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The findings of this paper reflect the opinions of the authors and not those of the African Development Bank, its Board of Directors or the countries they represent.

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The Korea- Africa Partnership: Beyond Trade and Investment

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1 – Introduction

Africa's economic relationships with Korea are increasing rapidly and they are drawing the attention of Korean policymakers and business houses. These relations extend beyond trade and investment and involve also knowledge sharing and policy dialogue. In this context, the Korean Government, who hosted the Seoul G20 summit in 2010, has actively reached out to Africa to help increase awareness of Africa's development interests.

This brief examines the major trends in trade, investment and aid flows between Korea and Africa. It highlights policy implications for African countries in view of the recent developments in this economic relationship.

2 – Trend of trade between Korea and Africa

The volume of trade between Africa and Korea has increased rapidly, reaching \$13.9 billion in 2009, up from \$6.4 billion in 2000 (Table 1). However, in relative terms, Africa remains a marginal trade partner for Korea. Africa accounts for only 3.3% of total Korean exports and 1% of imports. While the share of the continent in Korean exports has steadily increased since 2003, Africa's share in Korean imports has declined after rising to about 2% in 2006 (figure 1). Overall, trade flows are in favour of Korea, with a trade surplus of USD 7 billion in 2009. Nevertheless, recent trade trends between Korea and Africa are encouraging, with a rapid increase in exports and imports.

Table 1 Trend of the trade between Korea and Africa

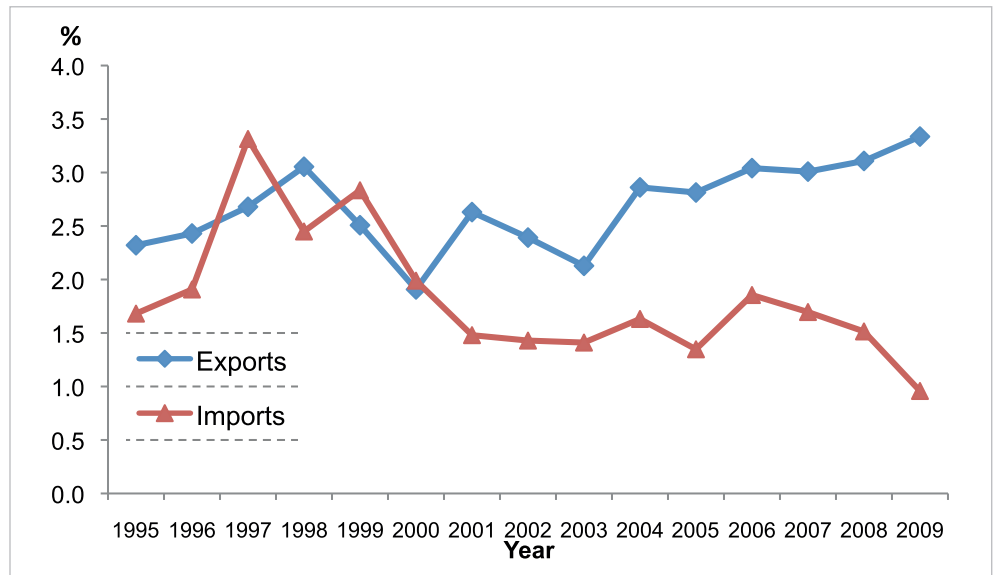
	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Korean exports to Africa (US \$ mn)	1 248	3 048	3 294	3 973	3 902	4 143	7 278	8 032	9 924	11 244	13 265	10 424
Share of Africa in Korean exports (%)	2,0	2,3	1,9	2,6	2,4	2,1	2,9	2,8	3,0	3,0	3,1	3,3
Total Korean imports from Africa (US \$ mn)	607	2 272	3 192	2 088	2 174	2 523	3 662	3 520	5 739	6 052	6 593	3 432
Share of Africa in Korean imports (%)	0,8	1,7	2,0	1,5	1,4	1,4	1,6	1,3	1,9	1,7	1,5	1,0
Total trade Korea-Africa (imports+exports) (US \$ mn)	1 855	5 320	6 486	6 061	6 076	6 665	10 939	11 552	15 663	17 296	19 858	13 856
Share of Korea in total Africa's trade (%)	1,2	3,2	3,1	2,3	2,2	2,0	2,6	2,2	2,4	2,2	1,9	1,8

Source: Source: IMF Direction of Trade (2010).

