

# ECONOMIC RELATIONS BETWEEN LATIN AMERICA AND THE CARIBBEAN AND THE REPUBLIC OF KOREA

Advances and opportunities



UNITED NATIONS

ECLAC

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## Foreword

This document was prepared by the Economic Commission for Latin America and the Caribbean (ECLAC) for the official visit of Geung-hye Park, President of the Republic of Korea, to several countries in the region.

The Republic of Korea's success in economic and social development offers many lessons for Latin America and the Caribbean and the developing world as a whole. From being one of the poorest countries in the world in the early 1960s, in six short decades the Republic of Korea has succeeded in transforming itself into a high-income economy, a major manufacturing, scientific and export power and a highly cohesive society with impressive levels of educational achievement.

The main lesson that Latin America and the Caribbean can draw from this is probably that, regardless of the vagaries of the international economy, development is critically dependent on the quality and consistency of each country's public policies. A strategic medium- and long-term vision is critical, and the State must play a key role in its formulation and implementation. The Republic of Korea's successful integration into the international economy is a striking testament to this.

The Republic of Korea's experience demonstrates that proactive, coordinated public policies that are tailored to a country's resources and characteristics are an effective way to achieve dynamic, sustainable and equitable development. The recent strategies to promote green growth and a creative economy are consistent with the long-term vision of development that is a hallmark of the Republic of Korea. Its pioneering

role in fostering green growth has placed the Republic of Korea at the forefront of global efforts to move towards more sustainable patterns of production and consumption. Through this strategy, the Republic of Korea is seeking to specialize in know-how and technologies, which, as well as reducing the risks of climate change, will act as new driving forces for growth in the coming decades. By focusing on the creative economy, the country is attempting to capitalize on its renowned strengths in education, science and innovation, making the third of these a mainstay of its economy and society.

Closer trade links have been forged between Latin America and the Caribbean and the Republic of Korea in recent years, although progress is still modest. The proportion of the region's exports destined for the Republic of Korea increased from 1.1% in 2000 to 1.3% in 2013, while its share of regional imports grew from 1.8% to 3.1%. Over the same period, the region's share of the Republic of Korea's exports rose from 5.7% to 6%, while its percentage of imports expanded from 2.9% to 3.5%. Free trade agreements have also been signed between the Republic of Korea and three countries in the region (Chile, Peru and Colombia).

Despite these positive developments, the Latin American and Caribbean region's trade with the Republic of Korea suffers from the same drawbacks as its trade with the other Asian economies. The region's exports are highly concentrated in a few countries, products and companies, and are chiefly made up of primary goods. Nonetheless, strong foreign direct investment from the Republic of Korea offers the region many opportunities for the diversification of bilateral trade in the coming years. Investment has thus far been concentrated mainly in a wide range of industries in the manufacturing sector. This offers great potential for transfers of knowledge and technologies and linkages with local suppliers.

The Republic of Korea has transformed itself from a recipient of official development assistance into a donor country, and its experience has made it especially sensitive to the needs of developing countries. Its efforts in our region in recent years have concentrated on reducing social inequalities, building administrative capacity, increasing government transparency and promoting sustainable development. The Republic of Korea's admission as a member of ECLAC in 2007 is proof of its commitment to the region. These institutional ties have created

opportunities for exchanges of experiences and cooperation on a wide range of public policy issues, to the benefit of both parties.

Cooperation between the Government of the Republic of Korea and ECLAC has encompassed work on ad hoc publications for various meetings of the Forum for East Asia-Latin America Cooperation (FEALAC), with the aim of building bridges for dialogue and cooperation between Latin America and the Caribbean and the Asia-Pacific region. Academic activities have also been carried out, both in Seoul and at ECLAC headquarters, involving discussions on various fields of economic development, exchanges of experiences and studies of specific aspects of the bilateral economic relations.

President Park's visit to the region is an ideal occasion to present this document, which sets forth an updated overview of the trilogy of trade, investment and cooperation between the Republic of Korea and Latin America and the Caribbean.

**Alicia Bárcena**

Executive Secretary

Economic Commission for Latin America  
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# I. Relevance of the Korean development experience

## A. Convergence with developed countries

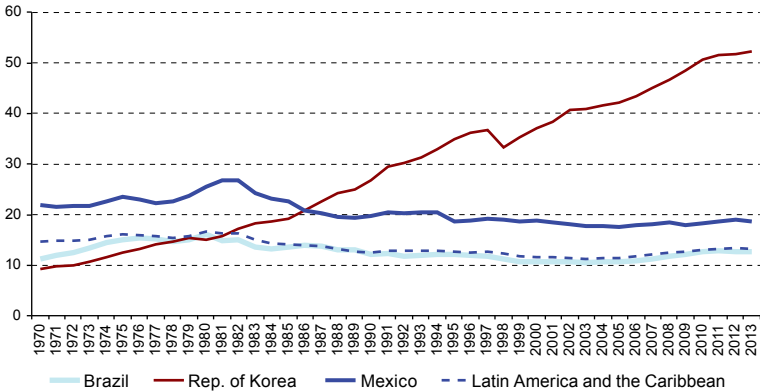
The main lesson to be drawn from the Korean case is that convergence with the industrialized economies is possible. Indeed, whereas in 1960 the Republic of Korea was one of the poorest countries in the world, with per capita income of US\$ 80, in the intervening 50 years, it has become a global player, with a solid industrial base and a strong presence in the production of new technologies.

Between 1960 and 2014, the Republic of Korea's per capita GDP grew at an annual rate of 6%, increasing 22 times over (based on World Bank figures), albeit at rates that varied significantly by period: 8% between 1980 and 1995 but slightly less than 4% since 1995. In 1970, the country's per capita income was just 9% of that of the United States, compared with Latin America's, which was 15%. Today, per capita income in the Republic of Korea is 53% of the figure for the United States, while the level in Latin America remains at just 13% (see figure I.1). Thus, whereas in 1970 the Republic of Korea's per capita income was just 42% of Mexico's, today Mexico's per capita income is just 35% of the Republic of Korea's. The urbanization trend has been pronounced, rising from a rate of 28% in 1960 to 57% in 1980 and 82% at present.

Insertion in global trade has been a key instrument of the Republic of Korea's development success over the past half century. Korean exports grew an average annual rate of 16% between 1970 and 2010. Its share of global trade in goods, near zero in the mid-1960s, has expanded without interruption ever since (see figure I.2), and by 2013 the country was the

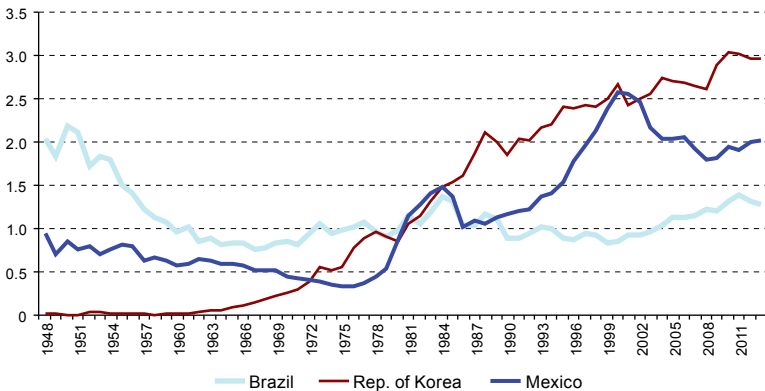
seventh largest exporter of goods in the world and the ninth largest importer. The Republic of Korea has become a key actor in several industries, including electronics, chemicals, automobiles and shipbuilding, and as such occupies a prominent position in so-called “Factory Asia”.

**Figure I.1**  
**Republic of Korea and Latin America and the Caribbean: per capita income**  
**in relation to that of the United States, 1970-2013**  
*(Percentages)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators.

**Figure I.2**  
**Brazil, Mexico and the Republic of Korea: share in world**  
**goods exports, 1948-2013**  
*(Percentages)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO) [online] <http://stat.wto.org/>.

## B. Recent macroeconomic conditions in the Republic of Korea

The Republic of Korea has had moderate growth of around 3% over the past four years, and per capita GDP growth has slowed (see table I.1). However, this figure would have surpassed US\$ 28,000 in 2014, close to the target of US\$ 30,000 set for the midpoint of the decade. Meanwhile, inflation and unemployment remain relatively low.

**Table I.1**  
**Republic of Korea: selected economic indicators, 2010-2014**  
(Dollars and percentages)

| Indicators                                         | 2010   | 2011   | 2012   | 2013             | 2014 <sup>a</sup> |
|----------------------------------------------------|--------|--------|--------|------------------|-------------------|
| GDP (billions of dollars)                          | 1 094  | 1 202  | 1 223  | 1 304            | 1 449             |
| GDP (annual growth at constant prices)             | 6.5    | 3.7    | 2.3    | 3.0              | 3.7               |
| Per capita GDP (dollars)                           | 22 151 | 24 156 | 24 454 | 25 975           | 28 739            |
| Inflation rate (percentage)                        | 3.0    | 4.2    | 1.4    | 1.1              | 2.0               |
| Unemployment (percentage of the active population) | 3.7    | 3.4    | 3.2    | 3.1              | 3.1               |
| Public sector balance (percentage of GDP)          | 1.5    | 1.7    | 1.6    | 0.7 <sup>a</sup> | 0.3               |
| Public debt (percentage of GDP)                    | 29.8   | 30.6   | 30.5   | 33.3             | 34.9              |
| Current account balance (billions of dollars)      | 28.9   | 18.7   | 50.8   | 79.9             | 84.2              |
| Current account balance (percentage of GDP)        | 2.6    | 1.6    | 4.2    | 6.1              | 5.8               |

**Source:** International Monetary Fund (IMF), World Economic Outlook Database, October 2014.

<sup>a</sup> Projections.

Since 2012, the country has suffered the impact of the economic cooldown in China and the United States, its main trading partners. In response, President Park Geun-hye launched her five-year term in office by announcing greater economic democratization, which is to say a rebalancing of the Republic of Korea's large, family-run companies, or *chaebols*, and its small and medium-sized enterprises (SMEs), and support for a creative economy based on services and innovation. The government is pursuing an economic growth model that combines fiscal stimulus measures with a flexible monetary policy. The 2014 budget, up 2% over 2013, gives priority to social spending, health and employment, as well as the defense sector. The government projects a relatively low public deficit, and public debt stands at around 35% of GDP. For its part, the Central Bank is seeking to maintain price stability while stimulating the economy.

Although there is no consensus, the prospects for 2015 are generally regarded as slightly better than in 2014, with the potential for greater export growth and an alignment of the domestic economy with the economic recovery in the United States and the stimulus for a recovery in domestic demand. Uncertainty would be associated with the economic slowdown in China and weakness in the European Union economies. In any case, growth of around 3.4% is forecast for 2015, along with a 6% increase in exports.

In terms of flows, the Republic of Korea's foreign trade (measured as total exports and imports in current dollars) grew at an average annual rate of 9.4% between 1990 and 2013, a period in which global trade averaged 3.6% growth. Its trade balance was initially in deficit but is now mostly in surplus, reaching a high of US\$ 44 billion in 2013.

Korean exports totaled US\$ 559.6 billion in 2013, with average annual growth of 9.8% since 1990. The largest segments of the export market are transportation equipment and machinery (55%), manufactured goods classified by material (13%) and chemical and related products (12%). The segments that have expanded the fastest since 2000 are beverages and tobacco (493%), fuels and mineral lubricants and related products (477%) and chemical and related products (380%).

Korean imports totaled US\$ 515.6 billion in 2013, with average annual growth of 9.1% since 1990. Fuels and mineral lubricants and related products account for 35% of imports, transportation equipment and machinery accounts for 26% and manufactured goods classified by material account for 11%. Based on a comparison of variations in the different categories between 2000 and 2013, robust growth can be seen in imports of fuels and mineral lubricants and related products (374%), followed by animal and vegetable oils, fats and waxes (354%) and nonfood raw materials excluding fuels (248%).

The Republic of Korea has a negative trade balance with just 26 countries. These include Japan (with which it has a US\$ 25 billion deficit) in Asia, some oil-producing countries (Saudi Arabia, United Arab Emirates) and some mining countries (Chile, Peru, Zambia, South Africa).

## II. Medium- and long-term strategies in the Republic of Korea

### A. Medium- and long-term strategy committee

To address the relatively slower growth of recent years and map out policy priorities, the Korean government created a medium- and long-term strategy committee in November 2014. The committee, which will report to the Ministry of Strategy and Finance, is charged with staking out a policy line on internal and external challenges. Fourteen primary tasks have been established and assigned to public institutions for study (see table II.1).

**Table II.1**  
**Republic of Korea: medium- and long-term strategies**

| Working group                  | Tasks                                                                                           | Responsible institutions                                 |
|--------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| General                        | Economic development strategy and vision for the Republic of Korea                              | Korea Development Institute (KDI)                        |
|                                | Reconstruction of the economic system                                                           | Market Economic Research Institute (MERI)                |
| Demographic structure          | Policies to increase birth rates                                                                | Korea Institute for Health and Social Affairs (KIHASA)   |
|                                | Social security for the elderly population                                                      | Korea Institute for Health and Social Affairs (KIHASA)   |
|                                | Change in the demographic structure and the labour market                                       | Korea Labor Institute (KLI)                              |
| Science and technology         | Human resources training in science and technology                                              | Korea Development Institute (KDI)                        |
|                                | Efficiency in the management of public investment in research and development                   | Science and Technology Policy Institute (STEPI)          |
|                                | Development of new industries                                                                   | Science and Technology Policy Institute (STEPI)          |
| Foreign affairs/ Reunification | Global trade model and mega FTAs                                                                | Korea Institute for International Economic Policy (KIEP) |
|                                | Opportunity and risk factors with the Chinese economy and measures to adopt                     | Korea Institute for International Economic Policy (KIEP) |
|                                | Change in relations between the Republic of Korea and the Democratic People's Republic of Korea | Korea Institute for International Economic Policy (KIEP) |
| Environment/ Energy            | Reduction in greenhouse gas emissions and responses to climate change                           | Korea Environment Institute (KEI)                        |
|                                | Measures to increase the efficiency of the energy market                                        | Korea Energy Economics Institute (KEEI)                  |
| Structure of society           | Measures to build trust in government and resolve social conflicts                              | Korea Development Institute (KDI)                        |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Ministry of Strategy and Finance of the Republic of Korea [online] <http://english.mosf.go.kr/>.

In addition, the Korean government has set guidelines to promote green growth and a creative economy focused on creating jobs through creativity and innovation. To reinforce these strategies, free economic zones have been designated in strategic areas of the country.

## **B. Green growth in the Republic of Korea: a development plan for qualitative growth**

The Republic of Korea's development and growth over the past six decades has been described as the Miracle on the Han River, characterized by strong export-fueled growth, rapid industrialization, technological transformation and rising living standards. Between 1960 and 1990, this growth was driven by industry but has since been evolving towards high-technology manufactured goods.

Though this growth constituted a success in economic terms, it took a heavy toll on the environment, exhausting natural and human resources, and led to an unequal distribution of wealth. Moreover, the swift pace of industrialization and urbanization made the country very dependent on foreign sources of energy (MOSF, 2014).

Owing to severe and unrelenting environmental degradation, the Republic of Korea faced major challenges by the early 2000s, including high levels of greenhouse gas (GHG) emissions from manufacturing, transportation and industrial processes. In 2004, for example, carbon dioxide emissions by unit of GDP (an indicator of the carbon intensity of an economy) were 40% higher in Korea than in Japan, 23% higher than in countries like Australia and New Zealand and 15% higher than average emissions in member countries of the International Energy Agency (IEA, 2006). These levels placed the Republic of Korea among the 10 OECD countries with the highest greenhouse gas emissions (Jones and Yoo, 2011).

In addition to the impacts of these phenomena on the global ecosystem, the impacts on the Republic of Korea's local environment were not insignificant. They included mean temperature and sea level increases above the global averages, and twice the global average in the case of temperature. These local climate change impacts caused major economic damages. In the 2000s, climate-related extreme events, such as floods, cost over US\$ 2 billion, and spending on prevention and recovery

totaled US\$ 4.3 billion (Presidential Committee on Green Growth of the Republic of Korea, 2011).

In February 2008, the year marking the sixtieth anniversary of the Republic of Korea's independence, the National Vision for the Future Office was established within the Presidency, prompting an extensive stocktaking of the country's first 60 years while looking ahead to the next 60. The assessment was that the phase of rapid growth was waning as strong new competitors emerged, which meant that the country was in urgent need of new engines of growth. Moreover, the country's energy security was increasingly vulnerable and its industry was overly dependent on fossil fuels. All this against a backdrop in which local temperatures were rising more than twice as fast as in similar countries around the world, a pattern that was also being seen with rising sea levels in several coastal areas in the Republic of Korea.

In August 2008, as the country was celebrating 60 years of independence, a new model was proposed for the next 60 years: low-carbon green growth. To that end, a presidential committee on climate change was established under the direct supervision of the President with the task of coordinating and implementing the government's efforts to reduce greenhouse gas emissions, decrease its reliance on fossil fuels and make green growth a new engine of growth, with an emphasis on the green technologies and infrastructure that would be needed. This committee includes six ministries and representatives from business and academia. Its approach is systemic, encompassing not only the energy sector but also industry, agriculture, transportation, construction, urban development, education, health and other sectors. The committee has identified 27 "key technologies" to promote and seeks to make the Republic of Korea a global leader in 10 of them. These include not only clean and renewable energies but also information technologies, biotechnology and nanotechnology. Based on this exercise, it is not surprising to see that the country is already leading the way in its approach to climate change with a focus on productive transformation, as it bets on strong growth and technological innovation while simultaneously steering production and consumption towards lower carbon intensity.

In July 2009, the Korean government unveiled its National Strategy for Green Growth, a long-term development plan (2009-2050) containing fiscal, regulatory and policy directives and strategies for the transition

to a green economy. Guided by this strategy, Korea has embarked on its transition from a traditional socioeconomic structure dependent on fossil fuels to a low-carbon model (Presidential Committee on Green Growth of the Republic of Korea, 2011).

This complementary relationship between economic growth and the environment rests on three strategic pillars: mitigate climate change and promote energy independence; create new engines of economic growth; and improve quality of life and strengthen the country's international position. These three pillars are being implemented through 10 policy directives. The strategy was developed within a legal and institutional framework that includes the Presidential Committee on Green Growth (composed of the Ministries of Finance, Transportation, Energy, Environment and others) and the Framework Law on LowCarbon Green Growth. The purpose of the strategy is to turn the country into one of the world's top seven green growth powerhouses by 2020 and one of the top five by 2050 (see table II.2).

For implementation of the directives set out in the National Strategy for Green Growth, a Five-Year Plan (2009-2013)<sup>1</sup> was announced in 2009, committing the government to spend 2% of GDP per year, an amount equivalent to US\$ 83.6 billion, on 50 programmes and projects to invest in green infrastructure, green technologies, efficient use of resources and materials, renewable energies, sustainable transportation and ecosystem restoration. Among the most emblematic of these projects is an initiative to restore the country's four major rivers, with plans to protect against rising sea levels and flooding, two of the most serious risks of climate change that the Republic of Korea is facing. In addition, ecological communities are being built in eight regions of the country, which are characterized by efficient use of waste, green energy and biomass (UNEP, 2010). It was expected that the first Five-Year Plan would stimulate between US\$ 141.1 billion and US\$ 160.4 billion in new output between 2009 and 2013 and create between 1.2 million and 1.5 million new jobs during the same period (UNEP, 2010).

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<sup>1</sup> This Five-Year Plan absorbed the Green New Deal (2009-2012), a plan that had been implemented in the wake of the global financial crisis to create jobs and new sources of growth in order to transform the Republic of Korea into a green economy.



**Table II.2**  
**Main strategies and directives of the National Strategy  
 for Green Growth**

| Strategy                                                                                 | Policy directives                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Mitigate climate change and promote energy independence                               | <ul style="list-style-type: none"> <li>• Mitigate greenhouse gas emissions through strategies for application in buildings, transportation and industry, mandatory emissions reporting programmes and forestry promotion.</li> <li>• Reduce the use of fossil fuels to lower the average energy intensity index of OECD countries, increase the use of renewable energy, strengthen energy independence and expand nuclear energy capacity.</li> <li>• Strengthen the capacity to adapt to climate change, including by launching a project to restore the country's four major rivers, and increase the percentage of environmentally friendly farm products to 18% by 2020.</li> </ul>                                                                                                                                                             |
| 2. Create new engines of economic growth                                                 | <ul style="list-style-type: none"> <li>• Develop green technologies and increase the presence of these technologies in the global market and in relevant sectors to 8% in five years.</li> <li>• Promote green industries and make existing industries greener. Exports of green products from the country's leading industries should expand from 10% in 2009 to 22% in 2020. The government will help SMEs become greener.</li> <li>• Increase the role of services through the development of services in health, education, finances, content industries, software and tourism as core high-value-added services.</li> </ul>                                                                                                                                                                                                                     |
| 3. Improve quality of life and strengthen the Republic of Korea's international position | <ul style="list-style-type: none"> <li>• Build infrastructure for green transportation and enhance the ecological integrity of the land and water by increasing train use from 18% in 2009 to 26% in 2020 and public transportation use in metropolitan regions from 50% to 65% in the same period.</li> <li>• Promote a green revolution in the daily lives of the Korean people by labeling products with carbon footprint information, promoting green products and providing education on green growth.</li> <li>• Become a model for the international community by taking the lead on green growth. The Republic of Korea will participate actively in international climate change negotiations and will increase the percentage of official development assistance (ODA) that is provides for this issue from 11% to 30% in 2020.</li> </ul> |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Republic of Korea's National Strategy for Green Growth.

Along with the Five-Year Plan, the Korean government also announced its goal to reduce greenhouse gas emissions by 30% by 2020, a unilateral and voluntary mitigation measure that goes above and beyond its international commitments.<sup>2</sup> Action towards this target began in 2012 under the country's Target Management Model, with nearly 500 firms and institutions making a commitment to reduce emissions. That model was the precursor to the country's Emissions Trading Model, a cap-and-trade arrangement that entered into effect in January of this year and caps carbon dioxide emissions at 1,687 tons equivalent over the next three

<sup>2</sup> The Republic of Korea is not included in Annex 1 to the Kyoto Protocol to the United Nations Framework Convention on Climate Change and is therefore not subject to any binding commitments to reduce greenhouse gas emissions.

years. The 525 largest companies in the country are participating in this arrangement, representing the petrochemical, steel, energy, automotive, electronics and air transportation industries, which combined generate approximately 60% of greenhouse gas emissions (IEA, 2012). This carbon market enables companies to buy and sell emissions permits (carbon credits) on the Korea Exchange.<sup>3</sup> The Republic of Korea's cap-and-trade market is considered to be the second largest in the world, after the European Union's (which will be overtaken by China at some point between 2016 and 2020).

