda. By reducing logistical and bureaucratic bottlenecks to trade through streamlined customs procedures, trade facilitation represents an area where cooperation has great potential to directly boost trade flows. One key trade facilitation measure is Authorized Economic Operator (AEO) programs, which allow firms meeting a set of security requirements to receive a certification that facilitates trade operations through faster clearance processes and priority attention by customs agencies. In this way, AEO programs enhance the reliability and security of supply chains and encourage participation in regional and global value chains.

The impact of AEO programs on trade can be multiplied through Mutual Recognition Agreements (MRAs), whereby customs agencies agree to mutually recognize the other parties' safe and secure operator status or certificates, easing the process of exporting and importing for certified firms. Korea recently signed MRAs with Mexico and the Dominican Republic in 2014 and 2015, respectively, with support from the IDB. These agreements arose out of the inaugural AEO Global Conference, held in Seoul in 2012. The IDB sponsored a delegation of LAC customs officials, who also participated in a special workshop organized by the IDB and Korea's Customs Administration.

This first encounter laid the groundwork for the bilateral MRA negotiations that took place from 2013 to 2015, and concluded with the signature of MRAs. The process included visits by Mexican and Dominican customs officials to several AEO companies in Korea, with financial support from the IDB. These agreements represent an important opportunity for strengthening and increasing trade with Korea even in the absence of free trade agreements. Currently, Peru, Uruguay and Brazil are also in the process of negotiation MRAs with Korea customs.