* The brief was written when the author was with the Development Research Department of the AfDB as Principal Research Economist.

“Korean exports to Africa are concentrated in a few countries. Indeed in 2009, almost 90% of Korean exports were destined for eight countries...”

Figure 1 Africa’s Share in Total Korean Exports and Imports (%)



Source: IMF Direction of Trade (2010).

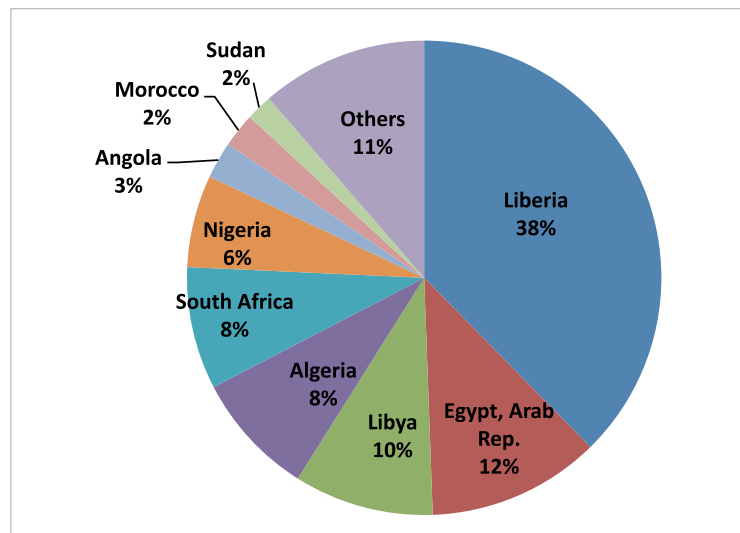
As depicted in Figure 2, Korean exports to Africa are concentrated in a few countries. Indeed in 2009, almost 90% of Korean exports were destined for eight countries on the continent – Liberia (38%), Egypt (12%), Libya (10%), Algeria (8%), South Africa (8%), Nigeria (6%), Angola (3%), Morocco (2%) and Sudan (2%). It should be noted however that Liberia’s large share of trade with Korea includes vessels

registered in that country but not owned by Liberians.

When Liberia is excluded, the other seven countries represent about 50% of the total Korean exports. These exports are also dominated by machinery and transport equipment (e.g., vehicles and vessels), manufacturing goods (e.g., television and cellular phone) and chemical products (Figure 3).

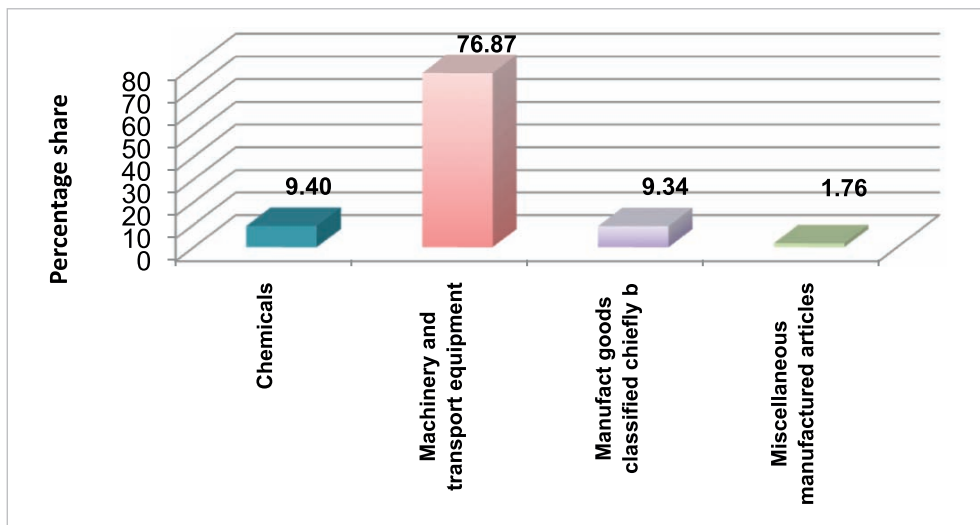
“Korean exports to Africa are dominated by machinery and transport equipment, manufacturing goods and chemical products...”