Since President Park Geun-hye assumed office in February 2013, there has been discussion of Green Growth 2.0, with particular emphasis being placed on the importance of fulfilling greenhouse gas reduction commitments by developing renewable energy technology. With this in mind, in October 2013, a new Green Growth Committee was created under the mandate of the Prime Minister in charge of designing the second Five-Year Plan and a National Plan for the Reduction of Carbon Emissions.<sup>4</sup> At the same time, a comprehensive review is being conducted of the policies implemented under the previous administration's National Strategy for Green Growth. The legal and institutional framework for Green Growth 2.0 is still under development.

### **C. The vision of a creative economy in the Republic of Korea**

Since taking office in February 2013, the current administration has been pursuing a creative economy strategy, which essentially seeks to drive job creation through creativity and innovation. This approach has been designed to take advantage of the country's economic assets, especially its highly educated populace and strong capacity in information and communications technology (ICT), so it can remain a global economic leader. The new emphasis involves a line of continuity with the green growth strategy, with ongoing initiatives to build green energy infrastructure, which creates new specialized areas of employment while reducing carbon emissions. Accordingly, the concept of green growth and the creative economy refers to a model of sustainable economic growth

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<sup>3</sup> In the first day of open-market trading, 1,040 permits were sold for prices ranging from US\$ 7.25 to US\$ 7.97, similar to prices on the European market (Reuters, 2015).

<sup>4</sup> This Committee replaced the Presidential Committee on Green Growth created in 2008.

supported by innovation that creates modern jobs, improves wellbeing and reduces pressure on finite resources.

The Presidency is strongly backing innovation and the concept of a creative economy, which has facilitated its rapid implementation. Efforts to build a creative economy emphasize the application of knowledge, innovation and new technologies in transforming the productive structure, making it more competitive and sustainable. This is reflected in five principal strategies (see table II.3).

**Table II.3**  
**Summary of the principal strategies for a creative economy**  
**in the Republic of Korea**

| Strategies                                             | Objectives                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Establish an ecosystem for a creative economy.      | <ul style="list-style-type: none"> <li>• Build a Republic of Korea full of creative ideas and people with creative skills.</li> <li>• Translate creative ideas into marketing and the creation of new firms.</li> <li>• Create new industries and jobs / strengthen existing industries using technology and ICT.</li> <li>• Help local industries grow into the industrial, academic and research community.</li> <li>• Create, protect and use intellectual property.</li> </ul> |
| 2. Strengthen national R&D and innovation capacity.    | <ul style="list-style-type: none"> <li>• Strengthen the fundamentals of creative R&amp;D.</li> <li>• Promote growth engines in sectors with potential.</li> <li>• Make government-financed research institutes into the best in the world.</li> <li>• Create a suitable working environment for scientists and engineers.</li> </ul>                                                                                                                                               |
| 3. Promote software and content.                       | <ul style="list-style-type: none"> <li>• Promote software, the language of the twenty-first century.</li> <li>• Go global with Korean-style products.</li> <li>• Eliminate regulatory barriers for media industries and promote new services for convergence.</li> <li>• Build the best network in the world in order to create an enabling environment for a C-P-N-D ecosystem.<sup>a</sup></li> </ul>                                                                            |
| 4. Pursue international cooperation and globalization. | <ul style="list-style-type: none"> <li>• Guarantee leadership in the global community.</li> <li>• Develop an international science and business zone as a research base.</li> <li>• Expand "K-move"<sup>b</sup> around the world.</li> </ul>                                                                                                                                                                                                                                       |
| 5. Develop technology and ICT for communities.         | <ul style="list-style-type: none"> <li>• Promote projects to solve social problems through cutting edge technology.</li> <li>• Lower communication costs.</li> <li>• Create a convenient and safe Internet environment.</li> </ul>                                                                                                                                                                                                                                                 |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Ministry of Science, ICT and Future Planning [online] <http://english.msip.go.kr/english/msipContents/contents.do?mld=Mjcx>.

<sup>a</sup> C-P-N-D : Contents-Platform-Network-Device (Design of a network with a content platform).

<sup>b</sup> K-move is an initiative to support Korean entrepreneurs abroad, especially in the area of information and communication technologies.

These strategic lines are expressed in specific plans and programmes and reflect a special emphasis on strengthening the role of SMEs through the establishment of ecosystems that promote the creation of new firms and improve their ability to penetrate global markets by enhancing their innovation capacity.

The action plan for the creative economy incorporates a series of measures to remove financial and regulatory barriers for entrepreneurs and SMEs. There are fiscal incentives and deregulation measures to stimulate new investment and re-investment by successful entrepreneurs, as well as instruments such as the “business visa” to encourage highly skilled foreigners to start businesses in the Republic of Korea. The plan also calls for an increase in government procurements of new convergence technologies, demonstrating the important role that the government can play in bringing innovations to the market and generating support for the localization of entrepreneurs with promising products to take to global markets.

The action plan includes a set of measures aimed at improving SME productivity. It also calls for the promotion of 17 new engines of growth to promote new industries and help sustain the Korean economy over the long run. The goal is to first lay a foundation for economic growth through the creation of markets and the development of basic and applied technologies, in order to then produce US\$ 700 million in value added over the next 10 years and create 3.5 million jobs by 2018. In summary, the plan is expected to help mitigate the recent economic slowdown in the short term and to drive growth in the medium and long term, propelling forward the green growth strategy.

#### **D. Free economic zones**

Although the Republic of Korea’s first free economic zones (FEZ) were set up prior to the aforementioned strategies, their existence reinforces the objectives of green growth and the creative economy. The FEZs are industrial areas with cutting-edge technology and world-class human and physical capital. They seek to establish international business platforms by stimulating economic development in the respective area, taking into consideration the specific characteristics of each region, and are developed over a period of 15 to 20 years.<sup>5</sup> In their present form, the FEZs were established in 2003 in Incheon (see box II.1), in BusanJinhae and on Gwangyangman Bay. Five additional FEZs were designated in 2008 and 2013 in the areas of Daegu-Gyungbuk, Yellow Sea, Saemangeum-Gunsan, East Sea and Chungbuk.

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<sup>5</sup> Presentation by Soon-kee Park, “Korea’s experience in Free Economic Zones”, Economic Commission for Latin America and the Caribbean (ECLAC), January 2015.

### **Box II.1**

#### **Incheon Free Economic Zone: a twenty-first century technology city**

The Incheon Free Economic Zone (IFEZ) is the first free economic zone in the Republic of Korea. It was designed as a mega-city, with a strategic location, sophisticated infrastructure and highly skilled human resources to facilitate the development of finance, logistics, biomedical engineering, advanced industries (e.g. industries related to the environment), education, tourism and other industries. IFEZ has large-scale business, logistics and residential centres spread across an area nearly twice the size of New York City, with a population of over 250,000. This mega city is a “green” city, equipped with modern environmental infrastructure. Drawing on these strategic and competitive aspects, IFEZ is a source of growth for the country in the twenty-first century and has been described as a model city of the future.

IFEZ has three major districts —Songdo, Yeongjong and Cheongna— each with its own role and function. The first, Songdo, is the financial district where international companies and their regional headquarters can establish their offices, related facilities and convention centres. Companies that have set up shop in Songdo include global financial consulting firms, offshore financial centres and banks. Songdo also hosts foreign academic institutions, enabling universities and global firms to create research and development clusters. As a result, IFEZ has become a worldwide leader in information technologies. The presence of Yonsei University Health System has also established IFEZ as a global hub for the biomedical industry, due to the development of advanced pharmaceutical technology, quality control systems and an integrated research cluster.

The second district, Yeongjong, is a logistics centre with operations built around Incheon International Airport, which is regarded as one of the three best airports in the world and serves over 63 airlines with connections to 150 cities in 50 countries, making it the main hub for Northeast Asia. From Incheon, over 60 cities can be reached in less than three and a half hours, enabling firms to do business with over one third of the world’s population. Aside from commercial passenger service, Incheon International Airport operates as an air transport and distribution centre, handling more than 4.5 million tons of cargo every year. The Yeongjong district also has extensive manufacturing facilities for various industries, including makers of semiconductors, electronic equipment, communications instruments and software.

The third district, Cheongna, regarded as one the best tourism destinations in the world, is a recreational district that has theme parks and fields and facilities for sports, with a focus on creating a harmonious relationship between people and nature.

The purpose behind the development of these three districts is to create the Incheon Capital Economic City, in order to attract national and global companies, create jobs, improve the way in which international business is conducted and achieve greater competitiveness. To this end, in addition to its sophisticated infrastructure and logistics centres, IFEZ facilitates investment and business development by offering significant fiscal, financial and regulatory incentives, as well as intellectual property protections.

**Box II.1 (concluded)**

IFEZ is a potential source of growth for the Republic of Korea in the twenty-first century. Created 12 years ago and now in its final phase of construction, IFEZ seeks to change the prevailing model of international business and transform the concepts of business complexes and green cities. It can do this by drawing on its strategic and competitive advantages, including its privileged location, world-class infrastructure, skilled and highly productive human resources, environment that facilitates and supports business development and a sophisticated and safe quality of life where the population has access to the best hospitals, schools, universities, green spaces and luxurious residences.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Free Economic Zone (FEZ) Planning Office of the Republic of Korea, *Korea Economic Zones: Incheon Free Economic Zone* [online] <http://www.fez.go.kr/en/incheon-fez-overview.jsp> and *Incheon Free Economic Zone Authority* [online] <http://www.ifez.go.kr/eng>.

The FEZs offer a variety of incentives to attract foreign investment. First, they facilitate access to global transport infrastructure such as the Incheon international airport, the Busan seaport and a modern rail system (Korea Train Express). Second, they provide access to a highly educated labour force, particularly specialized in the electronics and automotive industries. Heavy investment in research and development and the leadership of Korean firms in the areas of semiconductors, shipbuilding and information and communications technology are also incentives for foreign investment. But the strongest incentive has been tax exemption: foreign companies that invest a minimum amount, which varies by industry, are exempt from taxes for a maximum period of seven years. In addition, subsidies and financial assistance are available for firms involved in making high-technology products and for research institutions, respectively. Lastly, the FEZs offer a high quality of life, in the form of public security, international educational institutions, sophisticated medical care and recreational facilities, all of which attract human talent from abroad.

### **III. Characteristics of trade between Latin America and the Caribbean and the Republic of Korea**

#### **A. Trade relations between Latin America and the Caribbean and Asia-Pacific**

Trade between Latin America and the Caribbean and the countries of the Asia-Pacific region<sup>6</sup> increased significantly between 1980 and 2013, from an average annual growth rate of 1.5% in the 1980s to 11% in the 1990s and 17% between 2000 and 2013 (see figure III.1). During that entire period, the value of exports from Latin America and the Caribbean to Asia-Pacific never declined except in the second half of 2008 and the first half of 2009. Imports, however, contracted sharply in 2009 on slower economic activity in Latin America and the Caribbean due to the global economic crisis.

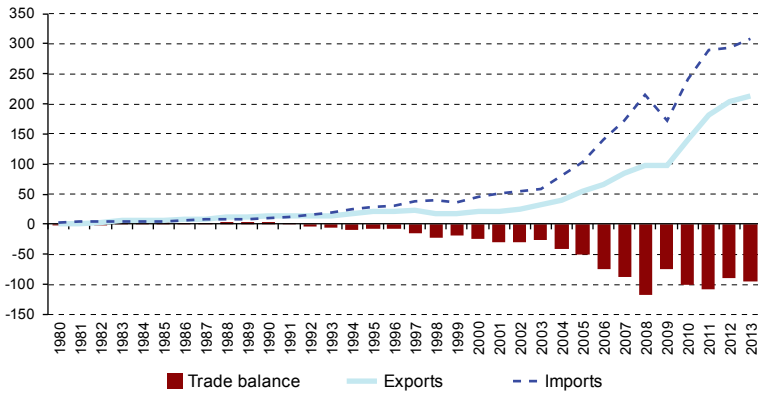
Since 2012, Latin America and the Caribbean has seen an overall decline in foreign trade, but its trade with Asia-Pacific continues to expand. Monthly exports to Asia-Pacific climbed from an average value of US\$ 5.4 billion in 2006 to slightly more than US\$ 16.2 billion in 2014. Meanwhile, imports grew from US\$ 10.6 billion per month in 2006 to US\$ 24.6 billion in 2014.<sup>7</sup>

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<sup>6</sup> For purposes of analysis, the Asia-Pacific region includes the following economies: Australia, Brunei Darussalam, Cambodia, China, Republic of Korea, the Philippines, Hong Kong (Special Administrative Region of China), Japan, the Lao People's Democratic Republic, Thailand, Taiwan (Province of China), Indonesia, Malaysia, Myanmar, New Zealand, Singapore and Viet Nam.

<sup>7</sup> The monthly figures for 2014 are not directly comparable with the figures presented in figure III.1 to 2013 because the 2014 figures include trade with all countries in Asia, not just Asia-Pacific.

**Figure III.1**  
**Latin America and the Caribbean: trade with Asia-Pacific, 1980-2013**  
*(Billions of dollars)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

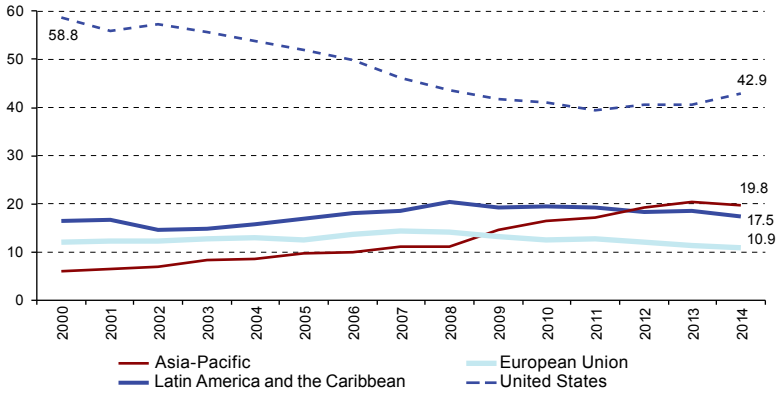
Asia-Pacific's share of exports from Latin America and the Caribbean has more than tripled in this century, rising from 6% to 20.5% between 2000 and 2013. As a result, Asia is now the second largest destination for exports from Latin America and the Caribbean, after the United States, and ahead of both the European Union and the region itself. Meanwhile, imports to the region from Asia-Pacific expanded from 12% to 29% of total imports during the same period, nearly on par with imports from the United States.

China accounts for about half of all Latin America and the Caribbean's trade with Asia-Pacific, having surpassed Japan at the beginning of the last decade. The Republic of Korea's share of the region's trade with Asia-Pacific stands at 7% of exports and 11% of imports (see figure III.2).



**Figure III.2**  
**Latin America and the Caribbean: share of selected partners**  
**in total trade, 2000-2014<sup>a</sup>**  
*(Percentages)*

A. Exports  
 To the world



To Asia-Pacific

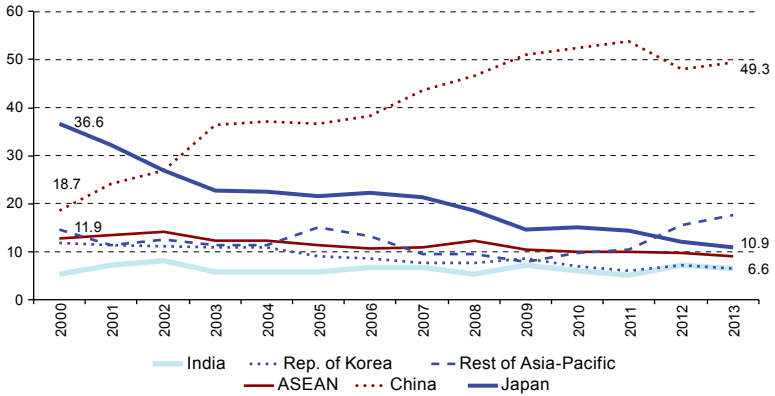
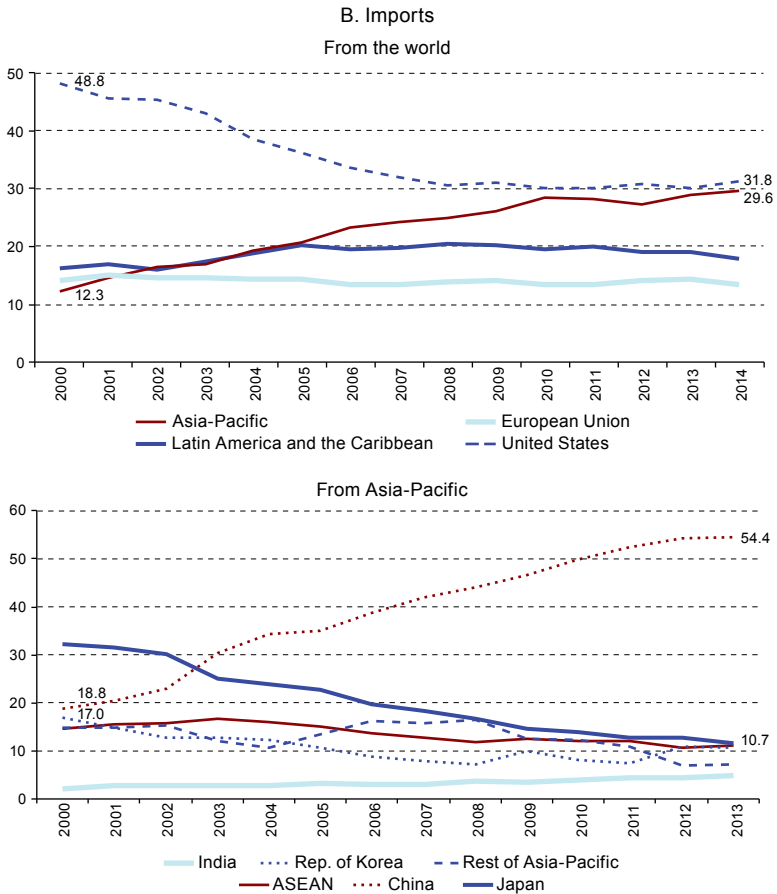


Figure III.2 (concluded)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).  
 \* The data on trade with Asia-Pacific cover up to 2013 only.

## B. Trade in goods between Latin America and the Caribbean and the Republic of Korea

Between 2000 and 2013, trade between Latin America and the Caribbean and the Republic of Korea was very robust, expanding by a factor of 4.7 to nearly US\$ 48 billion. This increase represents average annual growth of 13%. Average annual growth in regional exports, at 14%,

surpassed that of regional imports, at 12%. However, because import volumes were so much larger than export volumes at the beginning of the period, the region's trade deficit nevertheless rose from US\$ 5 billion to US\$ 19 billion.<sup>8</sup>

During the period of analysis, growth in the region's trade with the Republic of Korea outpaced its trade with the rest of the world. As a result, Korea's share of the region's total trade climbed from 1.5% in 2000 to 2.2% in 2013. The increase for imports was much sharper (from 1.8% to 3.1% of the total) than for exports (from 1.1% to 1.3% of the total). For the Republic of Korea, trade with Latin America and the Caribbean was also more dynamic than with the rest of the world during this period. In 2013, the region absorbed 6% of Korean exports (5.7% in 2000) and originated 3.5% of its imports (2.9% in 2000). These shares peaked in 2008 in the case of exports (7.6%) and in 2011 in the case of imports (3.8%).

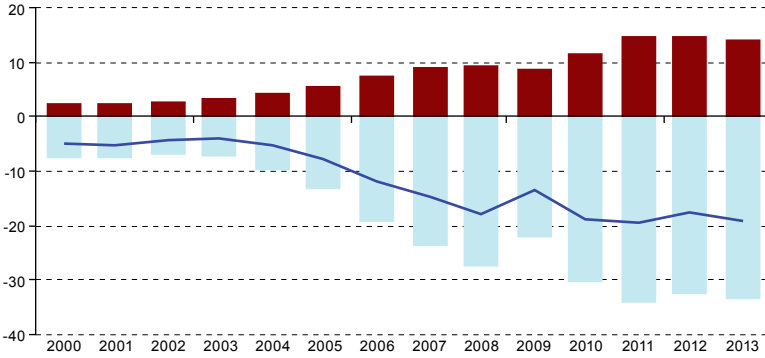
The Republic of Korea has a much more globalized economy than Latin America and the Caribbean, as expressed by the value of trade in relation to GDP (92% versus 39% in 2012) and per capita exports. Further evidence is found in the fact that Korea had more export firms in 2013 than Mexico, Chile and seven other small and medium-sized countries in the region combined (see section III.D below).

There were notable differences in trade patterns between the various subregions of Latin America and the Caribbean and the Republic of Korea between 2000 and 2013 (see figure III.3). South America reported the largest increase in exports (from US\$ 2 billion to US\$ 10.2 billion), whereas exports from Mexico and Central America expanded only slightly, from US\$ 0.4 billion to US\$ 1.8 billion. Inasmuch as these two subregions' import volumes, in absolute terms, were more similar, the trade deficit with the Republic of Korea climbed much more steeply in Mexico and Central America (from US\$ 3.6 billion to US\$ 13.1 billion) than in South America (from US\$ 1.4 billion to US\$ 6 billion). Trade between the Caribbean and the Republic of Korea is concentrated in imports and did not reveal a clear trend.

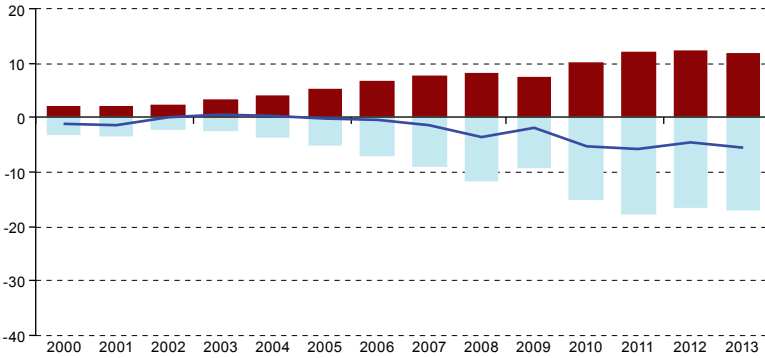
<sup>8</sup> Figures are not available for 2014 as several countries in the region have not yet reported their foreign trade statistics for the year to COMTRADE, the source of information used to analyse trade in goods in this paper. Mirror statistics for the Republic of Korea for 2014 show that trade between the two partners totaled US\$ 54.2 billion, with a US\$ 17.6 billion deficit for the region, according to data from the Korea International Trade Association (KITA).