Figure 2 Africa’s Share in Total Korean Exports and Imports (%)



Source: UN COMTRADE (2010).

Figure 3 Imports from Korea by Product, 2009 (%)

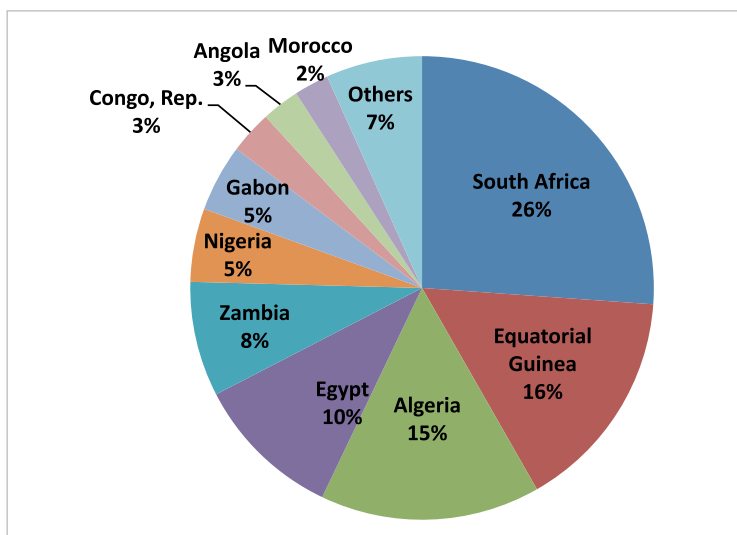


Source: UN COMTRADE (2010).

Similarly, more than 90% of African export to Korea originated from 10 countries: South Africa (26%), Equatorial Guinea (16%), Algeria (15%), Egypt (10%), Zambia (8%), Nigeria (5%) and Gabon (5%) (Figure 4).

Figure 5 demonstrates that primary commodities constitute the largest share of the exports from Africa. In particular, crude oil accounts for over 50% of the total exports from Africa to Korea.

Figure 4 High Concentration of Exports from Africa to Korea, 2009 (%)



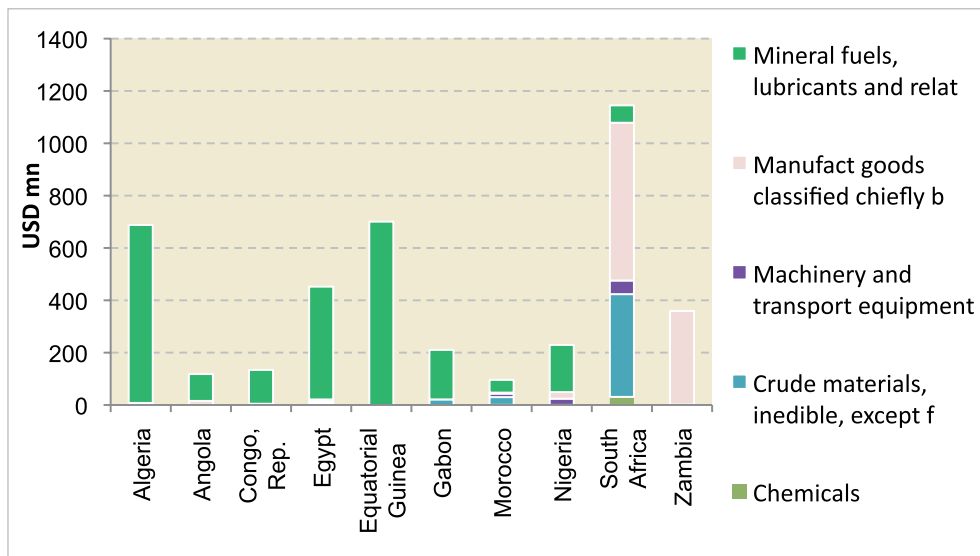
Source: UN COMTRADE (2010).