**Figure III.3**  
**Latin America and the Caribbean: exports, imports and trade balance**  
**with the Republic of Korea, 1980-2013**

A. Latin America and the Caribbean  
*(billions of dollars)*

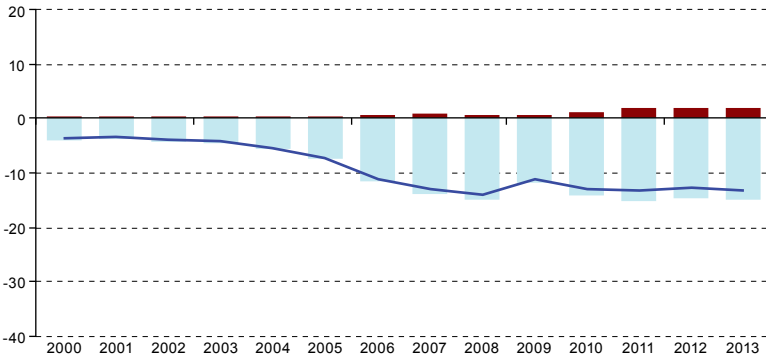


B. South America  
*(billions of dollars)*

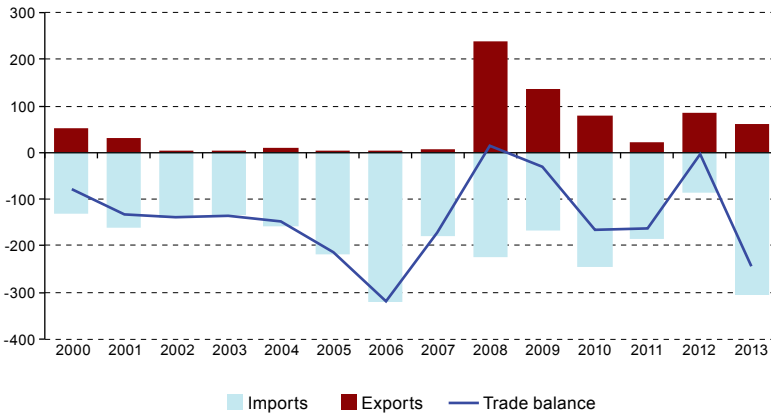


Imports Exports Trade balance

C. Mexico and Central America  
(billions of dollars)



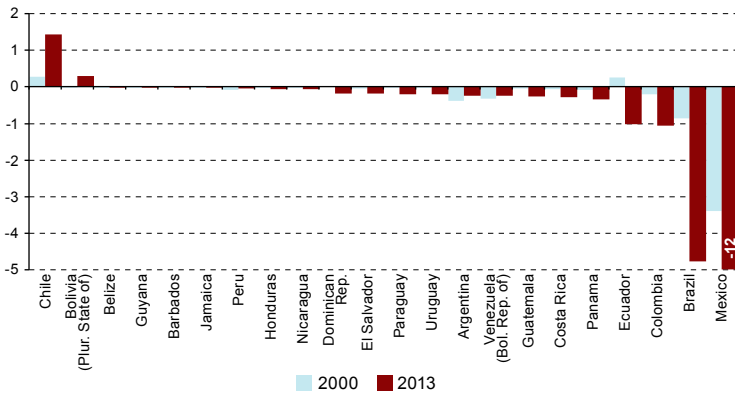
D. The Caribbean  
(millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

With the exception of Argentina, the Bolivarian Republic of Venezuela, Chile, Peru and the Plurinational State of Bolivia, all the other countries in the region saw deterioration in their trade balances with the Republic of Korea between 2000 and 2013. Only Chile reported a significant improvement in its trade balance with the country, from US\$ 0.3 billion to US\$ 1.4 billion. Mexico's deficit grew the most and by a wide margin (from US\$ 3.4 billion to US\$ 12 billion), followed by Brazil's (US\$ 0.9 billion to US\$ 3.9 billion) (see figure III.4).

**Figure III.4**  
**Latin America and the Caribbean (selected countries): trade balance with the Republic of Korea, 2000 and 2013**  
*(Billions of dollars)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

The widespread deterioration seen in the trade balances of the region's countries with the Republic of Korea is due, above all, to the latter's growing importance as a source of imports (see table III.1).

Trade between Latin America and the Caribbean and the Republic of Korea is concentrated in a few countries. In the case of exports in 2013, the main partners were countries that supplied metals and certain farm products (Brazil, Chile and Peru), while Mexico had a relatively small share. Between 2000 and 2013, Brazil overtook Chile as the top exporter to the Republic of Korea. During that same period, Peru also gained a much larger share of the export business, while Ecuador dropped off the list of main suppliers altogether, chiefly because it stopped exporting oil to the Republic of Korea during the 2000s.

**Table III.1**  
**Countries of Latin America and the Caribbean: Republic of Korea's position as trading partner, 2000 and 2013**

| Country                                         | Exports   |           | Imports  |          |
|-------------------------------------------------|-----------|-----------|----------|----------|
|                                                 | 2000      | 2013      | 2000     | 2013     |
| Argentina                                       | 28        | 25        | 12       | 13       |
| Bolivia (Plurinational State of)                | 25        | 7         | 17       | 17       |
| Brazil                                          | 18        | 8         | 8        | 6        |
| Chile                                           | 8         | 5         | 8        | 6        |
| Colombia                                        | 29        | 33        | 14       | 9        |
| Costa Rica                                      | 17        | 32        | 10       | 10       |
| Ecuador                                         | 2         | 32        | 15       | 6        |
| El Salvador                                     | 42        | 19        | 17       | 9        |
| Guatemala                                       | 14        | 12        | 15       | 8        |
| Mexico                                          | 21        | 16        | 6        | 4        |
| Nicaragua                                       | 53        | 25        | 18       | 14       |
| Panama                                          | 34        | 13        | 9        | 8        |
| Paraguay                                        | 42        | 33        | 15       | 6        |
| Peru                                            | 12        | 9         | 11       | 6        |
| Uruguay                                         | 24        | 35        | 16       | 11       |
| Venezuela (Bolivarian Republic of) <sup>a</sup> | 39        | 11        | 11       | 26       |
| <b>Latin America and the Caribbean</b>          | <b>21</b> | <b>14</b> | <b>9</b> | <b>6</b> |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

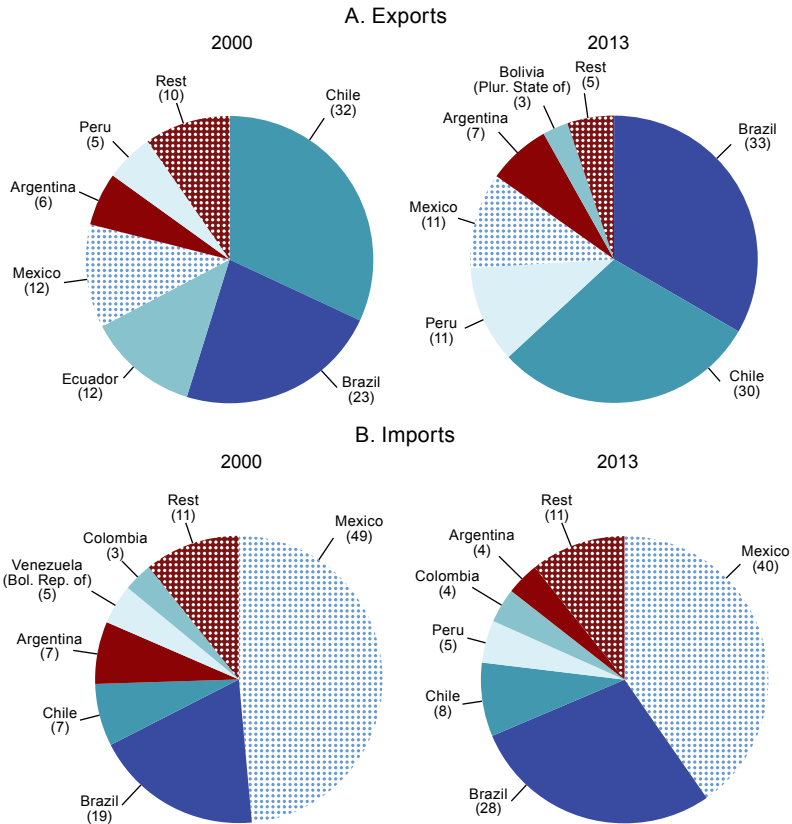
<sup>a</sup> Estimated using mirror statistics.

The composition of regional imports from the Republic of Korea was much more stable than the composition of exports between 2000 and 2013, with Mexico, Brazil and Chile maintaining their respective positions. However, the top importer lost eight points of its share in total Korean imports to the region, while the second gained nearly 10 points. Noteworthy, too, are the emergence of Peru and the loss of share by Argentina and the Bolivarian Republic of Venezuela (see figure III.5).

Trade between Latin America and the Caribbean and the Republic of Korea is, mostly, inter-industrial. In 2013, primary goods accounted for two thirds of all regional exports the Republic of Korea, and natural-resource-based manufactures represented another 24%. Low-, medium- and high-technology manufactures accounted for just 1%, 6% and 2% of total exports, respectively. During the period 2000-2013, the region's export basket became re-primarized, given that at the beginning of the 2000s, primary goods made up less than half of exports, while medium-tech goods still accounted for 19% of the total (see figure III.6). This means that the region is becoming more specialized in primary products in its exports to the Republic of Korea. In

contrast, regional imports from Korea are dominated by medium-technology products (44% of the total in 2013) and high-technology products (36% of the total). The composition of the Republic of Korea's export basket to the region has been very stable over time. In short, the region predominantly exports primary products and natural-resource-based manufactures to Korea, whereas Korea predominantly exports medium- and high-technology manufactures to the region.

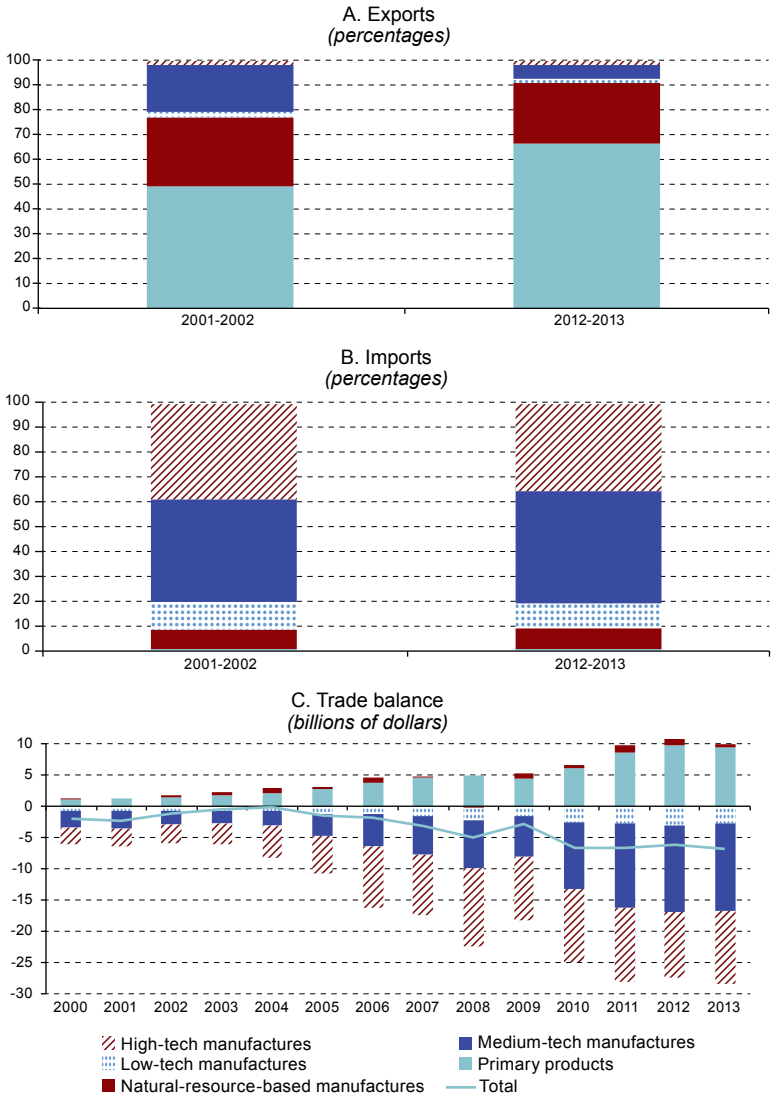
**Figure III.5**  
**Latin America and the Caribbean: breakdown of trade**  
**with the Republic of Korea, by country of origin**  
**and destination, 2000 and 2013**  
*(Percentages)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).



**Figure III.6**  
**Latin America and the Caribbean: trade with the Republic of Korea**  
**by technology content, 2000-2013**  
*(Percentages and billions of dollars)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

If the trade balance between the region and the Republic of Korea is broken down by category of goods, Latin America and the Caribbean only posted a surplus in the category of commodities and natural-resource-based manufactures (see figure III.6C). This aggregate result was also valid for the vast majority of individual countries. In trade in commodities, for example, Brazil and Chile have notable surpluses. But all the countries run deficits in bilateral trade with the Republic of Korea in medium- and high-technology goods.

Between 2000 and 2013, the number of products exported by Latin America and the Caribbean to the Republic of Korea soared from about 1,000 products to nearly 1,700 (per the six-digit Harmonized System). However, this is about half the number of products that the region imported from the Republic of Korea in 2013 (3,464). The countries in the region that exported the largest number of products to Korea in 2013 were, in descending order: Mexico, Brazil, Chile, Peru and Argentina. The countries that added the most products to their export basket in this period were Mexico (366 new products), Brazil (279), Peru (139), Chile (110) and Honduras (110). In 2013, the region's countries exported fewer products to the Republic of Korea than to China and Japan, except for the Bolivarian Republic of Venezuela, Nicaragua and the Plurinational State of Bolivia (see table III.2).

For all the countries of Latin America and the Caribbean, there is a strong imbalance between the number of products exported to the Republic of Korea and the number of products imported from it. On average, for every product that the region exports to Korea, two are imported. However, in many countries, the imbalance is much worse, with some exporting fewer than 100 products but importing on the order of 1,000. Likewise, there is a sizeable imbalance between the average number of products that the region exports to the Republic of Korea and the number it exports to the United States, the European Union and within the region itself (which, in general, absorbs the largest number of products). For medium-sized economies like Argentina, the Bolivarian Republic of Venezuela, Chile, Colombia and Peru, the number of products exported to Korea ranges between 3% and 7% of the total exported by those countries to the regional market.

**Table III.2**  
**Countries of Latin America and the Caribbean: number of products**  
**exported to selected destinations, 2000 and 2013**  
*(At six digits of the harmonized system for the designation*  
*and classification of goods)*

| Country                                         | Republic of Korea, 2000 | Republic of Korea, 2013 | China, 2013  | Japan, 2013  | United States, 2013 | European Union, 2013 | Latin America and the Caribbean, 2013 |
|-------------------------------------------------|-------------------------|-------------------------|--------------|--------------|---------------------|----------------------|---------------------------------------|
| Antigua and Barbuda                             | ...                     | 14                      | 4            | 3            | 486                 | 392                  | 465                                   |
| Argentina                                       | 144                     | 178                     | 437          | 359          | 1 402               | 1 700                | 3 557                                 |
| Bahamas                                         | ...                     | 7                       | 12           | 11           | 1 156               | 148                  | 226                                   |
| Belize                                          | ...                     | 4                       | 29           | 36           | 342                 | 49                   | 308                                   |
| Bolivia (Plurinational State of)                | 10                      | 58                      | 51           | 59           | 292                 | 259                  | 634                                   |
| Brazil                                          | 366                     | 645                     | 1 370        | 1 214        | 2 794               | 3 038                | 3 934                                 |
| Chile                                           | 121                     | 231                     | 388          | 264          | 1 296               | 1 381                | 2 985                                 |
| Colombia                                        | 32                      | 116                     | 232          | 201          | 1 806               | 1 370                | 3 219                                 |
| Costa Rica                                      | 28                      | 89                      | 278          | 173          | 1 746               | 1 057                | 2 878                                 |
| Dominican Republic <sup>a</sup>                 | 8                       | 82                      | 127          | 58           | 1 933               | 909                  | 2 048                                 |
| Ecuador                                         | 16                      | 16                      | 94           | 95           | 1 067               | 843                  | 1 997                                 |
| El Salvador                                     | 7                       | 7                       | 74           | 50           | 1 094               | 401                  | 2 557                                 |
| Guatemala                                       | 10                      | 10                      | 194          | 101          | 1 451               | 740                  | 3 313                                 |
| Guyana                                          | 2                       | 10                      | 46           | 11           | 691                 | 247                  | 764                                   |
| Honduras <sup>a</sup>                           | 4                       | 114                     | 590          | 151          | 1 456               | 542                  | 1 528                                 |
| Jamaica                                         | 4                       | 16                      | 48           | 54           | 850                 | 374                  | 858                                   |
| Mexico                                          | 475                     | 841                     | 1 444        | 1 296        | 4 218               | 2 899                | 3 910                                 |
| Nicaragua                                       | 1                       | 51                      | 36           | 30           | 284                 | 167                  | 375                                   |
| Panama                                          | 2                       | 12                      | 32           | 10           | 163                 | 79                   | 301                                   |
| Paraguay                                        | 7                       | 20                      | 43           | 27           | 349                 | 321                  | 945                                   |
| Peru                                            | 87                      | 226                     | 282          | 498          | 1 862               | 1 585                | 3 142                                 |
| Uruguay                                         | 25                      | 38                      | 106          | 54           | 434                 | 732                  | 1 387                                 |
| Venezuela (Bolivarian Republic of) <sup>b</sup> | 46                      | 85                      | 110          | 37           | 373                 | 1 024                | 1 689                                 |
| <b>Latin America and the Caribbean</b>          | <b>1 020</b>            | <b>1 680</b>            | <b>2 459</b> | <b>2 251</b> | <b>4 543</b>        | <b>4 106</b>         | <b>4 702</b>                          |

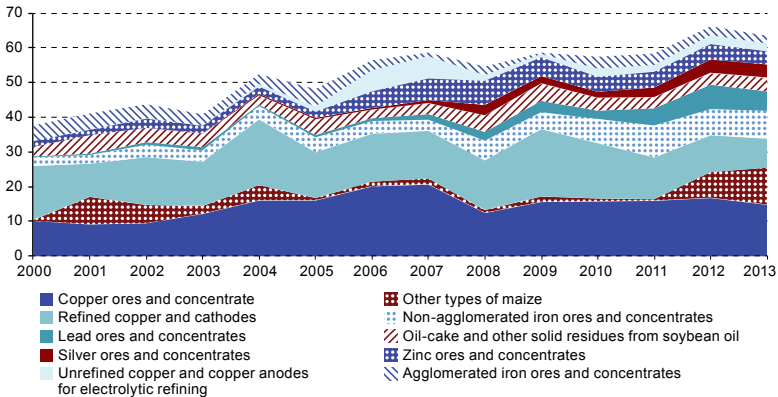
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

<sup>a</sup> Data correspond to 2012.

<sup>b</sup> Data obtained using mirror statistics.

Although the region's countries have gradually diversified their exports to the Republic of Korea, it remains the case that just a handful of products account to both the bulk of exports, and their overall increase. Basically, these products are processed or unprocessed commodities, including metal ores (copper, iron, silver, lead and zinc) and farm products (maize and soybeans). The share of the region's top 10 exports to the Republic of Korea in the export basket has increased significantly from 38% in 2000 to 64% in 2013 (see figure III.7).

**Figure III.7**  
**Latin America and the Caribbean: share of the top 10 products**  
**in total exports to the Republic of Korea, 2000-2013**  
*(Percentages)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

The region's basket of exports to the Republic of Korea is concentrated in a handful of products not only at the aggregate level but also in the case of individual countries. Indeed, the top five exports accounted for between 58% and 99% of total exports in 2013, depending on the country. Most of these products are processed or unprocessed commodities like the aforementioned, along with agricultural and fishery products. Costa Rica and Mexico stand out for having some manufactures among their top exports, including integrated circuits and passenger vehicles (see table III.3).