“...more than 90% of African export to Korea originated from 10 countries...”

“Primary commodities such as crude oil constitute the largest share of the exports from Africa.”

“Considering the potential of the African market, Korean investments still remain marginal in the continent.”

Figure 5 Key African Exports to Korea (by Country and by Product), 2009



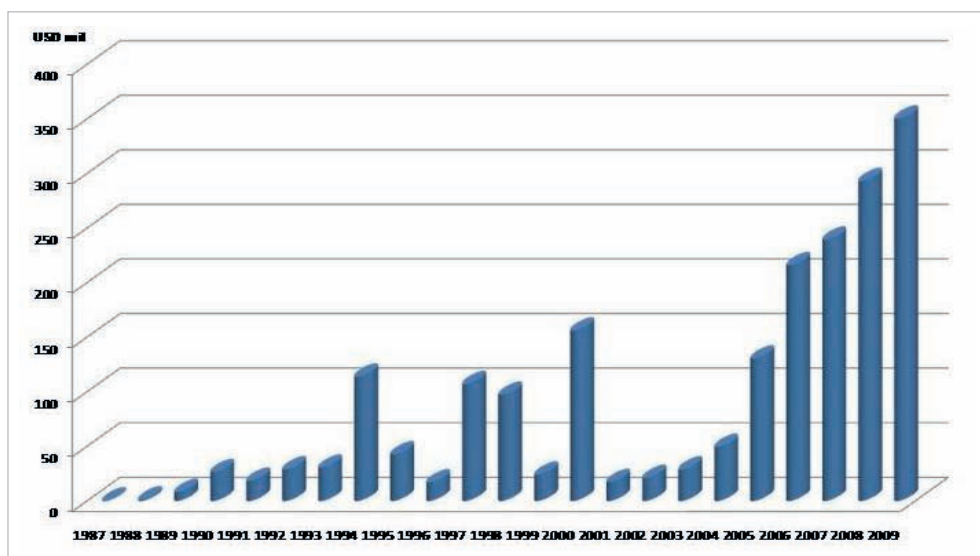
Source: UN COMTRADE (2010).

3 – Trend of Korean Investments in Africa

Korea’s investment into Africa has steadily increased as Figure 6 illustrates. Korean FDI to Africa, which was USD 16.9 million in 2001, recorded USD 373.6 million in 2009. Considering the potential of the African market, however, Korean investments in

Africa still remain marginal. Africa’s share in total Korean outward FDI flows that had peaked up to 2.8% for 1990 – 1994, dropped to 1.1% for 2000 – 2004 and slightly rebounded to 1.5% for 2005 - 2009 (Figure 7). Asia, North America and Europe are the major destinations of Korean outward FDI, while Africa, the Middle East and Oceania have marginal shares (Figure 8).

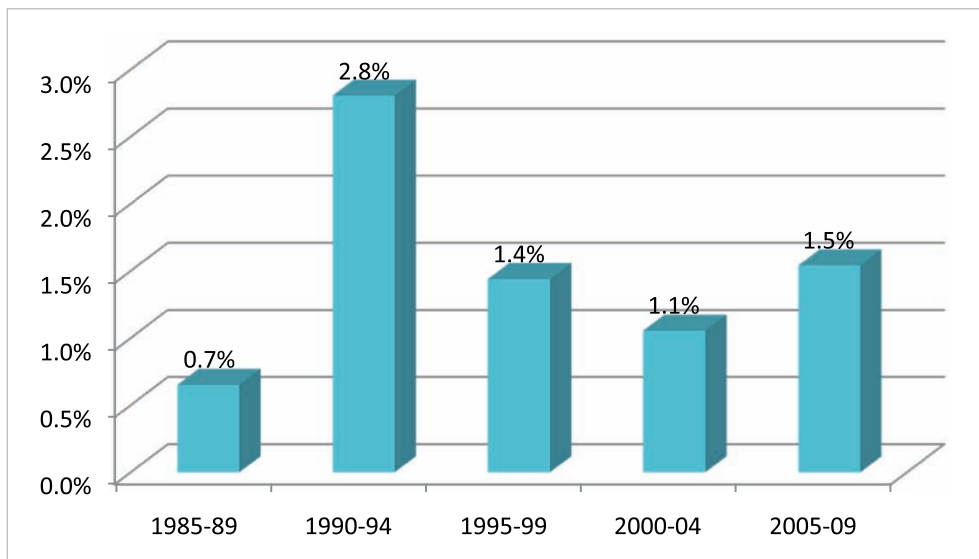
Figure 6 Trend of Korean foreign investments to Africa for 1987-2009



Source: Korea EXIM Bank database, 2010.

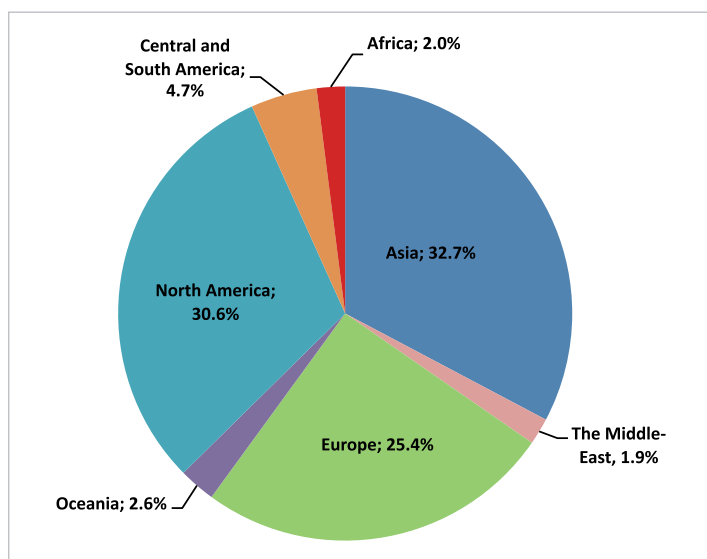
“Asia, North America and Europe are the major destinations of Korean outward FDI, while Africa, the Middle East and Oceania have marginal shares...”

Figure 7 Africa's share in total Korean investments (%)



Source: Korea EXIM Bank database, 2010.

Figure 8 Korean foreign investments distribution by region in 2009



Source: Korea EXIM Bank database, 2010.

Figure 9 shows that Korea's outward FDI is also concentrated in a few countries: Madagascar (33%), Nigeria (18.9%), Libya (18%), South Africa (9.1%), Mauritius (8.4%), Egypt (3.5%), Ghana (2.4%) and Angola (2.2%).

These eight countries account for over 95% of total Korean investments in Africa for 2003-2008.

As with Chinese investments, Korean investment flows into these countries are into natural resource projects, such as nickel in Madagascar and crude oil in Nigeria. Notably, 77% and 8.1% of total these investments went to the mining and the retail sectors, respectively. The construction, manufacturing and infrastructure (electricity, gas and water) sectors received less than 2% each (Figure 10).