**Table III.3**  
**Countries of Latin America and the Caribbean: five main products exported to the Republic of Korea, 2013**  
*(Percentage of total exports)*

| Country                          | Total for five products | First                                       | Second                                                           | Third                                                                          | Fourth                                                                         | Fifth                                                |
|----------------------------------|-------------------------|---------------------------------------------|------------------------------------------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------|------------------------------------------------------|
| Argentina                        |                         | Other types of maize                        | Crude soybean oil                                                | Silver ores and concentrates                                                   | Oil-cake and other solid residues resulting from the extraction of soybean oil | Other types of frozen fish                           |
|                                  | 93.6                    | 62.7                                        | 21.3                                                             | 5.6                                                                            | 2.6                                                                            | 1.4                                                  |
| Bolivia (Plurinational State of) |                         | Silver ores and concentrates                | Zinc ores and concentrates                                       | Lead ores and concentrates                                                     | Copper ores and concentrates                                                   | Cathodes and sections of cathodes, of refined copper |
|                                  | 99.2                    | 56.3                                        | 26.9                                                             | 13.8                                                                           | 1.6                                                                            | 0.6                                                  |
| Brazil                           |                         | Non-agglomerated iron ores and concentrates | Other types of maize                                             | Oil-cake and other solid residues resulting from the extraction of soybean oil | Agglomerated iron ores and concentrates                                        | Cotton, not carded or combed                         |
|                                  | 65.5                    | 24.2                                        | 18.3                                                             | 11.1                                                                           | 6.6                                                                            | 5.4                                                  |
| Chile                            |                         | Copper ores and concentrates                | Cathodes and sections of cathodes, of refined copper             | Unrefined copper, copper anodes for electrolytic refining                      | Chemical wood pulp                                                             | Fresh grapes                                         |
|                                  | 77.6                    | 35.7                                        | 27.3                                                             | 7.7                                                                            | 4.2                                                                            | 2.8                                                  |
| Colombia                         |                         | Ferro-nickel                                | Petroleum oils and oils obtained from bituminous minerals, crude | Coffee, not roasted and not decaffeinated                                      | Bituminous coal                                                                | Copper waste and scrap                               |
|                                  | 79.9                    | 22.9                                        | 22.6                                                             | 20.6                                                                           | 8.8                                                                            | 5                                                    |
| Costa Rica                       |                         | Integrated electronic circuits              | Other waste and scrap, of iron and steel                         | Coffee, not roasted and not decaffeinated                                      | Copper waste and scrap                                                         | Other waste and scrap, of alloy steel                |
|                                  | 81.4                    | 29.9                                        | 22                                                               | 14.9                                                                           | 8.3                                                                            | 6.3                                                  |

Table III.3 (continued)

| Country                         | Total for five products | First                                     | Second                                              | Third                                                          | Fourth                                                 | Fifth                                                        |
|---------------------------------|-------------------------|-------------------------------------------|-----------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------|
| Dominican Republic <sup>a</sup> |                         | Ferro-nickel                              | Waste and scrap, of iron and steel                  | Aluminium waste and scrap                                      | Other waste and scrap, of steel                        | Instruments and devices used in medicine, surgery, dentistry |
|                                 | 72.9                    | 21.7                                      | 19.1                                                | 11.1                                                           | 10.7                                                   | 10.4                                                         |
| Ecuador                         |                         | Shrimps and prawns                        | Copper waste and scrap                              | Fish filets and other fish meat, fresh, refrigerated or frozen | Cocoa beans                                            | Flours, meals and pellets, of fish or crustaceans            |
|                                 | 92.1                    | 73.2                                      | 10.1                                                | 4.4                                                            | 2.3                                                    | 2.1                                                          |
| El Salvador                     |                         | Other waste and scrap, of iron and steel  | Waste and scrap of cells, batteries or accumulators | Aluminium waste and scrap                                      | Coffee, not roasted and not decaffeinated              | Lead waste and scrap                                         |
|                                 | 81.1                    | 28.7                                      | 17.7                                                | 16.3                                                           | 9.7                                                    | 8.8                                                          |
| Guatemala                       |                         | Raw sugar cane, in solid form             | Lead ores and concentrates                          | Coffee, not roasted and not decaffeinated                      | Zinc ores and concentrates                             | Bananas or plantains                                         |
|                                 | 95.9                    | 81.3                                      | 7.2                                                 | 5.5                                                            | 1                                                      | 0.9                                                          |
| Honduras                        |                         | Coffee, not roasted and not decaffeinated | Galvanized iron sheets, corrugated                  | Structural reinforcement bars                                  | Pipes of the kind used for extraction of petroleum oil | Other waste and scrap, of alloy steel, except steel          |
|                                 | 98.8                    | 45.6                                      | 35                                                  | 8.3                                                            | 7.1                                                    | 2.8                                                          |
| Mexico                          |                         | Lead ores and concentrates                | Zinc ores and concentrates                          | Motor vehicles for the transport of persons                    | Other semi-products of iron and steel                  | Silver ores and concentrates                                 |
|                                 | 57.9                    | 28.5                                      | 12.9                                                | 5.8                                                            | 5.4                                                    | 5.3                                                          |
| Nicaragua                       |                         | Waste and scrap of cast iron              | Cane molasses                                       | Copper waste and scrap                                         | Shrimps and prawns                                     | Women's and girls' cotton shirts and blouses                 |
|                                 | 77.4                    | 35.5                                      | 12.7                                                | 12.6                                                           | 10.4                                                   | 6.2                                                          |
| Panama                          |                         | Waste and scrap of cast iron              | Other waste and scrap, of alloy steel, except steel | Copper waste and scrap                                         | Aluminium waste and scrap                              | Waste and scrap, of iron and steel, plated                   |
|                                 | 90.7                    | 33.1                                      | 29.1                                                | 10.8                                                           | 10.1                                                   | 7.6                                                          |

Table III.3 (concluded)

| Country                               | Total for five products | First                                                     | Second                                              | Third                                                | Fourth                                      | Fifth                                 |
|---------------------------------------|-------------------------|-----------------------------------------------------------|-----------------------------------------------------|------------------------------------------------------|---------------------------------------------|---------------------------------------|
| Paraguay                              |                         | Soybeans                                                  | Other types of maize                                | Other waste and scrap, of iron and steel             | Cotton, not carded or combed                | Sesame seeds                          |
|                                       | 98.3                    | 94                                                        | 2.2                                                 | 1.1                                                  | 0.6                                         | 0.4                                   |
| Peru                                  |                         | Copper ores and concentrates                              | Lead ores and concentrates                          | Liquefied natural gas                                | Zinc ores and concentrates                  | Silver ores and concentrates          |
|                                       | 85.4                    | 26.3                                                      | 19.4                                                | 17.9                                                 | 13                                          | 8.7                                   |
| Uruguay                               |                         | Other tropical woods, sawn or roughly shaped              | Hides and skins of bovine or equine animals, tanned | Other combed wool                                    | Meat of bovine animals, boneless, frozen    | Other types of cheese                 |
|                                       | 78.8                    | 34.3                                                      | 21.8                                                | 9.7                                                  | 6.8                                         | 6.2                                   |
| Venezuela (Bol. Rep. of) <sup>a</sup> |                         | Ferrous products obtained by direct reduction of iron ore | Other waste and scrap, of iron and steel            | Unwrought aluminium alloys                           | Unwrought aluminium, not alloyed            | Telephones, including cellular phones |
|                                       | 93.9                    | 47.4                                                      | 40.4                                                | 4.1                                                  | 1.4                                         | 0.6                                   |
| Latin America and the Caribbean       |                         | Copper ores and concentrates                              | Other types of maize                                | Cathodes and sections of cathodes, of refined copper | Non-agglomerated iron ores and concentrates | Lead ores and concentrates            |
|                                       | 46.3                    | 14.7                                                      | 10.2                                                | 8.2                                                  | 7.8                                         | 5.5                                   |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).  
<sup>a</sup> Data obtained using mirror statistics.

The Herfindahl-Hirschman Index provides further evidence of the relatively high level of concentration seen in the region's basket of exports to the Republic of Korea. An index value above 0.33 indicates that a country's exports are concentrated. The degree of concentration of the region's basket of exports to the Republic of Korea is similar to that of its exports to China but much higher than that of its exports to the United States (see table III.4). In 2013, 10 of 21 countries in the region had export baskets to the Republic of Korea with index values above 0.33, compared with 9 countries in the case of exports to China and just four countries in the case of exports to the United States. Between 2000 and 2013, 11 countries saw their baskets of exports to the Republic of Korea become more concentrated. An equal number of countries experienced an increase in the concentration of their export baskets to China and the United States.

**Table III.4**  
**Countries of Latin America and the Caribbean: concentration index**  
**of exports to the Republic of Korea, China and the United States,**  
**2000, 2005 and 2013**  
*(Herfindahl-Hirschman index)*

| Country                             | 2000              |       |               | 2005              |       |               | 2013              |       |               |
|-------------------------------------|-------------------|-------|---------------|-------------------|-------|---------------|-------------------|-------|---------------|
|                                     | Republic of Korea | China | United States | Republic of Korea | China | United States | Republic of Korea | China | United States |
| Argentina                           | 0.26              | 0.46  | 0.07          | 0.19              | 0.36  | 0.11          | 0.44              | 0.37  | 0.05          |
| Barbados                            | 0.53              | 0.21  | 0.11          | 0.82              | 0.30  | 0.18          | 0.88              | 0.95  | 0.23          |
| Bolivia<br>(Plurinational State of) | 0.35              | 0.72  | 0.19          | 0.44              | 0.30  | 0.13          | 0.48              | 0.24  | 0.20          |
| Brazil                              | 0.14              | 0.16  | 0.04          | 0.12              | 0.14  | 0.02          | 0.15              | 0.27  | 0.04          |
| Chile                               | 0.33              | 0.29  | 0.10          | 0.28              | 0.35  | 0.13          | 0.28              | 0.32  | 0.16          |
| Colombia                            | 0.41              | 0.26  | 0.31          | 0.51              | 0.46  | 0.17          | 0.16              | 0.71  | 0.41          |
| Costa Rica                          | 0.39              | 0.31  | 0.13          | 0.30              | 0.58  | 0.06          | 0.19              | 0.63  | 0.10          |
| Dominican Republic <sup>a</sup>     | 0.99              | 0.32  | 0.07          | 0.17              | 0.54  | 0.07          | 0.21              | 0.22  | 0.06          |
| Ecuador                             | 1.00              | 0.79  | 0.35          | 0.13              | 0.19  | 0.54          | 0.54              | 0.31  | 0.58          |
| El Salvador                         | 0.14              | 0.28  | 0.21          | 0.29              | 0.28  | 0.24          | 0.20              | 0.20  | 0.19          |
| Guatemala                           | 0.96              | 0.57  | 0.15          | 0.48              | 0.93  | 0.13          | 0.68              | 0.85  | 0.10          |
| Guyana                              | 0.20              | 0.40  | 0.18          | 0.77              | 0.29  | 0.20          | 0.16              | 0.35  | 0.42          |
| Honduras <sup>b</sup>               | 1.00              | 0.14  | 0.19          | 0.43              | 0.27  | 0.12          | 0.42              | 0.26  | 0.09          |
| Jamaica                             | 0.24              | 0.98  | 0.27          | 0.25              | 0.90  | 0.22          | 0.29              | 0.65  | 0.28          |
| Mexico                              | 0.19              | 0.28  | 0.03          | 0.10              | 0.06  | 0.03          | 0.23              | 0.12  | 0.03          |
| Nicaragua                           |                   | 0.20  | 0.26          | 0.85              | 0.73  | 0.12          | 0.18              | 0.23  | 0.12          |
| Panama                              | 0.93              | 0.25  | 0.14          | 0.61              | 0.30  | 0.38          | 0.45              | 0.35  | 0.18          |
| Paraguay                            | 0.32              | 0.34  | 0.11          | 0.26              | 0.57  | 0.10          | 0.89              | 0.30  | 0.15          |



**Table III.4 (concluded)**

| Country                                | 2000              |             |               | 2005              |             |               | 2013              |             |               |
|----------------------------------------|-------------------|-------------|---------------|-------------------|-------------|---------------|-------------------|-------------|---------------|
|                                        | Republic of Korea | China       | United States | Republic of Korea | China       | United States | Republic of Korea | China       | United States |
| Peru                                   | 0.35              | 0.55        | 0.14          | 0.57              | 0.32        | 0.14          | 0.39              | 0.31        | 0.12          |
| Uruguay                                | 0.51              | 0.28        | 0.19          | 0.33              | 0.15        | 0.40          | 0.17              | 0.31        | 0.16          |
| Venezuela (Bolivarian Republic of)     | 0.81              | 0.21        | 0.52          | 0.83              | 0.49        | 0.51          | 0.99              | 0.87        | 0.40          |
| <b>Latin America and the Caribbean</b> | <b>0.09</b>       | <b>0.09</b> | <b>0.04</b>   | <b>0.10</b>       | <b>0.09</b> | <b>0.04</b>   | <b>0.10</b>       | <b>0.13</b> | <b>0.03</b>   |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

**Note:** This index has a range of values from 0 to 1, where a value closer to zero indicates a greater degree of diversification. Values between 0 and 0.18 indicate a diversified export basket; values between 0.18 and 0.33 indicate an export basket with diversification potential; and values above 0.33 indicate a concentrated basket.

<sup>a</sup> The values for 2000 are from 2001

<sup>b</sup> The values for 2013 are from 2012.

The Republic of Korea's exports to Latin America are less concentrated than its imports. In 2013, the top five products exported to the region accounted for 36% of total exports, and the top ten products represented 49% of the total. These products are made by the automotive, electronics, naval and oil industries (see table III.5).

**Table III.5**  
**Republic of Korea: 10 main products exported to Latin America and the Caribbean, 2013**  
*(Billions of dollars and percentages)*

| Position | Product                                                                                                            | Value         | Share of total exports |
|----------|--------------------------------------------------------------------------------------------------------------------|---------------|------------------------|
| 1        | Light vessels, fire-floats, floating cranes and other vessels                                                      | 3.354         | 9.7                    |
| 2        | Automobiles for the transport of persons, of a cylinder capacity exceeding 1,500 cc                                | 2.512         | 7.3                    |
| 3        | Other identifiable parts for transmission apparatus for radio-telephony, telecommunications and sound reproduction | 2.457         | 7.1                    |
| 4        | Other optical devices, appliances and instruments                                                                  | 2.124         | 6.2                    |
| 5        | Other automobile parts and accessories                                                                             | 1.922         | 5.6                    |
| 6        | Telephones, including mobile (cellular) telephones and telephones for other wireless networks                      | 1.130         | 3.3                    |
| 7        | Automobiles for the transport of persons, of a cylinder capacity exceeding 1,000 cc                                | 1.050         | 3.0                    |
| 8        | Tanker ships                                                                                                       | 1.029         | 3.0                    |
| 9        | Other vessels for the transport of goods (including vessels for the transport of both persons and goods)           | 0.741         | 2.2                    |
| 10       | Kerosene (including kerosene-type jet fuel)                                                                        | 0.669         | 1.9                    |
|          | <b>Total</b>                                                                                                       | <b>34.439</b> | <b>49.3</b>            |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

### C. Trade in services between Latin America and the Caribbean and the Republic of Korea

Trade in services occupies a larger proportion of the Korean economy than the Latin American economy. Exports of services to the world accounted for nearly 5% of GDP in 2012 for the Republic of Korea, but less than half of that percentage for Latin America. The difference is striking, especially because at the beginning of the 1990s, the Republic of Korea and Latin America had similar levels of services exports to the world in proportion to their respective economies.

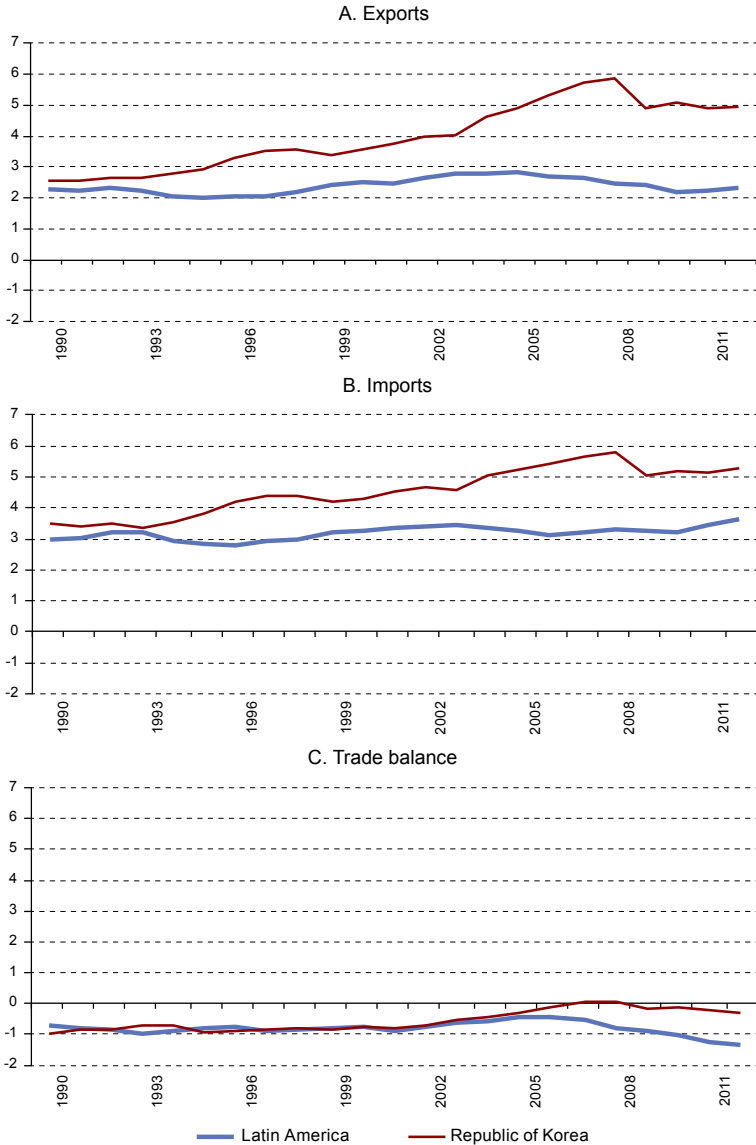
A similar phenomenon has occurred in the case of services imports, which stood at similar levels, in terms of GDP, in Latin America and the Republic of Korea in the early 1990s (3% and 3.5% of GDP, respectively). However, in the following decade, imports of services outpaced GDP growth in Korea, rising to nearly 6% of GDP in 2008, whereas levels remained at about 3% of GDP in Latin America.

Latin America and the Republic of Korea both run a deficit in trade in services with the world. Their services trade balances relative to GDP were very similar until 2004, when the Republic of Korea started to reduce its deficit, which was eliminated altogether in 2007 and 2008. It has since reappeared but has remained low. In contrast, Latin America's deficit took a turn for the worse in 2004 and now exceeds 1% of regional GDP (see figure III.8).

Bilateral flows of services are dominated by transport services, which are directly associated with the robust trade in goods. In 2012 and 2013, this category accounted for 60% of exports and 80% of imports. Whereas the share of transport services in the region's total services exports to the Republic of Korea grew by 34 percentage points, the share of transport services in total imports remained stable at 80%.<sup>9</sup> The second largest category was business services, though the share of this category in total services exports from the region has declined. Although in absolute terms there has been an appreciable increase in travel in both directions, this category's share in total flows has fallen, owing primarily to the sharp growth in transport services (see figure III.9).

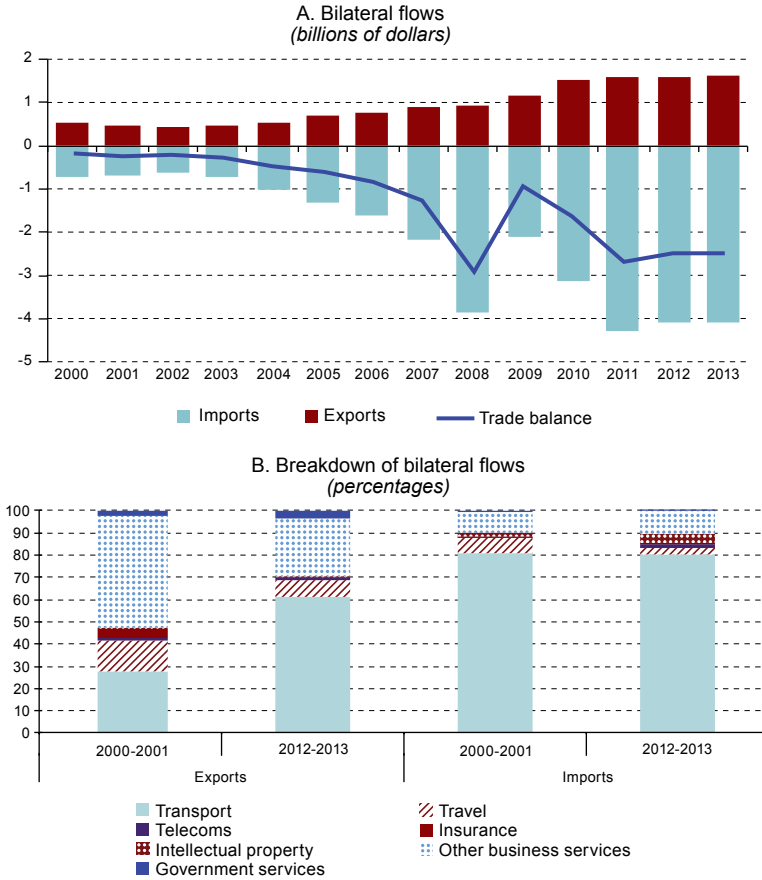
<sup>9</sup> The share of transport services in the Republic of Korea's total services exports to the world in 2013 was smaller (48%), while the share of travel and other business services was larger (19% and 23%, respectively). In Latin America's total services exports to the world, the share of transport services was also smaller (29%) while the share of travel and other business services was larger (35% and 34%, respectively).

**Figure III.8**  
**Latin America and the Republic of Korea: trade in services**  
**with the rest of the world, 1990-2012**  
*(Percentages of GDP)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Latin America-Asia Pacific Observatory [online] <http://www.observatorioasiapacifico.org/OBSExternalUI/pages/public/home.jsf>.

**Figure III.9**  
**Latin America and the Caribbean: trade in services**  
**with the Republic of Korea, 2000-2013**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central Bank of the Republic of Korea.

In recent years, there has been a dramatic rise in tourism- and business-related travel between Latin America and the Republic of Korea. Between 2009 and 2013, flows in both directions swelled by around 80%. Given its higher per capita income and better income distribution, it is no surprise that the number of Koreans traveling to Latin America was three times greater than the number of Latin Americans travelling

in the other direction. In 2013, one third of trips taken by Koreans to the region were to Mexico and one fourth were to Brazil. Chile and Peru were other destinations that received over 10,000 Korean visitors that year. In the other direction, Brazil was the country generating the most visits to the Republic of Korea, followed by Mexico, Peru, Colombia, Chile and Argentina (see table III.6).

**Table III.6**  
**Countries of Latin America: tourism flows to and from**  
**the Republic of Korea, 2009 and 2013**  
*(Number of people and percentages)*

| Country                            | Visits from Latin America to the Republic of Korea |               |           | Visits from the Republic of Korea to Latin America |                |           |
|------------------------------------|----------------------------------------------------|---------------|-----------|----------------------------------------------------|----------------|-----------|
|                                    | 2009                                               | 2013          | Variation | 2009                                               | 2013           | Variation |
| Argentina                          | 2 350                                              | 3 296         | 40        | ...                                                | ...            |           |
| Bolivia (Plurinational State of)   | 451                                                | 897           | 99        | ...                                                | ...            |           |
| Brazil                             | 10 145                                             | 15 739        | 55        | 24 140                                             | 44 339         | 84        |
| Chile                              | 1 735                                              | 3 299         | 90        | 6 582                                              | 10 796         | 64        |
| Colombia                           | 2 376                                              | 4 088         | 72        | 4 015                                              | 5 382          | 34        |
| Costa Rica                         | 548                                                | 948           | 73        | 2 724                                              | 3 482          | 28        |
| Ecuador                            | 546                                                | 1 110         | 103       | 1 688                                              | 3 064          | 82        |
| El Salvador                        | 639                                                | 542           | -15       | 278                                                | 627            | 126       |
| Guatemala                          | 581                                                | 828           | 43        | 9 361                                              | 8 182          | -13       |
| Honduras                           | 620                                                | 2 038         | 229       | 1 180                                              | 2 945          | 150       |
| Mexico                             | 5 472                                              | 10 953        | 100       | 26 178                                             | 59 249         | 126       |
| Nicaragua                          | 133                                                | 406           | 205       | 1 992                                              | 2 257          | 13        |
| Panama                             | 403                                                | 844           | 109       | ...                                                | 3 780          |           |
| Paraguay                           | 377                                                | 440           | 17        | 3 672                                              | 5 252          | 43        |
| Peru                               | 1 690                                              | 4 615         | 173       | 7 824                                              | 14 000         | 79        |
| Uruguay                            | 150                                                | 418           | 179       | ...                                                | ...            |           |
| Venezuela (Bolivarian Republic of) | 1 421                                              | 2 399         | 69        | 997                                                | 2 931          | 194       |
| <b>Total</b>                       | <b>29 637</b>                                      | <b>52 860</b> | <b>78</b> | <b>90 631</b>                                      | <b>166 286</b> | <b>83</b> |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Tourism Organization (UNWTO).