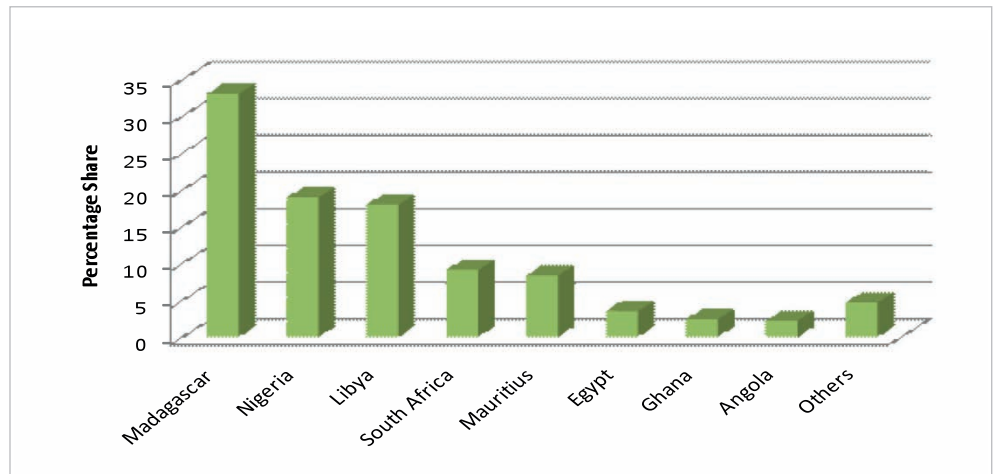
“Korea’s outward FDI is also concentrated in a few countries such as Madagascar (33%), Nigeria (18.9%), Libya (18%), South Africa (9.1%), Mauritius (8.4%)...”

“Asia, North America and Europe are the major destinations of Korean outward FDI, while Africa, the Middle East and Oceania have marginal shares...”

“For 1986-1988, almost 50% of total Korean investments came into the continent to search for natural resources.”

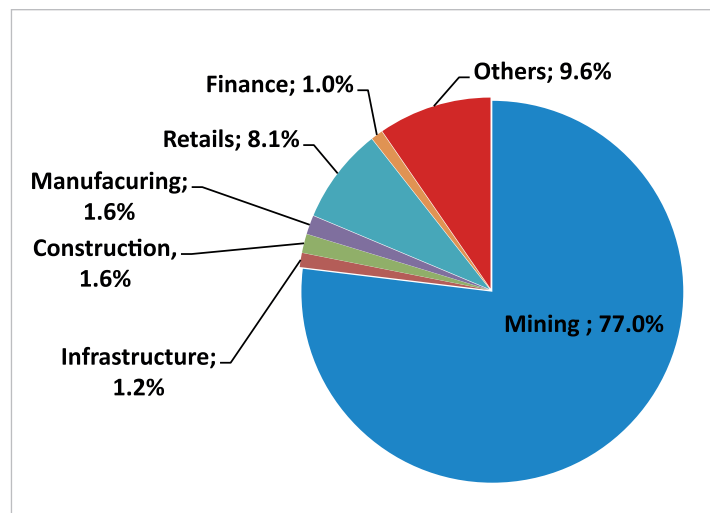
“The cheap labor of Africa, which attracted about 5% of total Korean investments for 1996-1998, represented mere less than 1% for 2006-2008.”

Figure 9 Destinations of Korea’s FDI Flows into Africa for 2003-2008 (%)



Source: OECD, Stat, 2010.