## D. The trade dynamic between Latin America and the Republic of Korea at the level of firms

The number of export firms in Latin America and the Caribbean is very low (less than 1% of the total), and the firms that do export tend to do business with neighbouring countries or traditional markets such as the United States or countries in the European Union. It is only in recent decades that firms have become more interested in Asian markets.

According to the available customs data for a group of nine countries in the region (Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, the Plurinational State of Bolivia and Uruguay), firms that export to the Republic of Korea represented just 3% of firms exporting to the world in 2011.<sup>10</sup> The largest number of firms exporting to Korea are found in the countries that do most business with it, namely Mexico and Chile (with 779 and 574 firms, respectively). In relative terms, Chile stands out: firms in that country that export to Korea account for just over 7% of the country's total export firms (see table III.7).

**Table III.7**  
**Latin America (9 countries): number of export firms by destination, 2011**

| Country                          | Latin America and the Caribbean | United States | European Union | China        | Japan        | Republic of Korea | Other         | Total         |
|----------------------------------|---------------------------------|---------------|----------------|--------------|--------------|-------------------|---------------|---------------|
| Bolivia (Plurinational State of) | 973                             | 470           | 455            | 167          | 66           | 44                | 316           | 1 634         |
| Chile                            | 5 288                           | 2 230         | 2 319          | 851          | 564          | 574               | 1 904         | 7 634         |
| Costa Rica                       | 1 607                           | 1 055         | 687            | 112          | 96           | 84                | 732           | 2 412         |
| Ecuador                          | 2 465                           | 1 473         | 1 240          | 193          | 189          | 76                | 1 120         | 3 851         |
| Guatemala                        | 3 377                           | 1 190         | 554            | 86           | 213          | 91                | 504           | 4 516         |
| Mexico                           | 10 490                          | 26 145        | 5 560          | 1 685        | 1 134        | 779               | 5 872         | 35 694        |
| Nicaragua                        | 930                             | 446           | 185            | 73           | 31           | 27                | 265           | 1 371         |
| El Salvador                      | 2 090                           | 636           | 223            | 34           | 44           | 42                | 258           | 2 565         |
| Uruguay                          | 1 046                           | 326           | 444            | 194          | 36           | 39                | 631           | 1 686         |
| <b>Total</b>                     | <b>30 382</b>                   | <b>34 933</b> | <b>12 076</b>  | <b>3 464</b> | <b>2 567</b> | <b>1 756</b>      | <b>11 980</b> | <b>61 363</b> |

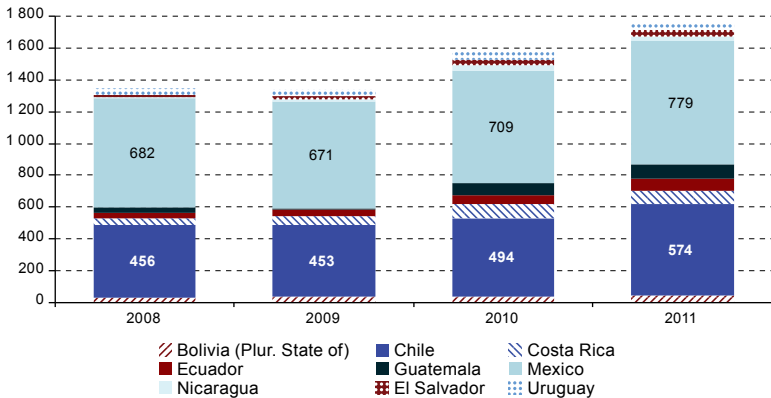
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official customs information from the respective countries.

While still only accounting for a small fraction of total export firms, the number of firms exporting to the Republic of Korea is on the rise. Between 2008 and 2011, 410 new firms started doing export business with Korea (see figure III.10), bringing the percentage of firms exporting to that country

<sup>10</sup> These nine countries combined represent around 56% of the region's export firms and nearly half of the region's exports to the world and to the Republic of Korea.

from 2.2% of the total in 2008 to 3% in 2011. This 30% increase is very significant, considering that the number of firms exporting to the world in those nine countries combined only increased 4.9% during that period.

**Figure III.10**  
**Latin America (9 countries): number of firms exporting to the Republic of Korea, 2008-2011**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official customs data from the respective countries.

In general, exports to the Republic of Korea are mostly generated by large companies that export primary goods or natural-resource-based manufactures. Combined with distance and logistics challenges, this means that SMEs have a relatively small share of the export business to the country (as is also the case with other Asian destination markets such as China and Japan). In the case of the nine countries studied, SMEs accounted for just 4.5% of the total value of exports to Korea in 2011. However, there are some promising trends that could become more pronounced, since it is not just the number of firms exporting to Asia (and Korea in particular) that is on the rise but also the number of SMEs that are doing so.

The Republic of Korea is not typically the main destination market for export firms in the nine countries for which there is information, and it is a market in which the average number of products exported by firm is low. The country was the main destination market for only 19% of the firms exporting to it. Firms exporting to Korea send just 1.6 products to the country on average, and 68% export only one product.

It is well known that the region's export structure is concentrated in a few firms. In the case of exports to the Republics of Korea, the level of concentration is even higher. The top five firms in the nine countries that were studied are responsible for 33.6% of total exports by those countries to the world, but the proportion more than doubles (70%) in the case of total exports by those countries to Korea. In all the countries in the region that were analysed, SMEs<sup>11</sup> constitute the vast majority of export firms (89.4%) but generate only about 8.8% of exports. In the case of firms exporting to Korea, these percentages are lower: 67.6% and 4.5%, respectively (see table III.8).

**Table III.8**  
**Latin America (9 countries): indicators on export firms, average 2008-2011**  
(Percentages)

|               |                                     | To the world | To the Republic of Korea |
|---------------|-------------------------------------|--------------|--------------------------|
| Concentration | Top 5 firms                         | 33.4         | 70.0                     |
|               | Top 10 firms                        | 41.3         | 82.9                     |
|               | Herfindahl-Hirschman Index (HHI)    | 0.07         | 0.3                      |
| Share of SMEs | In the total number of export firms | 89.4         | 67.6                     |
|               | In the total value of exports       | 8.84         | 4.5                      |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official customs information from the respective countries.

In the Republic of Korea, the share of export firms in the total is three times greater than in Latin America and the Caribbean, with around 3.5% of Korean firms involved in the export business (see table III.9). In fact, the Republic of Korea has as many as export firms as 14 Latin American countries combined.<sup>12</sup> In addition, there are more firms exporting from Korea to the region than in the other direction. In 2007, there were already 4,181 Korean firms exporting to Latin America. Of these, 3,531 (84%) were SMEs: 1,621 exported to Brazil, 1,362 to Mexico and 888 to Chile. This is twice the number of SMEs exporting from these countries to the Republic of Korea (622 in Mexico and 429 in Chile).<sup>13</sup>

<sup>11</sup> Export-oriented SMEs were defined as those with exports valued at less than the per capita GDP of the respective country expressed in purchasing power parity, multiplied by 1,000 and by the coefficient of exports over GDP of the country.

<sup>12</sup> The aforementioned nine countries plus Argentina, Brazil, Colombia, Paraguay and Peru.

<sup>13</sup> For an in-depth analysis of the data on Korean export firms by destination, see Kisu Kwon (2008) and Urmeneta (2015).



**Table III.9**  
**Republic of Korea: evolution of export firms, 2007-2013**  
*(Number of firms and millions of dollars)*

| Type of firm                                                   | 2007      | 2008      | 2009      | 2010      | 2011      | 2012      | 2013      |
|----------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Small                                                          | 72 047    | 75 856    | 77 816    | 80 564    | 83 041    | 86 207    | 82 292    |
| Medium                                                         | 1 383     | 1 404     | 1 381     | 1 219     | 1 109     | 1 742     | 1 611     |
| Large                                                          | 676       | 699       | 661       | 726       | 667       | 850       | 715       |
| Other (unclassified)                                           | 26 879    | 26 174    | 23 677    | 23 106    | 24 366    | 24 937    | 54 081    |
| Total export firms                                             | 100 985   | 104 133   | 103 535   | 105 615   | 109 183   | 113 736   | 118 699   |
| Total firms                                                    | 2 977 000 | 3 046 958 | 3 069 400 | 3 125 457 | 3 234 687 | 3 354 320 | 3 400 000 |
| <b>Average amount exported</b><br><i>(millions of dollars)</i> |           |           |           |           |           |           |           |
| Small                                                          | 1.1       | 1.2       | 1.0       | 1.2       | 1.4       | 1.2       | 1.6       |
| Medium                                                         | 45.8      | 49.7      | 41.5      | 51.4      | 75.4      | 41.8      | 47.7      |
| Large                                                          | 338.2     | 374.5     | 345.3     | 418.1     | 524.8     | 436.7     | 520.3     |
| Total                                                          | 385.1     | 425.4     | 387.8     | 470.8     | 601.9     | 479.7     | 569.8     |

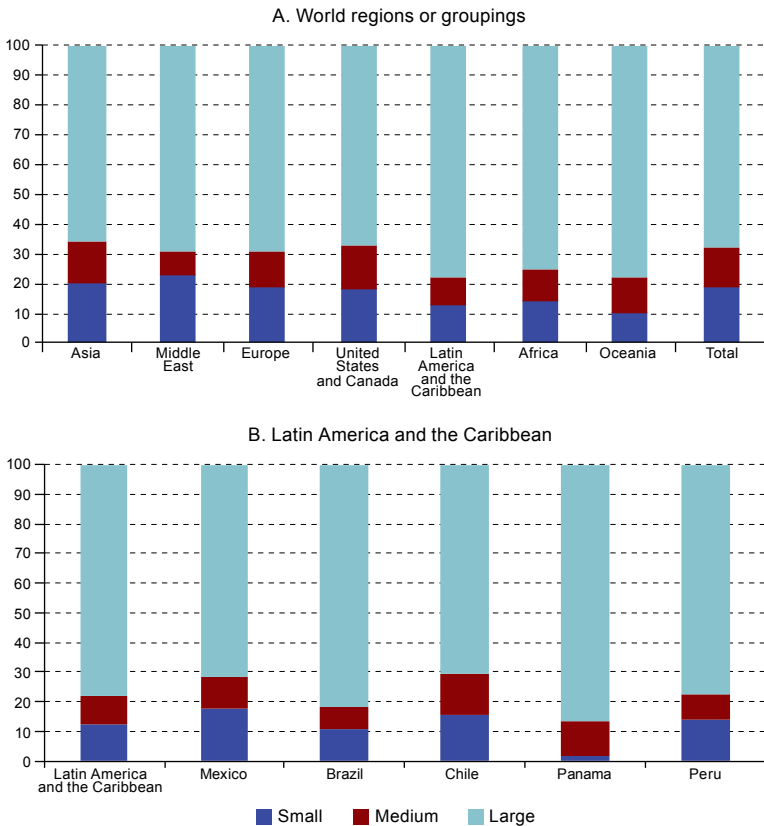
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Korea Customs and Trade Development Institute and Young Gui Kim and others, "A study on the decade of Korea's FTAs: evaluation and policy implications," *Policy Analyses*, No.14-05, Korea Institute for International Economic Policy (KIEP), 2014.

In 2012, Korean small firms generated 12.6% of the country's exports to Latin America and the Caribbean (see figure III.11), far outdistancing the percentage of exports to the Republic of Korea generated by SMEs in the aforementioned group of nine Latin American countries. However, there are also some similarities between Korea and region. In both cases, the bulk of export value is concentrated in a few firms. Also in both cases, SMEs have a smaller share of bilateral exports than exports to other more traditional destinations.

Although it is hard to run rigorous comparisons due to insufficient information and the varying realities and definitions of SMEs,<sup>14</sup> there is evidence to suggest that SMEs in the Republic of Korea have a much larger share of national exports to the world than do their counterparts in the region. This may be partly explained by the importance that the country attaches to policies help its firms, and SMEs in particular, participate in the global market, which translates into resources and a targeted institutional support structure for SMEs in the export sector. Moreover, after several studies found that SMEs were experiencing a decline in their share of exports between 2001 and 2007, a series of measures were adopted that likely reversed the trend (Kisu Kwon, 2008).

<sup>14</sup> In the Republic of Korea, the Framework Act on Small and Medium-sized Enterprises has been updated many times. This legislation differentiates SMEs by sector, considering indicators such as number of employees, sales and capital levels. In general, the thresholds are higher than in Latin America and the Caribbean. For example, in Korea a firm with as many as 300 employees is considered an SME (except in the construction and services sectors).

**Figure III.11**  
**Republic of Korea: breakdown of exports to selected destinations**  
**by size of firm, 2012**  
*(Percentages)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the database of the Korean Statistical Information Service (KOSIS) and Small and Medium Business Administration (SEMBA).

In short, the trade dynamic between the Republic of Korea and the region at the level of firms is consistent with the dynamic at the level of products. If major efforts are not made in the region to strengthen export-oriented SMEs, which would entail effectively coordinating productive development policy with trade policy, the export sector could continue to become more concentrated in primary goods exported by large companies.

The key is to increase the number of export firms by getting SMEs more deeply and extensively involved, since these firms contribute significantly to export diversification. In fact, among the nine countries analysed, SMEs exported 819 products to the Republic of Korea, while large companies exported just 628 products.<sup>15</sup> In Korea, too, SMEs export more products than do large companies (Kim and others, 2014).

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<sup>15</sup> All product number estimates are based on the six-digit Harmonized System.



## **IV. The experience with free trade agreements between the countries of Latin America and the Republic of Korea**

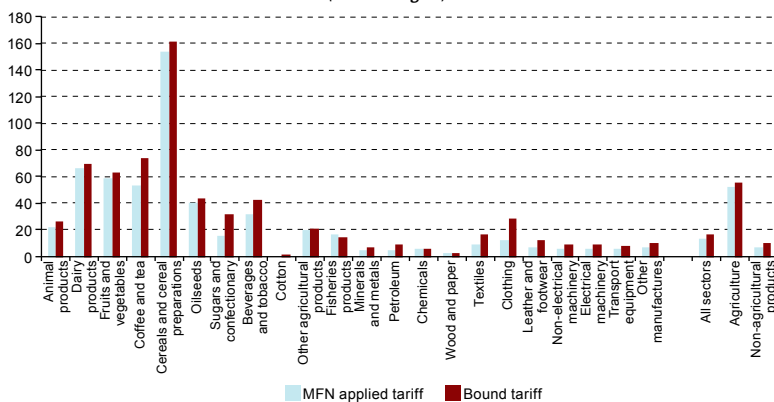
### **A. Introduction**

Historically, the Republic of Korea has been known to pursue an unorthodox trade policy that has combined an active strategy for the promotion of exports, particularly in sectors identified as strategic, with relatively high levels of tariff protection, especially in the farm sector, and other barriers to imports (e.g. technical regulations and sanitary restrictions). Although the country has been gradually opening its markets, especially since the 1980s, its tariff structure still shows a relatively high average by OECD standards, as well as considerable tariff dispersion (see figure IV.1).

Notwithstanding the above, for roughly a decade and a half, the Republic of Korea has been pursuing a strategy of gradual trade liberalization through the negotiation of free trade agreements (FTAs). The first such agreement signed by the Republic of Korea was with a Latin American country (Chile) in February 2003. That negotiation was seen to a certain extent as a “test case” for Korea, inasmuch as Chile was not one of its main trading partners. Since then, the Republic of Korea has signed FTAs with several other countries and blocs, establishing a network of preferential partners that extends across several regions and involves approximately 41% of Korean exports to the world and 38% of its imports. These figures will rise sharply when the FTA with China, Korea’s top trading partner, enters into effect (negotiations were successfully concluded in February 2015), and they will climb even

higher if a trilateral agreement is reached between the two countries and Japan (see table IV.1 and figure IV.2).<sup>16</sup>

**Figure IV.1**  
**Republic of Korea: average most favoured nation (MFN)**  
**and bound tariffs, by sector, 2013**  
*(Percentages)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), *World Tariff Profiles 2014*.

**Table IV.1**  
**Republic of Korea: free trade agreements, March 2015**

| Status           | Partner            | Date of signature | Date of entry into force |
|------------------|--------------------|-------------------|--------------------------|
| In force<br>(11) | Chile              | February 2003     | April 2004               |
|                  | Singapore          | August 2005       | March 2006               |
|                  | EFTA <sup>a</sup>  | December 2005     | September 2006           |
|                  | ASEAN <sup>b</sup> | August 2006       | June 2007                |
|                  | India              | August 2009       | January 2010             |
|                  | European Union     | October 2010      | July 2011                |
|                  | Peru               | March 2011        | August 2011              |
|                  | United States      | June 2007         | March 2012               |
|                  | Turkey             | August 2012       | May 2013                 |
|                  | Australia          | April 2014        | December 2014            |
|                  | Canada             | September 2014    | January 2015             |

<sup>16</sup> The Republic of Korea has also expressed an interest in joining the future Trans-Pacific Partnership (TPP). Negotiations, led by the United States, are entering their final phase and are expected to conclude in 2015.

**Table IV.1 (concluded)**

| Status                             | Partner                       | Date of signature                          | Date of entry into force |
|------------------------------------|-------------------------------|--------------------------------------------|--------------------------|
| Concluded but not yet in force (4) | Colombia                      | February 2013 (signature)                  |                          |
|                                    | China                         | February 2015 (conclusion of negotiations) |                          |
|                                    | New Zealand                   | November 2014 (conclusion of negotiations) |                          |
|                                    | Viet Nam                      | December 2014 (conclusion of negotiations) |                          |
| In negotiation (3)                 | Indonesia                     | Seven rounds of negotiations to date       |                          |
|                                    | China-Japan-Republic of Korea | Six rounds of negotiations to date         |                          |
|                                    | RCEP <sup>c</sup>             | Six rounds of negotiations to date         |                          |

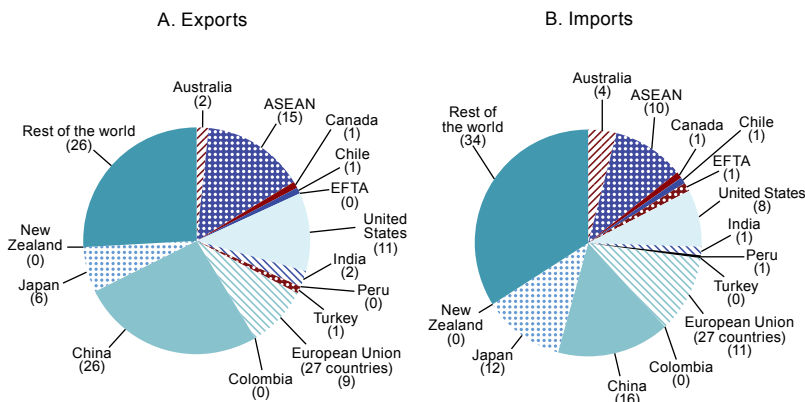
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Korea Customs Service [online] <http://www.customs.go.kr/>.

<sup>a</sup> European Free Trade Association. Includes Iceland, Liechtenstein, Norway and Switzerland.

<sup>b</sup> Association of South East Asian Nations. Includes Brunei Darussalam, Cambodia, Philippines (the), Indonesia, Lao People’s Democratic Republic (the), Malaysia, Myanmar, Singapore, Thailand and Viet Nam.

<sup>c</sup> Regional Comprehensive Economic Partnership. The 10 members of ASEAN and Australia, China, India, Japan, New Zealand and the Republic of Korea are participating in these negotiations.

**Figure IV.2**  
**Republic of Korea: breakdown of goods trade by partner, 2013**  
*(Percentages)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

At least three factors can be identified that have driven the Korean FTA strategy over the past 15 years. First, from an economic policy perspective, the agreements —by requiring reciprocal concessions— give greater internal viability to liberalization processes than if these were to

take place unilaterally.<sup>17</sup> Second, the FTAs allow the Republic of Korea to secure preferential access to its main export markets, preventing it from ending up on a lesser footing than its competitors. Lastly, the FTAs—especially with other Asian economies—can help deepen integration between the members of so-called “Factory Asia”. Two examples are the negotiations underway for a trilateral agreement between China, Japan and the Republic of Korea, and for the Regional Comprehensive Economic Partnership (RCEP), which brings together these three countries along with Australia, India, New Zealand and the 10 member countries of the Association of Southeast Asian Nations (ASEAN).

In order to make its FTA strategy internally viable, the Republic of Korea has implemented various programmes to support productive sectors that could be adversely affected by the increase in imports ensuing from said agreements. The beneficiaries of these programmes include farmers, fishermen and their families, manufacturing companies and service providers. Benefits may include compensation for up to 90% of losses, loans and employment assistance.

The Republic of Korea has signed FTAs with three countries in Latin America and the Caribbean: Chile, Peru and Colombia. The first two agreements have been in force since 2004 and 2011, respectively, and the third, signed in 2013, will enter into force in 2015. All three agreements share a similar structure, including an extensive tariff reduction regime for the trade in goods (though with important exceptions in the agricultural sector), commitments to liberalize the trade in services, investment and government procurement and sections on areas such as competition policy and intellectual property. The three agreements also include dispute settlement mechanisms (a general mechanism and a specific investor-State mechanism). The agreements with Peru and Colombia, which are more recent than the agreement with Chile, are different from the Chile agreement in that they include sections on labour and environmental considerations.

It should be noted, lastly, that the Republic of Korea has observer status in the Pacific Alliance, an integration mechanism created in 2011 that currently consists of Chile, Colombia, Mexico and Peru. Of these

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<sup>17</sup> It should be noted, however, that the Republic of Korea has thus far systematically excluded its most sensitive agricultural products from the tariff reduction schedules agreed to under the various FTAs.



four countries, Mexico is the only one that does not presently have a bilateral FTA with the Republic of Korea.