Figure 10 Korea’s FDI in Africa by sectors for 2007-2009

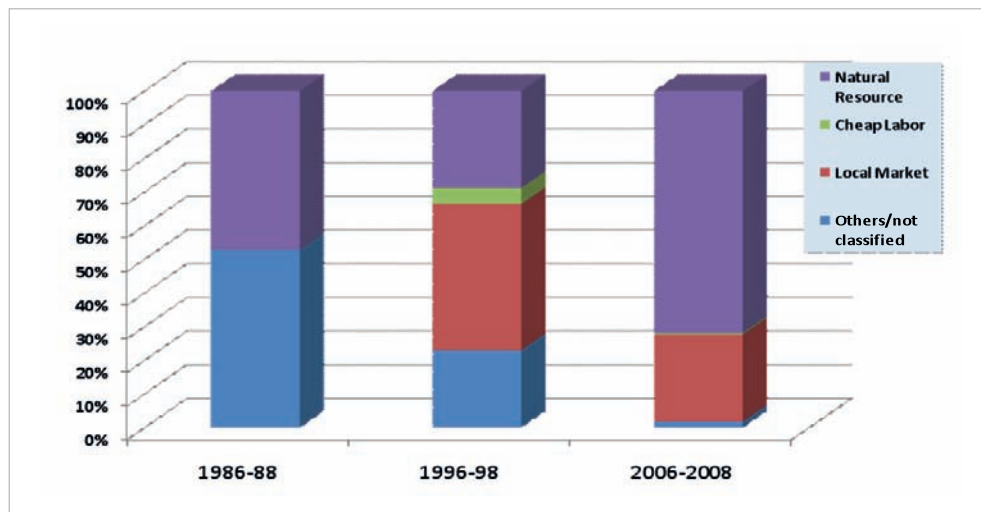


Source: Korea EXIM Bank and author’s calculation.

As depicted in Figure 11, the objectives of Korean investments into Africa have changed over time. For 1986 – 1988, almost 50% of total Korean investments came into the continent to search for natural resources. During the period of 1986 – 1988, local market access was the most

important reason for Korean investments into Africa and then, natural resources of Africa became again the most dominant driver for 2006 – 2008. The cheap labor of Africa, which attracted about 5% of total Korean investments for 1996 – 1998, represented less than 1% for 2006-2008.

Figure 11 Objectives of Korean investments into Africa



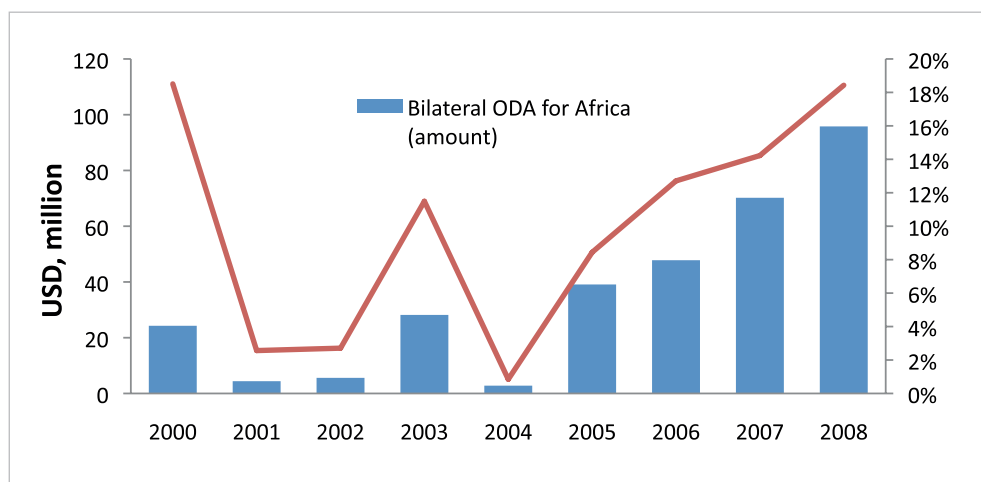
Source: Korea EXIM bank, 2010 and author's calculation.

4 – Trend of Korea's ODA for Africa

Africa is the second largest and one of the fastest growing recipients of Korea's ODA. Since 2005 Korea's aid to Africa has

continuously increased, rising to a record USD 95.8 million in 2008. The share of aid to Africa among total Korean ODA, which fell to 1% until 2004, has sharply increased since 2005, reaching 18.4 percent in 2008 (Figure 12).

Figure 12 Trend of Korean Bilateral ODA for Africa for 2000-2008



Source: OECD, International Development Statistics Online DB (2010) and Korean EXIM Bank.

In the 1990s, Korean ODA was concentrated in economic infrastructure such as transportation and communication, which accounted for over 70% of total bilateral

ODA. Recently, social infrastructure such as education, health and water supply and sanitation has received increased attention (Figure 13).