## **B. The free trade agreement between Chile and the Republic of Korea**

In April 2015, the free trade agreement between Chile and the Republic of Korea entered its eleventh year. During its 11 years in force, there have been three distinct periods. The first was a period of strong growth in bilateral trade; the second was a slowdown due to the 2008-2009 global economic crisis; and the third was a period of recovery (only for Chilean exports) (see figure IV.3A). During this period, Chilean exports to Korea expanded at an average annual rate of 14.5% and imports grew at a rate of 14.2%. This robust performance can be attributed to, among other things, the liberalization of bilateral trade. In 2014, 97% of tariff lines had a tariff of zero in Korea and 99% of products imported from Korea entered Chile under a zero tariff.

Chile's basket of exports to the Republic of Korea is very different in composition from its basket of imports. Exports are basically natural-resource-based products, while imports consist of vehicles, mineral fuels (oils and additives), machinery and equipment and pieces and parts, which include electronic products like cellular telephones, in other words, medium- and high-technology products. As a result of these different patterns, Chile runs a strong trade surplus in primary products and natural-resource-based manufactures but a deficit in high- and especially medium-technology manufactures. On the whole, the sectors running surpluses more than make up for the deficit in sectors with greater technological content (see figure IV.3B).

At the sector level, the largest rises in Chilean exports have taken place in agriculture, livestock and fisheries, food, beverages and tobacco, and wood and paper; these sectors that have increased their shares from low levels to 3.9%, 7.3% and 7.4% of the total, respectively (see table IV.2). However, the sectors exporting the largest volumes have been mining and metals and derivatives (the two sectors together account for 79% of total exports),<sup>18</sup> with sizeable increases in the share held by

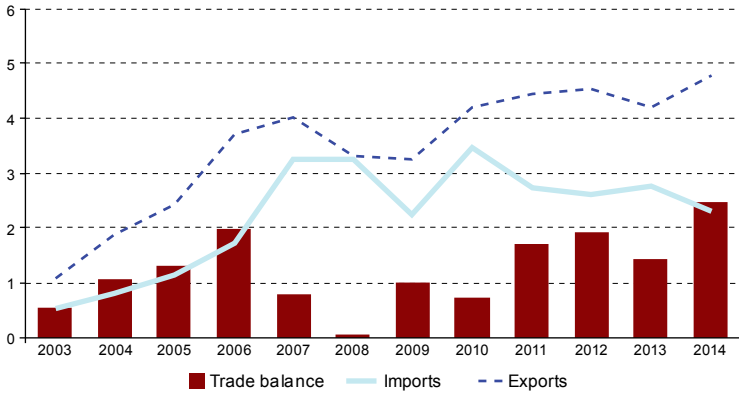
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<sup>18</sup> The top mining products exported to the Republic of Korea are copper ore and concentrates (30%), cathodes and sections of cathodes of refined copper (28%) and copper anodes for electrolytic refining (9%).

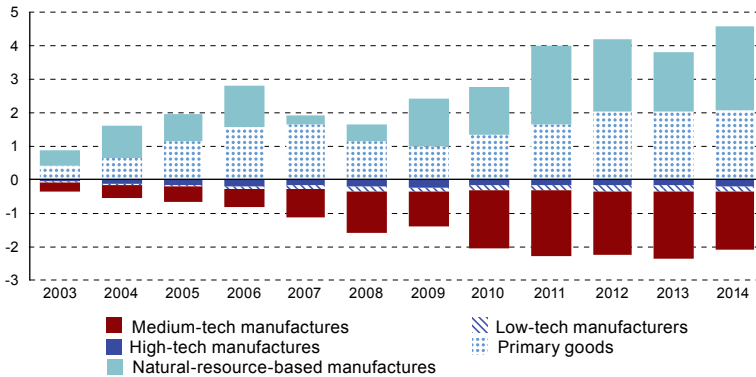
traditional primary products in the mining sector (unrefined copper, zinc concentrates) and decreases in the share held by products requiring more processing (refined copper, chemical wood pulp, methanol and others).

**Figure IV.3**  
**Chile: trade with the Republic of Korea, 2003-2014**  
*(Billions of dollars)*

A. Trade flows



B. Trade balance by technology intensity



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

**Table IV.2**  
**Chile: evolution of exports to the Republic of Korea, 2003-2014**  
*(Millions of dollars and percentages)*

| Main sectors                                                            | Millions of dollars |               | Share of total |              | Annual growth rate (2003-2014) |
|-------------------------------------------------------------------------|---------------------|---------------|----------------|--------------|--------------------------------|
|                                                                         | 2003 <sup>a</sup>   | 2014          | 2003           | 2014         |                                |
| Agriculture, livestock and fisheries                                    | 17                  | 184           | 1.6            | 3.9          | 24.3                           |
| Mining                                                                  | 326                 | 1 624         | 30.2           | 34.0         | 15.7                           |
| Food, beverages and tobacco                                             | 64                  | 348           | 5.9            | 7.3          | 16.6                           |
| Wood, paper and cardboard                                               | 95                  | 355           | 8.8            | 7.4          | 12.7                           |
| Metals and derivatives                                                  | 488                 | 2 138         | 45.2           | 44.8         | 14.4                           |
| Other manufacturing                                                     | 89                  | 124           | 8.2            | 2.6          | 3.1                            |
| <b>Total to the Republic of Korea</b>                                   | <b>1 080</b>        | <b>4 772</b>  | <b>100.0</b>   | <b>100.0</b> | <b>14.5</b>                    |
| <b>Total exports to the world</b>                                       | <b>21 651</b>       | <b>76 639</b> | ...            | ...          | <b>12.2</b>                    |
| <b>Exports to the Republic of Korea as a share of worldwide exports</b> | <b>5.0</b>          | <b>6.2</b>    |                |              |                                |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

<sup>a</sup> For purposes of analysis, the baseline was established as exports in 2003, the year immediately preceding the entry into force of the FTA.

In the agriculture, livestock and fisheries sector, exports of fresh fruits stand out. The Republic of Korea is the sixth largest destination for Chilean exports of fresh fruit, which accounted for 3.2% of total exports to Korea in 2014. Among the main products were fresh grapes, with an export value of US\$ 121 million (84% of total fresh fruit exported to Korea in 2014).<sup>19</sup> It should be noted that over 3% of total exports of Chilean fruit were exported to the Korean market in 2014. Industrial exports have generally grown more slowly than the annual average (12.6%). These basically consist of food (with above-average annual growth of 15.4%) and wood pulp (with less robust annual growth of 10%).

Between 2003 and 2014, Chilean exports to the Republic of Korea increased by a factor of 4.4. During the same period, total exports from Latin America and the Caribbean to Korea expanded by a factor of just 3.4. Chilean nonmining exports are presently valued at over US\$ 1 billion, which is equivalent to the total value of Chilean exports to Korea in 2003. In addition, Korea became the fourth largest market for Chilean mining products, the fifth largest market for its agricultural and forestry products and the tenth largest market for its industrial goods. In 2014,

<sup>19</sup> Fresh grapes are a good example of the export expansion made possible by tariff reductions. In 2002, the tariff on this product was 45.5%. Under the FTA, a 10-year phase-out was established, culminating with a tariff of 4.1% in 2013.

Chile was Korea's main supplier of copper, fresh grapes, sawn wood and fishmeal, and its second largest supplier of wood pulp (after Indonesia), wines (after France) and juices and dried fruit.

The number of Chilean firms exporting to the Republic of Korea has climbed much more rapidly than the number of firms exporting to the world, which in practice has not increased since 2008. Specifically, the number of firms exporting to the country rose from 288 in 2003 to 658 in 2013. This is due primarily to an increase in the number of products that are being exported. Nevertheless, mining firms show strong concentration. In 2014, a few copper companies processed exports equivalent to 71% of total exports to Korea. If copper mining is excluded, the level of concentration remains high but less so. In point of fact, 10 firms were responsible for over 50% of non-copper exports, and 50 firms generated 79% of such exports. This is partly explained by the low participation of SMEs in exports to the Republic of Korea. An analysis of the size of export firms (by sales) finds that in 2013 the majority of sectors with exports to the Republic of Korea were dominated by large companies, and the rate of participation of SMEs was very low.<sup>20</sup> As a result, the field is wide open for actions to increase the presence of Chilean export-oriented SMEs in Korea and other Asian markets.

Between 2003 and 2014, the number of products exported by Chile to the Republic of Korea nearly doubled, from 131 to 245. And the number of products exported to Korea as a share of total exports to the world also doubled, from 3.7% in 2003 to 7.5% in 2014.<sup>21</sup> Meanwhile, the number of products imported, though much higher, grew much more slowly in percentage terms, from 1,369 products in 2003 to 1,596 products in 2014 (see figure IV.4).

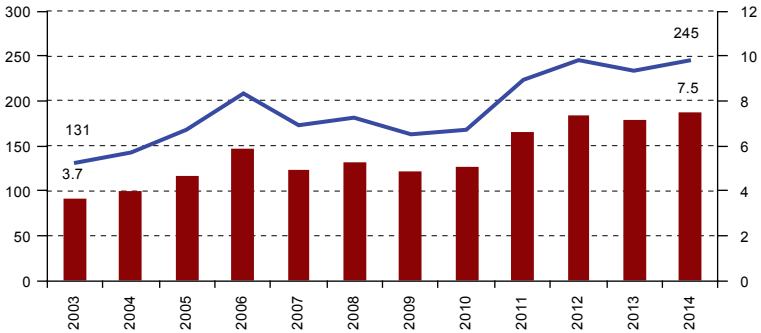
An analysis breaking down the growth rate of Chilean exports to the Republic of Korea at the 11-year mark of the FTA shows that of the 245 products that Chile exported in 2014, 177 (72%) were new products and only 68 (28%) were traditional. Of the 177 new products, 166 have only ever been exported from Chile since the entry into force of the FTA, and

<sup>20</sup> In 2013, only 19 microenterprises were involved in export business with the Republic of Korea. SMEs are well placed to export seafood, agricultural and livestock products and wines. In 2013, only 3.7% of Chile's export-oriented SMEs exported products to Korea.

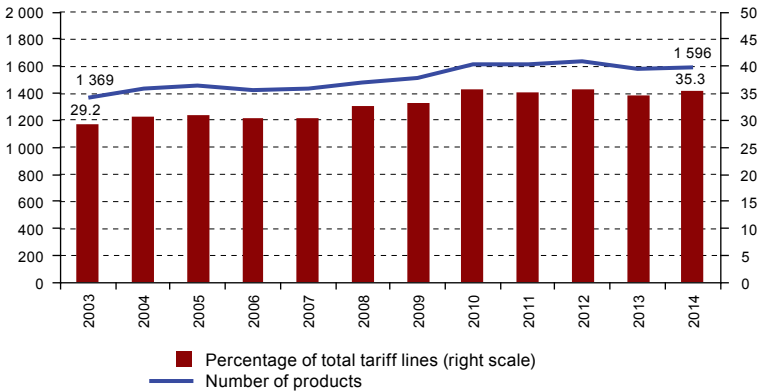
<sup>21</sup> In 2014, Chile exported around 3,269 products to the world, per the 2001 six-digit Harmonized System.

in the case of the seven that were already being exported when the FTA was introduced, the increases have been striking, with annual growth of 40% since 2003 (see table IV.3).

**Figure IV.4**  
**Chile: trade with the Republic of Korea by number of products, 2003-2014**  
 A. Exports



B. Imports



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

**Table IV.3**  
**Chile: evolution of goods exported to the Republic of Korea, 2003-2014**  
*(Number of products, millions of dollars and annual growth rate)*

| Types of products                     | Number of products |            | Amount exported |              | Annual growth rate (2003-2014) |
|---------------------------------------|--------------------|------------|-----------------|--------------|--------------------------------|
|                                       | 2003 <sup>a</sup>  | 2014       | 2003            | 2014         |                                |
| <b>Total new products<sup>b</sup></b> | <b>11</b>          | <b>177</b> | <b>33</b>       | <b>1404</b>  | <b>40.8</b>                    |
| New with potential                    | ...                | 142        |                 | 12           | ...                            |
| New relevant (>US\$ 1 million)        | 11                 | 35         | 33              | 1392         | 40.7                           |
| 10 top products                       | 7                  | 10         | 29              | 1210         | 40.2                           |
| Other 25 products                     | 4                  | 25         | 3               | 182          | 45.0                           |
| <b>Traditional</b>                    | <b>120</b>         | <b>68</b>  | <b>1 047</b>    | <b>3 368</b> | <b>11.2</b>                    |
| <b>Totals</b>                         | <b>131</b>         | <b>245</b> | <b>1 080</b>    | <b>4 772</b> | <b>14.5</b>                    |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

<sup>a</sup> Year prior to the entry into force of the free trade agreement.

<sup>b</sup> New products are those that were not exported in 2003 but began to be exported subsequent to the entry into force of the FTA. Also considered as new products are those that were exported in very small amounts in 2003 that subsequently rose to over US\$ 1 million.

Between 2003 and 2014, exports of new products grew at nearly four times the rate of exports of traditional products (41% versus 11%). The top 10 new products include some of great importance for the Korean market, including silver concentrate, molybdenum ore, lithium concentrate and metal ash and residues. The Korean market's share of exports to the world grew from 8% to over 50% in the case of these products (see table IV.4). The list of top exports mentions another 25 products for which sales were negligible prior to the entry into force of the FTA, including agricultural, agro-industrial and mining products for which Chile has traditionally had a significant comparative advantage.<sup>22</sup>

The 142 new products "with potential", which had combined export sales of US\$ 12 million in 2014, include goods from diverse economic sectors. Table IV.5 summarizes the list of products with potential for greater export volumes. In most cases, these are more highly processed products, such as processed foods from the agriculture and fisheries sector or products from the wood and pulp industry and the metals industry. In the majority of cases, the share of these products in total exports to the world is well below of 1%. However, if the Korean market is consuming the product (even in small quantities), niche markets could

<sup>22</sup> In the case of some of these products, the Korean market has a very large share of total exports, as in the case of fresh pork, iodides and oxyiodides, stone products and twisted copper wire. In the case of others, the Korean market is still small but Chile has natural comparative advantages. This is true for exports of fruits and food items (nuts, apple, cranberries, salmon, beef and others).

be developed for differentiated products with greater value added, such as agro-industrial products that Korea does not make. Examples are chicory root, unfermented apple juice, frozen eels and facings for particle board (veneers less than or equal to 6 mm in thickness). For all these products, the Korean market has a 100% share of total exports to the world.

**Table IV.4**  
**Chile: evolution of exports of new products**  
**to the Republic of Korea, 2003-2014<sup>a</sup>**

(Millions of dollars, percentages, annual growth rates)

| Harmonized code | Product name                            | 2004      | 2014         | Growth rate | Percentage of total global exports |
|-----------------|-----------------------------------------|-----------|--------------|-------------|------------------------------------|
|                 | <b>10 main new products</b>             | <b>29</b> | <b>1 210</b> | <b>40.2</b> | <b>14.2</b>                        |
| 740200          | Copper anodes for electrolytic refining | 2         | 426          | 61.3        | 14.2                               |
| 262099          | Ash and residues containing metals      |           | 129          | ...         | 30.7                               |
| 080610          | Grapes, fresh                           | 10        | 127          | 25.8        | 8.4                                |
| 440710          | Wood, sawn or chipped                   | 6         | 115          | 31.5        | 11.7                               |
| 261310          | Molybdenum ores, roasted                | 10        | 113          | 24.9        | 11.6                               |
| 261390          | Molybdenum ores and concentrates        |           | 88           | ...         | 39.6                               |
| 283691          | Lithium carbonates                      | 1         | 63           | 44.2        | 27.7                               |
| 030322          | Atlantic salmon, frozen                 | 0         | 52           | 55.6        | 8.2                                |
| 261610          | Silver ores and concentrates            |           | 48           | ...         | 59.7                               |
| 740811          | Copper wire                             | 0         | 48           | 92.2        | 10.1                               |
|                 | <b>Another 25 new products</b>          | <b>3</b>  | <b>182</b>   | <b>45.0</b> | <b>6.2</b>                         |
|                 | <b>35 new products</b>                  | <b>33</b> | <b>1 392</b> | <b>40.7</b> | <b>12.1</b>                        |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

<sup>a</sup> New products are defined as those for which there is no record of export prior to the entry into force of the free trade agreement between Chile and the Republic of Korea (2003). In addition, to ascertain greater or lesser relevance at the product level, relevant products are those with an export value of over US\$ 1 million in 2014.

**Table IV.5**  
**Chile: new products with potential exported to the Republic of Korea**

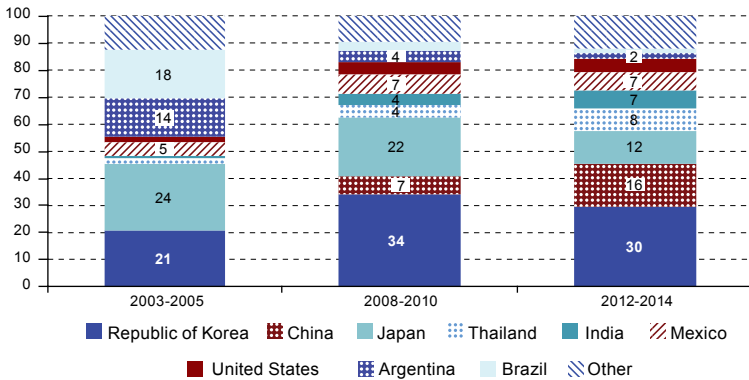
| Sectors                          | Products                                                                                                                                                            |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Agriculture, hunting and fishing | Chicory root, strawberries, dried fruit, apples, cherries, plums, raisins, nuts, snails, trout, pig hides and skins                                                 |
| Food, beverages and tobacco      | Frozen eels, apple juice, frozen bone-in beef, sugar, strawberry preserves, cherry preserves, grape must, peas                                                      |
| Wood, paper and cardboard        | Plywood, fiberboard, laminated paper and cardboard, particle board                                                                                                  |
| Metals and derivatives           | Aluminium pipes, aluminium wire, safes, angles and sections, tanks, steel structures, screws and bolts, aluminium foil, hollow metal sections, copper bars and rods |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

For its part, the Republic of Korea has been Chile's largest supplier of light vehicles since mid-2006, when it surpassed Japan and the United States, as well as the large countries in the region that also export vehicles (Mexico, Brazil and Argentina) (see figure IV.5).

**Figure IV.5**

**Chile: imports of light vehicles by country of origin, 2003-2005 to 2012-2014<sup>a</sup>**  
(Percentages of the total)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Automotive Association of Chile (ANAC).

<sup>a</sup> Includes automobiles, four-wheel-drive vehicles and pick-up trucks.

A number of reports on the impact of the FTA between Chile and the Republic of Korea have been produced by institutions like DIRECON (2014), ProChile and ODEPA in Chile and by Hyun-jung Je and others (2014), KIEP (Kim and others, 2014), KITA and the Korea Trade-Investment Promotion Facility (KOTRA) in Korea. All have concluded similarly that the FTA has been beneficial for both countries, given the sharp increase in bilateral trade. In addition, the agreement provided a learning opportunity for negotiators in both countries, which had not previously engaged in similar negotiations with other countries in the respective region of the counterpart (Asia in the case of Chile, Latin America and the Caribbean in the case of Korea).

The questions raised in the Korean studies are primarily related to how to maintain the competitiveness and growth levels of the Republic of Korea's high-technology exports, given the increased competition coming from other Asian countries. The Chilean studies tend to point up the need for efforts to further diversify exports, at the level of both products and firms. They also emphasize the need to expand commitments to liberalize products of great interest to Chile. At present, the FTA excludes 370 products from the tariff reduction regime, including condensed milk, other fresh and frozen boneless beef, cigarettes, onions, oranges and edible



preparations, among others. Although Chilean exports of these products to Korea are relatively low, they could expand significantly under a tariff reduction regime that would reduce the high tariffs presently applied (generally between 20% and 50%).

### C. The free trade agreement between Peru and the Republic of Korea

The FTA between Peru and Korea was signed in March 2011 and entered into force on 1 August later that year. It was the Republic of Korea's second FTA with a country in Latin America and the Caribbean. From the Peruvian side, the agreement was seen as an instrument that would help the country to diversify its export markets in Asia as well as an instrument for promoting the transfer of technology and attracting investment. From the Korean side, the agreement was viewed as an instrument for expanding its presence in Latin America and the Caribbean, given the strength of the Peruvian economy and its plentiful mineral resources, as well as agricultural, forestry and fisheries products.

The FTA entails the reciprocal phase-out of tariffs on trade in goods, with differences by type of products. For example, Korea immediately eliminated its tariff on coffee (2%) and agreed to a five-year phase-out of its tariff on plantains (from a base level of 30%) and a ten-year phase-out of its tariff on squid (from a base level of 20% to 22%). Korea also took various measures to protect sensitive products in its agriculture and fisheries sectors (see examples in table IV.6).

**Table IV.6**  
**Republic of Korea: protection mechanisms included in the FTA with Peru**

| <b>Mechanism</b>          | <b>Product</b>                                                                                                                                               |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exclusion                 | Rice <sup>a</sup>                                                                                                                                            |
| Tariff kept at base level | 91 items (garlic, ginseng, onion, etc.)                                                                                                                      |
| Safeguards                | 7 items (chicken meat, duck meat, evaporated milk, cheddar cheese, honey, beans and mandarin oranges)                                                        |
| Seasonal tariffs          | Grapes (45% from May to October, 0% during the rest of the year), oranges (25% from May to October, 50% from January to April and from November to December) |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Korea International Trade Association (KITA).

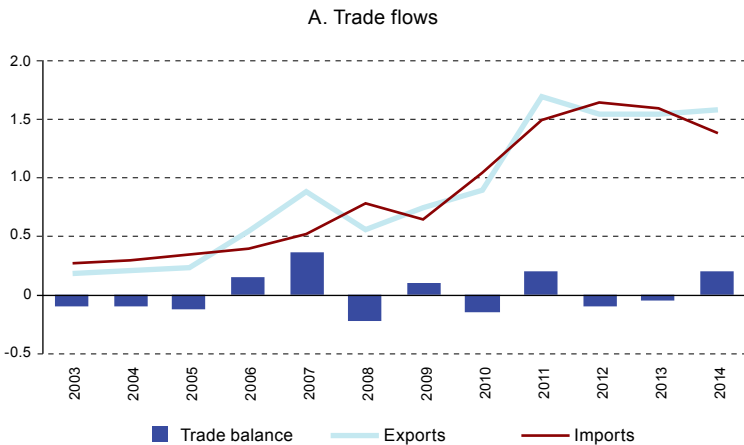
<sup>a</sup> Applies in both countries.