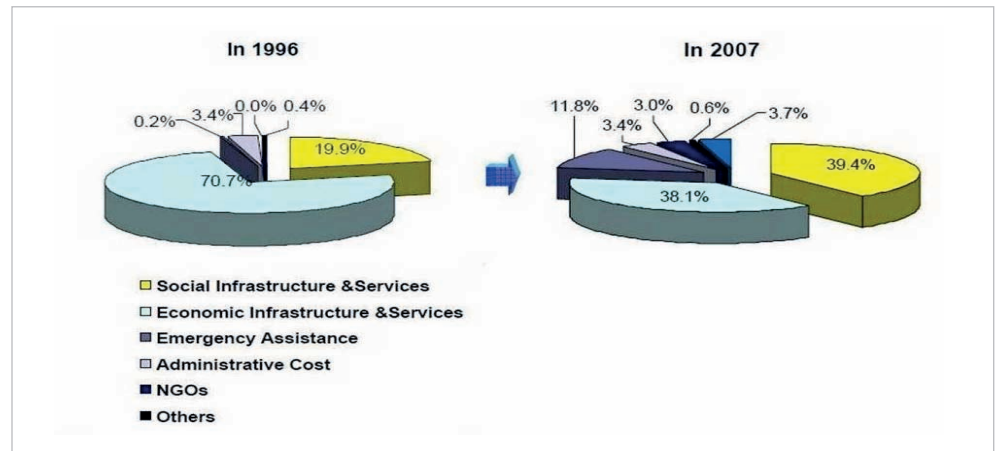
“Africa is the second largest and one of the fastest growing recipients of Korea's ODA.”

“Recently, social infrastructure such as education, health and water supply and sanitation has received an increased attention...”

“There are prospects for increased Korean aid to Africa following its announcement in November 2009 that it would double its official development aid to Africa by 2012.”

“Africa's economic growth presents opportunities for closer business ties with South Korea. However there is need for strategic reorientation of the current relationship...”

Figure 13 Korean Bilateral ODA distribution by sector in 1996 and 2007



There are prospects for increased Korean aid to Africa following its announcement in November 2009 that it would double its official development aid to Africa by 2012. This commitment was reaffirmed during the KOAFEC (Korea Africa Economic Cooperation) ministerial conferences in Seoul in September 2010 by the Korean government’s announcement on a increase in the Economic Development and Cooperation Fund (EDCF) by almost twofold to USD 1.1 billion in the next five years, compared to USD 590 million for 2005 - 2009. These moves could be a positive sign for increases in contributions by Korea to the Bank, including the full implementation of commitment on an about US\$ 16 million grant for the knowledge sharing for 2009- 2011.

5 – Implications for Africa

Africa’s economic partnerships with South Korea are strengthening and new opportunities are emerging. Africa's economic growth presents opportunities for closer business ties with South Korea. However there is need for strategic reorientation of the current relationships to maximize their potential:

- Africa’s large potential in natural resources will continue to attract investments from Korea, which strives for the diversification

of its energy sources. Africa could benefit from Korea’s active engagement in the mining industry, particularly through financing and technology transfer.

- Despite the abundance of Africa’s natural resources, the continent needs to move up the value chain if it is to achieve strong, sustainable and shared growth. This will require investment flows into manufacturing activities that present the greatest potential for sectoral linkages and jobs creation. Korea has strong manufacturing industries which are expanding to foreign countries such as China and Vietnam, largely driven by cheap labor and market access. Some countries in Africa may provide a good location for such manufacturing companies.
- Korea is also a good partner for Africa in infrastructure development. Korea has demonstrated strengths in civil engineering and construction as has been the case in the Middle East. The Korean experiences and capabilities in ICT infrastructure may be used in connecting Africa and allowing growth of ICT industry on the continent.
- Furthermore, Africa can benefit from knowledge sharing on policy and institutional issues through increased dialogue and cooperation.