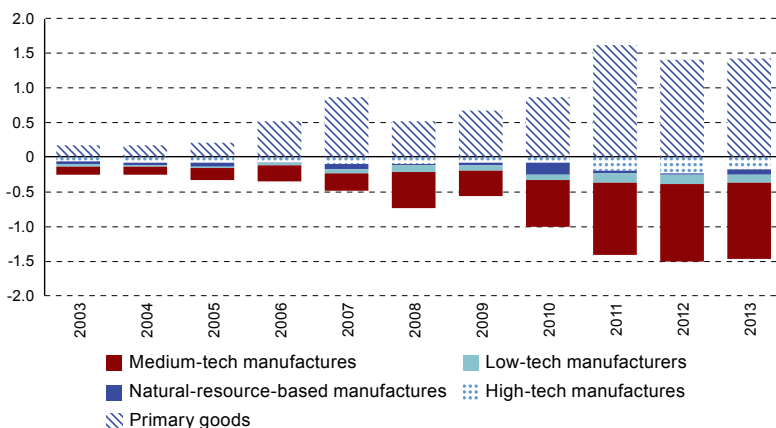
With respect to services and investment, Peru opened these sectors wide, including electricity and natural gas. The Republic of Korea, meanwhile, kept restrictions in place in basic industries like electricity, natural gas and communications, and also excluded public education and its medical and social services sector. The agreement also strengthened investment protection mechanisms, especially in Peru. Both countries opened their government procurement markets and agreed to encourage small and medium-sized enterprises to participate in joint auctions and tenders.

Peruvian exports to Korea are concentrated in minerals and seafood. Meanwhile, its imports from Korea are dominated by manufactured goods such as automobiles, domestic appliances, machinery and chemical products. Given this composition, export totals from Peru have been volatile, due to price fluctuations in its basket of products. This makes it hard to pinpoint a pattern in its trade balance, as seen in figure IV.6A).

Based on this trade structure, Peru's surplus in primary goods is growing, but so too is its deficit in medium- and high-technology industrial products (see figure IV.6B). This imbalance appears to be a structural condition that cannot be easily remedied by the FTA.

**Figure IV.6**  
**Peru: trade with the Republic of Korea, 2003-2014**  
*(Billions of dollars and number of products)*



**Figure IV.6 (concluded)****B. Trade balance by technology content**

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE) and Office of the National Superintendent of Tax Administration (SUNAT).

Between 2010 and 2013, the number of products exported from Peru to Korea rose from 199 to 227, and the share of these products in the total number of Peruvian exports to the world increased from 5.9% in 2010 to 6.6% in 2013.<sup>23</sup> During the same period, the number of imported products fell from 1,611 to 1,565 (see figure IV.7). Although the increase in the number of products exported to Korea is modest, it should be noted that the FTA has been in effect for less than four years. The expectation is that this nascent trend toward diversification of Peru's basket of exports to Korea will become more pronounced in the coming years as more and more tariffs are eliminated under the agreement.

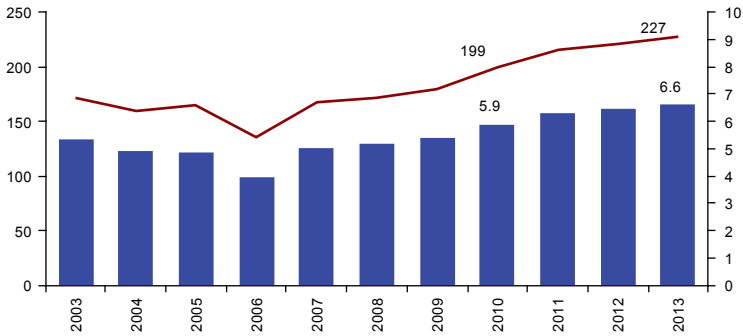
Between 2010 and 2013, Peruvian exports to Korea grew by nearly 20% per year, three times the annual rate of Peruvian exports to the world during the same period, at 6%. The fastest-growing sectors during the period were metals and derivatives and chemicals and pharmaceuticals. However, oil and mining continues to be the top export sector in Peru's trade with Korea. Despite the FTA's brief existence, the share of Peruvian exports to Korea in total Peruvian exports to the world grew from 2.5% in 2010 to 3.7% in 2013 (see table IV.7).

<sup>23</sup> In 2013, Peru exported around 3,438 products to the world, according to the 2001 six-digit Harmonized System.

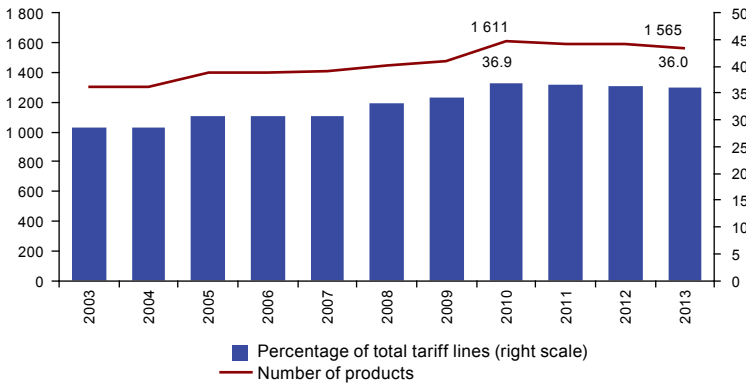
**Figure IV.7**

**Peru: trade with the Republic of Korea by number of products, 2003-2013**

**A. Exports**



**B. Imports**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

Where an increase can be seen most clearly, following the entry into force of the FTA, is in Korean foreign direct investment (FDI) in Peru, which grew from an annual flow of US\$ 48 million in 2010 to an annual flow of US\$ 403 million in 2014. Korea’s stock of FDI in Peru at the end of 2014 stood at US\$ 1.45 billion. Of that amount, 56% has been accumulated in the previous four years, and the mining sector has been the largest recipient, absorbing 98% of the total.

**Table IV.7**  
**Peru: evolution of goods exported to the Republic of Korea, 2010-2013**  
*(Millions of dollars and percentages)*

| Main sectors                                                            | Millions of dollars |               | Share of total |              | Annual growth rate |
|-------------------------------------------------------------------------|---------------------|---------------|----------------|--------------|--------------------|
|                                                                         | 2010                | 2013          | 2010           | 2013         |                    |
| Agriculture, livestock and fisheries                                    | 46                  | 66            | 5.2            | 4.3          | 12.2               |
| Oil and mining                                                          | 799                 | 1 317         | 89.2           | 85.4         | 18.1               |
| Food, beverages and tobacco                                             | 30                  | 41            | 3.3            | 2.6          | 11.0               |
| Metals and derivatives                                                  | 10                  | 88            | 1.1            | 5.7          | 110.4              |
| Chemicals and pharmaceuticals                                           | 3                   | 22            | 0.3            | 1.4          | 105.2              |
| Other manufacturing                                                     | 8                   | 8             | 0.9            | 0.5          | -0.3               |
| <b>Total exports to the Republic of Korea</b>                           | <b>896</b>          | <b>1 541</b>  | <b>100.0</b>   | <b>100.0</b> | <b>19.8</b>        |
| <b>Total exports to world</b>                                           | <b>35 205</b>       | <b>41 871</b> | <b>...</b>     | <b>...</b>   | <b>6.0</b>         |
| <b>Exports to the Republic of Korea as a share of worldwide exports</b> | <b>2.5</b>          | <b>3.7</b>    |                |              |                    |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United Nations Commodity Trade Database (COMTRADE).

## D. Perspectives on the free trade agreement between Colombia and the Republic of Korea

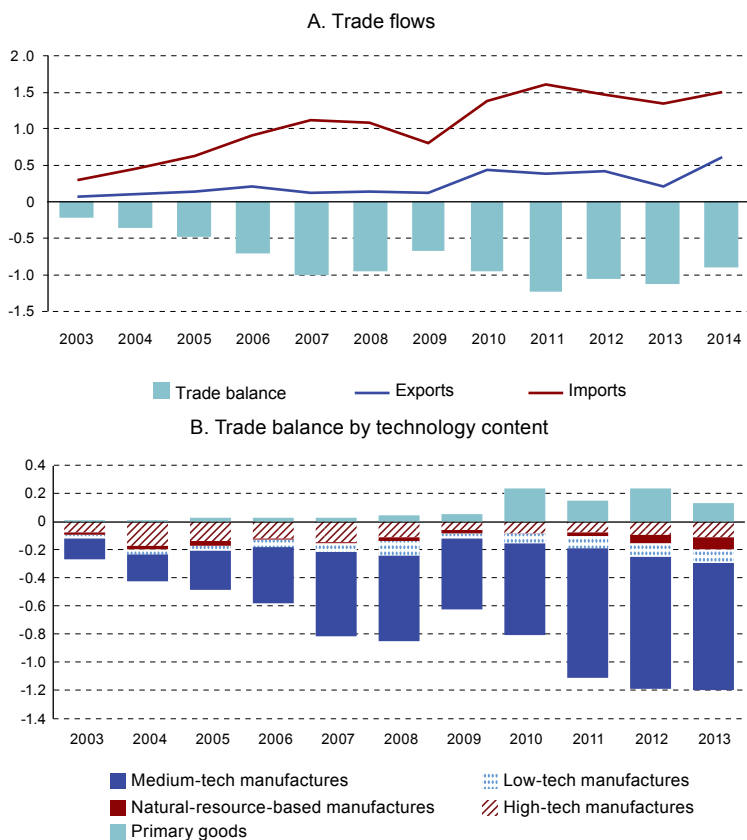
The FTA between Colombia and the Republic of Korea was signed in February 2013 and will soon enter into force. Korea's interest in Colombia lies in the size of its market (with the third largest population in Latin America), its abundant natural resources and its positive economic outlook. Colombia, meanwhile, has had it as a priority for some years now to improve its economic and trade ties with Asia-Pacific. The FTA with Korea is a very important step in that direction. Notwithstanding the fact that the FTA is not yet in effect, it seems relevant to describe bilateral trade, the tariff reduction process and the main expectations associated with it.

The trade balance between the two countries has Colombia at a significant deficit, with exports to Korea failing to break the US\$ 500 million mark until 2014. Imports from Korea have grown much more rapidly, climbing to US\$ 1.5 billion in 2014. The deficit can basically be explained by the low level of Colombian exports and a sharp negative balance in trade in medium-technology goods (see figure IV.8).

Colombia's main exports to Korea are ferro-nickel, oil, coal and coffee, which together accounted for 76% of Colombia's total exports to that country in 2013. This high level of export concentration is also seen in the number of products traded by the two countries. The number of

products exported by Korea to Colombia is nearly 13 times the number of products imported from that country (see figure IV.9).

**Figure IV.8**  
**Colombia: trade with the Republic of Korea, 2003-2014**  
*(Billions of dollars)*

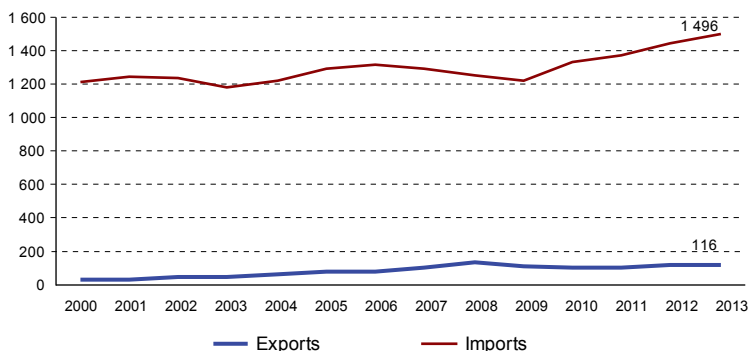


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Korea International Trade Association (KITA) and United Nations Commodity Trade Database (COMTRADE).

Tariffs will be removed immediately by Colombia on 61% of products upon entry into force of the FTA. In contrast, the rate in Korea will be 82%. Tariffs on around 96% of products in both countries will be eliminated by the 10-year mark. A handful of products will be subject to tariff-rate quotas or have been excluded from tariff reduction, both in Colombia and in Korea (see table IV.8).

**Figure IV.9**

**Colombia: number of products traded with the Republic of Korea, 2000-2013**  
(Per the 6-digit Harmonized System)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

**Table IV.8**

**Free trade agreement between Colombia and the Republic of Korea:**  
**tariff elimination categories**  
(Number of products per category)

| Category               | Colombia     | Republic of Korea |
|------------------------|--------------|-------------------|
| Immediate elimination  | 4 390        | 9 787             |
| Tariff-free            | 265          | 1 932             |
| In 3 years and 5 years | 33 y 1 546   | 268 y 670         |
| In 7 years and 9 years | 503 y 1      | 136 y 0           |
| In 10 years            | 529          | 558               |
| In more than 10 years  | 184          | 304               |
| Tariff-rate quotas     | 6            | 5                 |
| Exclusion              | 47           | 153               |
| <b>Total</b>           | <b>7 240</b> | <b>11 881</b>     |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Ministry of Foreign Affairs of the Republic of Korea.

There are favourable expectations around the FTA in Colombia's farm sector, which hopes to benefit from tariff reductions, especially on coffee. Meanwhile, in Korea, the automotive sector expects to increase its sales and its share of the Colombian market (as has occurred in Chile), owing not only to the benefits of tariff reductions but also to the competitiveness of the Korean automotive industry and the expansion of that market in Colombia.





## **V. Investment and cooperation by the Republic of Korea in Latin America and the Caribbean**

### **A. Direct investment**

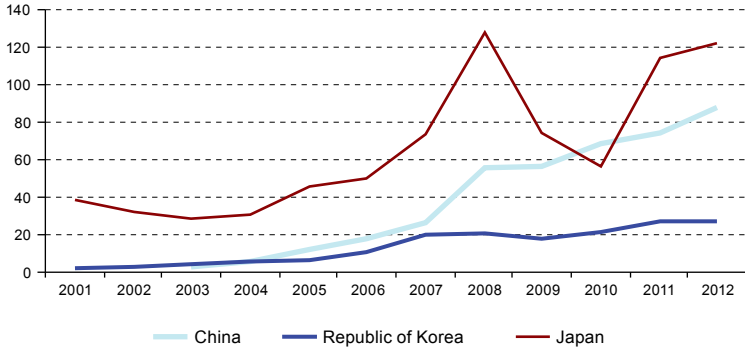
The Republic of Korea along with Japan and China are among Asia's top investors in the world and in Latin America and the Caribbean. Japan was already a major player in terms of FDI flows to the world in the 1990s, when in the 2000s Chinese FDI to the world soared, followed by Korean FDI. Between 2003 and 2012, FDI flows from China grew from US\$ 3 billion to US\$ 88 billion, and flows from the Republic of Korea grew from US\$ 4 billion to US\$ 27 billion (see figure V.1).

The stronger growth of FDI flows from China to the world, compared with flows from the Republic of Korea, was not reflected in the two countries' FDI patterns in Latin America. On the contrary, until 2011 Korean investment in the region topped Chinese investment (excluding flows to financial centres in the Caribbean).

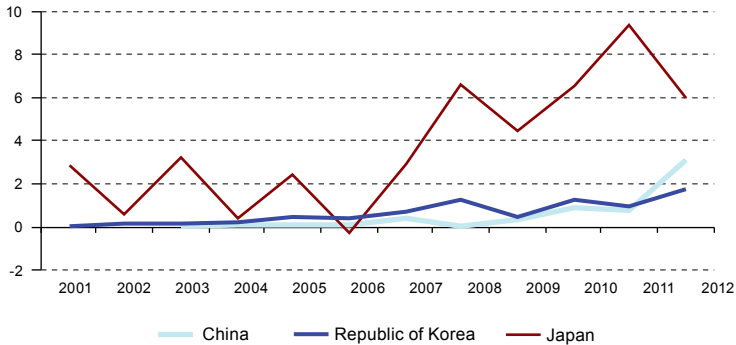
Latin America occupies a modest but ascending position as a destination for Korean FDI. Its share grew from an average of 5% during the period 2001-2006 to an average of 7% in 2007-2012. This trend coincided with an increase in the share obtained by other developing countries in these flows, from 56% to 70% between these same periods (see figure V.2).

**Figure V.1**  
**China, Japan and the Republic of Korea: foreign direct investment**  
**worldwide and in Latin America and the Caribbean, 2001-2012**  
*(Billions of dollars)*

**A. Worldwide**



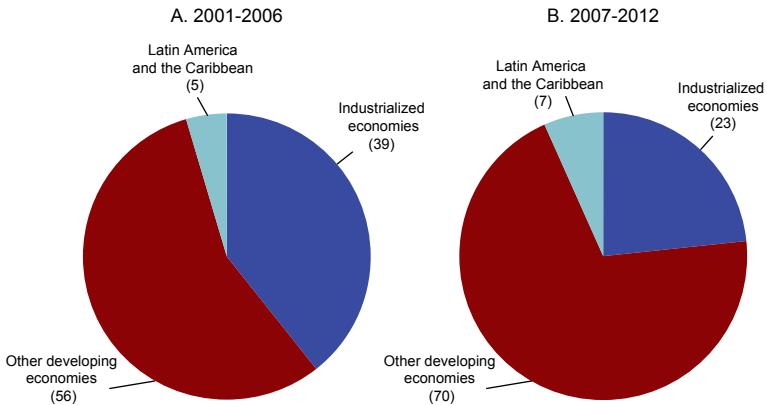
**B. Latin America and the Caribbean**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from United Nations Conference on Trade and Development (UNCTAD), Bilateral FDI Statistics 2014.

**Note:** Flows to Latin America and the Caribbean do not include the Cayman Islands, the United States Virgin Islands or the British Virgin Islands.

**Figure V.2**  
**Republic of Korea: breakdown of outward foreign direct investment flows**  
**by category of destination, 2001-2006 and 2007-2012**  
*(Percentages)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from United Nations Conference on Trade and Development (UNCTAD), *Bilateral FDI Statistics 2014*.

**Note:** Flows to Latin America and the Caribbean do not include the Cayman Islands, the United States Virgin Islands or the British Virgin Islands.

During the 10 years from 2003 to 2012, two thirds of Korea's direct investment to the region went to its two largest economies, Brazil and Mexico. Both countries have large markets with a sizeable middle class. Mexico's market is also attractive for being integrated into North American value chains. Mexico's share of Korean flows to the region grew from less than 5% in 2003 to 26% in 2012. In addition, a significant volume of FDI also went to small and medium-sized countries like Panama, Peru, Chile and Colombia (in descending order) (see table V.1).

The majority of Korean FDI flows were invested in the manufacturing industry. Based on announced investments in new facilities in Latin America between 2003 and 2014, a full 83% of the total amount went to the manufacturing sector (IDB, 2015). A survey of FDI stock by country of origin in Brazil in late 2012 also confirms that three quarters of FDI from the Republic of Korea was concentrated in industry. The main beneficiaries have been metals, electronics and more recently the automotive industry. In Central America, the Republic of Korea has invested in the textile and apparel sector (see box V.1).

**Box V.1****Examples of direct investment by the Republic of Korea in Latin America****(a) Hyundai Motor Brazil (HMB)**

Hyundai Motors Group is the fourth largest maker of vehicles in the world, with sales equivalent to US\$ 80 billion in 2013 (IDB, 2015). Hyundai opened factories to build trucks in the states of Goiás and Minas Gerais in 2004. During that decade, imports of Hyundai light vehicles grew rapidly to meet rising demand. Based on these strong results, in 2012 the company decided to invest US\$ 700 million to build a production plant in Piracicaba (state of São Paulo). That plant makes a model known as the HB20, which has been specially designed for the Brazilian market. This investment has been very successful, with Hyundai advancing from the ninth largest automobile company in Brazil prior to the launch of the HB20 to the fifth largest in 2013, in terms of sales. Between 2012 and 2013, its sales of locally made vehicles and imports nearly doubled, increasing from 108,000 units to 213,000 units (Kwak, 2015). In 2014, the company expanded the capacity of its plant in São Paulo to better meet the high demand for its HB20 model. In the future, Hyundai plans to diversify its product line beyond passenger vehicles and trucks. One example is a US\$ 40 million plant to build trains (IDB, 2015).

**(b) Korean textile companies in Guatemala**

Between 2005 and 2013, four of the six largest Korean textile and apparel firms invested a total of US\$ 6.5 billion in Central America. Guatemala has been the largest recipient of Korean textile investment outside of Asia, after Vietnam, Indonesia and Bangladesh. At present, Korean firms operate 120 of a total of 200 clothing factories in Guatemala, and these facilities produce 80% to 90% of the country's textile exports, which mainly go to the United States (Kwak, 2015). The DR-CAFTA agreement, which gives Central American exports preferential access to the United States market provided certain rules of origin are met with respect to inputs, has been a determining factor driving investment in Guatemala. Following are three examples of Korean firms in Guatemala. The first is Hansae, which has two local subsidiaries: Hansae Global and Hansae Guatemala. In 2010, Hansae sales totaled US\$ 850 million. A second example is INT Trading, S.A., which established a subsidiary in the country in 2004. It is the only Korean manufacturer with its own complete production line in Latin America and the Caribbean. Its sales totaled around US\$ 60 million in 2013. The third example is Sae-A, one of the largest clothing manufacturers on the planet, with annual exports of US\$ 1.8 billion in 2013. Sae-A has become a leading supplier for some of the largest retailers and brands in the world.

**(c) Eagon Lautaro in Chile**

Eagon Lautaro, S.A., established in 1972, is one of the largest makers of plywood board and other wood products in the Republic of Korea. In response to concerns about the future supply of wood, in 1993 the company bought a local firm (Embalajes San Felipe, Ltd.) in southern Chile, an area heavily planted in forest. Between 1993 and 1997, its volume of monthly exports rose

**Box V.1 (concluded)**

from 400 cubic meters to 5,000 cubic meters. Following the Asian crisis in 1997-1998, Eagon successfully reoriented its exports to the United States market. It increased its production capacity to 13,000 cubic meters per month in 2007 and 2008 (Kwon, 2015). The global financial crisis in 2009 led to a period of depressed sales. However, the earthquake in Chile in 2010 helped offset the drop in exports with local sales.

**Source:** Inter-American Development Bank (IDB), *Korea and Latin America and the Caribbean: Striving for a Diverse and Dynamic Relationship*, Washington, D.C., 2015; Jae Sung Kwak, "Backward linkages of Korean multinationals to local small and medium-sized enterprises in the automobile and textile sectors in Brazil and Guatemala", *Rising Concentration in Asia-Latin American Value Chains: Can Small Firms Turn the Tide?*, K. Inoue, N. Mulder and O. Rosales (eds.), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), unpublished; H. J. Kwon, "Asian investors and their SME suppliers in Chile", *Rising Concentration in Asia-Latin American Value Chains: Can Small Firms Turn the Tide?*, K. Inoue, N. Mulder and O. Rosales (eds.), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), unpublished.

**Table V.1**  
**Republic of Korea: cumulative foreign direct investment flows**  
**in the countries of Latin America and the Caribbean,<sup>a</sup> 2001-2012**  
(Millions of dollars)

| Country                                | 2001-2006    | 2007-2012    |
|----------------------------------------|--------------|--------------|
| Brazil                                 | 332          | 3 497        |
| Mexico                                 | 184          | 1 137        |
| Panama                                 | 375          | 779          |
| Peru                                   | 387          | 433          |
| Barbados                               | 1            | 301          |
| Chile                                  | 21           | 212          |
| Colombia                               | 5            | 195          |
| Argentina                              | -10          | 41           |
| Ecuador                                | -            | 29           |
| Nicaragua                              | 19           | 25           |
| El Salvador                            | 16           | 25           |
| Guatemala                              | 28           | 23           |
| Haiti                                  | -            | 22           |
| Uruguay                                | -            | 21           |
| Bolivia (Plurinational State of)       | 9            | 16           |
| Honduras                               | 57           | 14           |
| Other                                  | 31           | 8            |
| <b>Latin America and the Caribbean</b> | <b>1 454</b> | <b>6 781</b> |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from United Nations Conference on Trade and Development (UNCTAD), *Bilateral FDI Statistics 2014*.

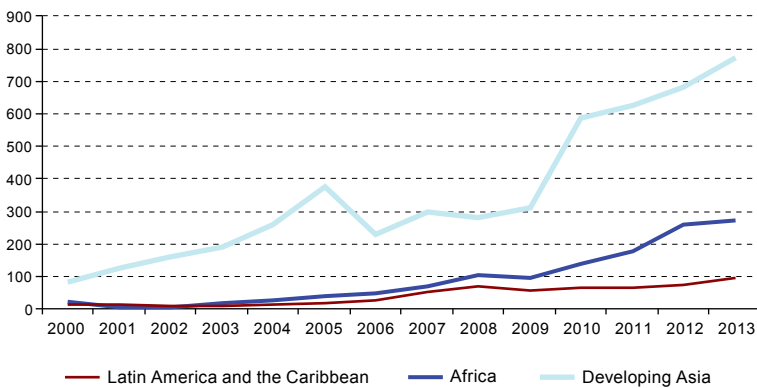
<sup>a</sup> Flows to Latin America and the Caribbean exclude the financial centres of the Cayman Islands, the United States Virgin Islands and the British Virgin Islands.

FDI to the Republic of Korea from Latin America and the Caribbean, excluding the financial centres in the Caribbean, is still very minor. Between 2001 and 2006, these flows totaled US\$ 38 million, and between 2007 and 2012, they were just US\$ 26 million (UNCTAD, 2014). The main investors were Uruguay, Belize and Panama.

## B. Development cooperation

Official development assistance (ODA) from Korea has climbed sharply in the past decade, to US\$ 1.31 billion in 2013.<sup>24</sup> The traditional beneficiaries have been Asian countries, which receive nearly 60% of the total. Recently, Korea has expanded its cooperation with Africa, but the country's cooperation flows to Latin America and the Caribbean have been flatter (see figure V.3). In 2012 and 2013, the region received approximately 7% of Korea's total ODA.

**Figure V.3**  
**Republic of Korea: official development assistance,**  
**by destination region, 2000-2013**  
*(Millions of dollars)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Organization for Economic Cooperation and Development (OCDE) statistics system [online] <http://stats.oecd.org/>.

<sup>24</sup> Monitoring of Korean ODA flows has been facilitated by the Republic of Korea's admission to the OECD Development Assistance Committee in 2010.

The Republic of Korea recognizes that Latin America and the Caribbean, despite being a middle-income region, still faces myriad economic, environmental and social challenges. Thus, cooperation extended by the Korean government is aimed at mitigating social inequalities, strengthening the administrative capacity and transparency of governments and promoting sustainable development in the region. The Republic of Korea also supports the development of economic infrastructure through soft loans.

Between 2000 and 2013, the Republic of Korea disbursed a total of US\$ 587.4 million in cooperation funds to Latin America and the Caribbean. Roughly 53% went to South America, with the remaining 47% going to Central America, the Caribbean and Mexico. During the period 2007-2013, the main recipient countries in the region were (in descending order by amount) Ecuador, Peru, Nicaragua, Paraguay, Colombia, the Dominican Republic, Honduras, the Plurinational State of Bolivia, Guatemala, El Salvador and Haiti. These 11 countries combined received over 90% of Korean ODA to the region during that period (see table V.2). Whereas Peru, Nicaragua and the Plurinational State of Bolivia were the priority destinations for Korean ODA in 2000-2006, Ecuador, Colombia and the Dominican Republic became top priorities in 2007-2013. Korea's current cooperation strategy identifies 26 priority countries around the world, and in Latin America this selection includes the Plurinational State of Bolivia, Colombia, Paraguay and Peru.<sup>25</sup>

From 2006 to 2013, the Republic of Korea allocated most of its assistance to infrastructure and social services (around 60% of its total ODA to the region). In the subperiod from 2010 to 2013, it sharpened its focus on the education sector, and infrastructure and economic services lost 11 percentage points of share (see table V.3).

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<sup>25</sup> For more information on the cooperation policy, see the document "Strategic Plan for International Development Cooperation", approved at the seventh meeting of the Korean Committee for International Development Cooperation (Office for Government Policy Coordination [online] <http://www.odakorea.go.kr/eng.policy.StrategicPlan.do>).

**Table V.2**  
**Countries of Latin America and the Caribbean: amounts received as official development assistance**  
**from the Republic of Korea, 2000 to 2013**  
*(Millions of dollars and percentages)*

| Position                               | Country                                       | 2000-2006                             |                        | 2007-2013                             |                        |
|----------------------------------------|-----------------------------------------------|---------------------------------------|------------------------|---------------------------------------|------------------------|
|                                        |                                               | Total amount<br>(millions of dollars) | Share<br>(percentages) | Total amount<br>(millions of dollars) | Share<br>(percentages) |
| 1                                      | Ecuador                                       | -0.6                                  | -                      | 74.4                                  | 15.5                   |
| 2                                      | Peru <sup>a</sup>                             | 16.0                                  | 15.0                   | 58.0                                  | 12.1                   |
| 3                                      | Nicaragua                                     | 13.2                                  | 12.4                   | 50.8                                  | 10.6                   |
| 4                                      | Paraguay <sup>a</sup>                         | 7.3                                   | 6.8                    | 50.0                                  | 10.4                   |
| 5                                      | Colombia <sup>a</sup>                         | 2.1                                   | 2.0                    | 45.1                                  | 9.4                    |
| 6                                      | Dominican Republic                            | 2.6                                   | 2.4                    | 35.1                                  | 7.3                    |
| 7                                      | Honduras                                      | 7.7                                   | 7.2                    | 34.3                                  | 7.1                    |
| 8                                      | Bolivia (Plurinational State of) <sup>b</sup> | 10.8                                  | 10.1                   | 31.1                                  | 6.5                    |
| 9                                      | Guatemala                                     | 6.5                                   | 6.1                    | 28.8                                  | 6.0                    |
| 10                                     | El Salvador                                   | 3.9                                   | 3.6                    | 24.8                                  | 5.2                    |
| 11                                     | Haiti                                         | 0.6                                   | 0.6                    | 14.9                                  | 3.1                    |
| 12                                     | CARICOM <sup>b</sup> (except Haiti)           | 5.2                                   | 4.9                    | 11.4                                  | 2.4                    |
| 13                                     | Costa Rica                                    | 2.9                                   | 2.7                    | 4.0                                   | 0.8                    |
| 14                                     | Mexico                                        | 3.2                                   | 3.0                    | 3.8                                   | 0.8                    |
| 15                                     | Chile                                         | 1.6                                   | 1.5                    | 3.8                                   | 0.8                    |
| 16                                     | Brazil                                        | 0.7                                   | 0.7                    | 3.4                                   | 0.7                    |
| 17                                     | Venezuela (Bolivarian Republic of)            | 0.8                                   | 0.8                    | 0.7                                   | 0.1                    |
| 18                                     | Argentina                                     | 0.6                                   | 0.6                    | 0.6                                   | 0.1                    |
| 19                                     | Cuba                                          | 0.1                                   | 0.1                    | 0.4                                   | 0.1                    |
| 20                                     | Uruguay                                       | 0.9                                   | 0.8                    | 0.4                                   | 0.1                    |
| 21                                     | Panama                                        | 20.8                                  | 19.5                   | -0.3                                  | -                      |
| <b>Latin America and the Caribbean</b> |                                               | <b>106.7</b>                          | <b>100.0</b>           | <b>480.8</b>                          | <b>100.0</b>           |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Organization for Economic Cooperation and Development (OECD) statistics system [online] <http://stats.oecd.org/>.

<sup>a</sup> Priority partners for Korean cooperation.

<sup>b</sup> The countries of CARICOM are Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.



**Table V.3****Latin America and the Caribbean: amounts received and sector distribution of official development assistance from the Republic of Korea, 2006 to 2013***(Millions of dollars and percentages)*

| Sector                               | 2006-2009    |              | 2010-2013    |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
|                                      | Total amount | Share        | Total amount | Share        |
| Infrastructure and social services   | 118.9        | 56.6         | 210.9        | 67.4         |
| Education                            | 21.7         | 10.3         | 79.3         | 25.3         |
| Health                               | 37.6         | 17.9         | 44.5         | 14.2         |
| Population and reproductive health   | 4.2          | 2.0          | 5.6          | 1.8          |
| Water and sanitation                 | 35.9         | 17.1         | 47.9         | 15.3         |
| Government and civil society         | 15.9         | 7.6          | 21.0         | 6.7          |
| Other                                | 3.6          | 1.7          | 12.5         | 4.0          |
| Infrastructure and economic services | 54.4         | 25.9         | 44.7         | 14.3         |
| Production                           | 26.0         | 12.4         | 32.7         | 10.5         |
| Crosscutting sectors                 | 5.9          | 2.8          | 14.0         | 4.5          |
| Total for specified sectors          | 205.3        | 97.7         | 302.3        | 96.6         |
| <b>Total</b>                         | <b>210.0</b> | <b>100.0</b> | <b>313.1</b> | <b>100.0</b> |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Organization for Economic Cooperation and Development (OECD) statistics system [online] <http://stats.oecd.org/>.

Two ministries are responsible for implementing the bulk of Korean cooperation. The Ministry of Foreign Affairs, acting through the Korea International Cooperation Agency (KOICA), executes Korea's grant policies. The Ministry of Strategy and Finance handles soft loans in the Economic Development Cooperation Fund (EDCF), through the Export-Import Bank of Korea (EximBank). Other ministries, agencies and municipalities are also involved in cooperation at a smaller scale.

Compared with KOICA, EDCF provided more cooperation to Latin America and the Caribbean and in a concentrated number of countries. KOICA issued grants to over 30 countries in Latin America and the Caribbean between 2007 and 2013, for a total of US\$ 288.4 million, representing 11.7% of total ODA processed through KOICA in the period. EDCF, meanwhile, made loans to just six countries in the region for a total amount of US\$ 402.1 million.

KOICA and EDCF have different sector priorities. For KOICA, education received the largest portion of assistance to Latin America and the Caribbean, averaging 32% of the total in 2012 and 2013. Other priority sectors during those years were industry and energy (21%), health (21%), public administration (15%) and agriculture, forestry and

fisheries (11%). Meanwhile, EDCF projects have been more focused on infrastructure and economic services. Projects related to water and sanitation are the most common, followed by public administration, education and energy.

In addition to ODA, the Republic of Korea also promotes knowledge-sharing as an effective and innovative tool for encouraging development in other emerging countries. The Ministry of Strategy and Finance implemented the Knowledge Sharing Program (KSP) in 2004, an initiative that offers detailed analysis of the Korean experience, national policy consultation and training opportunities. KSP has various member institutions. First, the Korea Development Institute (KDI) is in charge of bilateral policy consultations. Second, the Export-Import Bank of Korea (EximBank) handles consultations with international organizations. Third, the KDI School arranges training based on the Korean experience. The following countries in the region have benefited from KSP: Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Jamaica, Mexico, Panama, Peru, the Plurinational State of Bolivia, Trinidad and Tobago and Uruguay.

In 2007, the Republic of Korea became a member State of the Economic Commission for Latin America and the Caribbean (ECLAC). In its new role, the Korean government has been developing an interesting programme of cooperation with ECLAC, with funding of US\$ 300,000 in 2014. Cooperation has focused on areas such as diagnostics and proposals to enhance the quality of reciprocal trade, Korean FDI in the region, public-private partnerships for export development, logistics and infrastructure linkages, SME innovation and development planning and public administration (Rosales, 2012). In 2012, the Ministry of Foreign Affairs and Trade of the Republic of Korea signed a new framework agreement with ECLAC to expand and consolidate cooperation between the two parties. Under this agreement, the parties agree to promote the exchange of information and experts, organize joint research projects and promote seminars and conferences on issues of shared interest.

In the framework of its cooperation programme with Korea, ECLAC had the opportunity to collaborate with Korea's Ministry of Foreign Affairs to formulate a strategic vision for the Forum for East Asia-Latin America Cooperation (FEALAC) Vision Group in 2011 and 2012. ECLAC also prepared documents for the FEALAC ministerial meetings held in

Buenos Aires (2011) and Bali, Indonesia (2013). In 2011, an interesting dialogue was hosted in Seoul with Korean authorities, entrepreneurs and scholars on development experiences in Korea and in Latin America and the Caribbean. The participants discussed issues related to macroeconomics, trade and investment, energy, infrastructure and sustainable development, as well as potential cooperation opportunities in those areas. The Korea Institute for International Economic Policy (KIEP) published a book compiling the presentations made at that seminar (KIEP, 2012). In addition, analysis has been conducted on the characteristics of Korean and Asian investment in the region in the agro-industrial, steel, automotive, electronics, textiles and services sectors. The potential for SMEs to participate in value chains linking Latin America and Asia has also been studied, including several case studies on the linkages between multinational firms and their suppliers (Brazil, Chile, Guatemala, Argentina and Korea). In 2012, ECLAC translated into Spanish and published the book *The Korean Economy: Six Decades of Growth and Development*, originally published in English by the Korea Development Institute (KDI) in 2010.

The Republic of Korea is also partnering in cooperation with the Inter-American Development Bank (IDB) and the Development Bank of Latin America (CAF) on issues of road safety, rural development and SME promotion.



## VI. Final reflections

The Republic of Korea's successful experience with social and economic development offers plentiful lessons for Latin America and the Caribbean, as well as for the developing world in general. In just six decades, the Republic of Korea transformed itself. It went from being one of the poorest countries on the planet at the start of the 1960s to a high-income economy, an industrial, export and scientific power and a society with high levels of social cohesion and educational achievement. This is the first lesson of the Korean case: transformation from a low-income country to an advanced economy is possible in a relatively short period of time.

A second lesson to be drawn from Korea's experience is that regardless of swings in the international economic climate, convergence towards advanced economies depends crucially on the quality and coherence of the public policies of each individual country. This, in turn, assumes the existence of a medium and longterm strategic vision, in which the State is called to play a fundamental role in formulating and executing. A third lesson, closely related to the previous, is the importance of pragmatism in the design and implementation of public policies, which includes leaving behind the dominant paradigms as necessary.

The Republic of Korea's experience with joining the global economy illustrates the two previous points. Korea exploited its early comparative advantage in labour-intensive manufactures (mainly textiles), but then ventured an out-of-the-box approach. Specifically, the country leveraged these existing advantages to create new production and export capacity in capital-intensive industries such as iron and steel, chemicals,

automobiles, shipping and electronics. It is now transitioning to become a green economy and a knowledge economy, ever attentive to signs of technological change and the resulting impact on the world economic order and international trade patterns. This transition is made possible by a long-term vision crafted by the State in close coordination with the productive sectors and a pragmatic blend of policies that has drawn on elements of import-substitution industrialization with an active and ongoing export orientation. Korea was on the front line in recognizing the importance of the export sector, not only as a mechanism for obtaining foreign currency but also for learning and creating new productive capacity.

At various points in Korea's post-war economic history, its authorities did not hesitate to depart from prevailing orthodoxies in economic development in order to seek a development model that was tuned to the country's specific circumstances. Naturally, mistakes were made during that process, but the overall result is undeniably very positive. Suffice it to say that while in the 1980s half of Korean exports were concentrated in low-technology manufactures (especially textiles), by 2013 around 80% of its exports were medium- or high-technology manufactures. The proportion of Korean firms that are dedicated to exports is three times the rate in Latin America and the Caribbean, and Korea has as many export firms as 14 Latin American countries combined.

Korean policies are a case study in building dynamic comparative advantages by gradually moving its production and exports up the scale of technological complexity. The country's success in this regard has been supported in part by spectacular educational achievement, as demonstrated by the results of standardized tests like the Program for International Student Assessment (PISA), on which Korean students consistently place among the top rankings in the world and well above the OECD average.<sup>26</sup> These achievements, combined with one of the highest rates of spending on research and development in the world as a percentage of GDP (over 3%), have enabled Korea to successfully join the knowledge economy. According to data from the World Intellectual Property Organization (WIPO), Korea, with 0.7% of the world's population, generated 8% of the world's patent requests in 2013.

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<sup>26</sup> For example, on the 2012 PISA test, Korean students scored, on average, 554 points in mathematics (fifth place), 536 points in reading (fifth place) and 538 points in science (seventh place). The OECD average for these tests was 494, 496 and 501 points, respectively.

Korea is now facing a new set of challenges. Along with its well-known problems related to natural resource scarcity, there are others, such as slower growth over the past several decades, heavy dependence on exports, the emergence of new competitors like China, an aging population, major disparities in productivity between the manufacturing sector and the services sector and a widening income gap.

In keeping with its tradition of constant reinvention, the Republic of Korea has sought to reorient its sources of growth in recent years to tackle the aforementioned challenges. For example, it has been a pioneer in adopting a green growth approach, seeking not only to reduce its reliance on fossil fuels and increase its energy efficiency but also to lead the way in global efforts to respond to climate change and growing natural resource scarcity. Through this strategy, Korea is specializing in knowledge and technologies that along with reducing climate change risks will provide new engines of growth in the decades ahead.

Along the same lines, Korean authorities have been fostering the creative economy, capitalizing on the country's strengths in education, science and innovation, with the latter as a basic pillar of the new economy and its social organization. In support of these objectives, free economic zones have been established as hubs of regional development and centres of technological excellence, built on world-class infrastructure and highly skilled human capital. All these efforts should pave the way for the emergence and development of new cutting-edge services. The convergence of these efforts towards a green economy and a creative economy, expressed in a government strategy and in specific plans and projects, likely represents the most compelling approach in today's global economy to tackling the challenges of climate change and adapting to the fast pace of technological change.

Trade between Latin America and the Caribbean and the Republic of Korea, though still modest, has been growing stronger in recent years. Korea's share of the region's exports rose from 1.1% in 2000 to 1.3% in 2013, while its share of the region's imports climbed from 1.8% to 3.1%. Meanwhile, the region's share of Korean exports grew from 5.7% to 6% over the same period, and its share of Korean imports rose from 2.9% to 3.5%. It should also be noted that Korea has signed free trade agreements with three countries in the region (Chile, Peru and Colombia).

Notwithstanding this growth, trade between the region and Korea suffers the same weaknesses affecting the region's trade with other Asian economies. Basically, regional exports to Korea are highly concentrated in a handful of products, countries and firms. In addition, trade is essentially interindustrial, characterized by commodity exports from the region and manufacturing imports from Korea. Although the region's countries have succeeded in increasing the number of products that they export to Korea, the volumes associated with these new exports are still insufficient to alter what is a rising trend of concentration among regional exports in a small number of commodities. Although this pattern reflects the abundance of such products in the region and their scarcity in Korea, the role of the high barriers to entry that Korea has erected against many agricultural and agro-industrial products in which the region's countries are internationally competitive cannot be overlooked. Meanwhile, trade in services between the region and Korea is still nascent and is highly concentrated in transport services.

The Republic of Korea has become an important source of foreign direct investment (FDI) for Latin America and the Caribbean. Korean FDI in the region, which exceeded Chinese FDI in the region until 2012, has primarily targeted the manufacturing sector, including the automotive, electronics, timber and textile and apparel industries. These investments are key to strengthening and eventually diversifying economic ties between the two parties. Indeed, the presence of Korean firms in a wide array of industries in the region offers myriad opportunities for transferring knowledge and technology and creating linkages with local suppliers.

Although the Republic of Korea is not one of the region's top trading partners, it is nonetheless a very attractive partner. It offers a market that is 50 million people strong with per capita income of over US\$ 28,000, making it an enticing export destination, especially for the food sector. In addition, the country is a key supplier of a number of manufactured goods for the region, including automobiles and electronics. Moreover, as discussed, there is potential to be reaped from the deployment of Korean direct investment in several countries and industries in region.

The major challenge for the region in terms of its trade with Korea (and with Asia generally) continues to be diversification of exports. Efforts in that direction should not overlook the region's wealth of natural resources or the scarcity of natural resources in many Asian countries.



These two factors, combined with the economic and demographic trajectory forecast for Asia, indicate that the region's basket of exports to Asia, on the whole, will continue to be dominated by natural resources in the decades ahead. Accordingly, the real challenge is to decommoditize natural resource exports by adding value and knowledge both at the point of extraction and during processing. This will mean capitalizing on regional know-how related to natural resources and promoting services exports related to agriculture, agro-industry, mining, energy, forestry and fisheries, all of which will require active policies to support cluster development, strengthening forward and backward linkages between natural resources, manufactures and services and bringing to bear engineering, knowledge and new technologies. This effort to introduce innovation, productivity and new technologies throughout the natural resource value chain will also set the stage for business and technology partnerships to form between Asian and Latin American firms, thereby improving the composition of the region's trade with Korea.

Free trade agreements undoubtedly improve conditions of access to the Korean market for the region's exports, especially in the most protected sectors, such as agriculture and agro-industry. However, these agreements, on their own, are not sufficient to generate the magnitude of export diversification that is needed. Their impact would be amplified if they were accompanied by active policies to spur productive diversification, the globalization of firms, learning, intra-industrial trade and a shift in exports from the intensive to the extensive margin. Thus, the region must move forward simultaneously on various other fronts that are adversely affecting its global competitiveness. Closing infrastructure, education and job training gaps, for example, is imperative. The Korean case offers numerous lessons in success in these areas, and interesting cooperation initiatives could be developed around these lessons.

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