

Korean-Latin American Relations: Trends and Prospects

Won-Ho Kim¹

Abstract

Korea's traditional foreign policy toward Latin America was based on anti-communist ideology, international emigration, and limited commercial relations. The end of Cold War and diplomatic diversification efforts on both parts of Korea and Latin America, however, have made the anti-communist ideology lose its strength as diplomatic resource to mobilize. Korea's economic growth and Latin American countries' economic difficulties until the early 1990s challenged the usefulness of the emigration policy. Finally, market-oriented economic reform and trade liberalization of Latin American countries have provided Korea with new opportunities to enhance its economic relations with Latin America, which experienced limited development because of Latin America's former import-substitution industrialization strategy. New directions in Korea's foreign policy toward Latin America focus on the economic cooperation in its broad sense. Emigration policy has been modified to promote national integration of Korean firms. Trade, investment, and financing and development assistances have been expanded for the best advantage of the sea-change in economic and business environments of Latin America. What will happen in the coming years? This paper argues that Korea will be forced to further restructure its traditional pillars in foreign policy toward Latin America, and that Latin American countries will become major strategic partners in Korea's new focus on globalization. At the same time, it argues that improved economic relations between Korea and Latin America can be attained only by serious efforts to enhance economic interdependence, and that they should be strategic in the sense that both parties should benefit from such relations while meeting their own economic challenges at the turn of this century. In the late 1990s, the Korean economy are facing a financial crisis. Major Latin American countries such as Brazil and Argentina are suffering from the impacts of the East Asian financial crisis. Thus, economic stability in both sides should be the major factor in determining Korea-Latin America economic relations in the medium term. Although the long-term prospects for Korea-Latin America trade and investment are bright, there are several challenges to deal with for a mature relationship in addition to the immediate task of economic stabilization.

¹) Dr Won-Ho Kim is currently the Chief Coordinator for Latin American Studies at Korea Institute for International Economic Policy (KIEP); Secretary General, Korean Council on Latin America and the Caribbean(KCLAC); and Director for International Exchange, Latin American Studies Association of Korea(LASAK).

INTRODUCTION

Although Latin American countries have been important players in the international political and economic arenas, Korea² has not shown a significant interest in the area for a long time. Korea established diplomatic relations with most countries of the region in the early 1960s, and now with all the Latin American countries with the exception of Cuba. However, Korea's international political concerns have traditionally been based on anti-North Korea policies and relations with its four influential neighbors: the Soviet Union (Russia), China, Japan and the United States. At the international economic level, Korea has been concerned with relations with its major trading partners, the United States and Japan. Latin American countries were remote players on the political front, and insignificant on the economic front. Furthermore, Latin America's economic crisis during the 1980s contributed to Korea's loss of interest in the region. Korean business people and government officials alike expressed serious doubts about Latin America's future.

Since the late 1980s, however, Latin America has consolidated its status as Korea's most dynamic trading partner region. Korea's exports to Latin America have increased quicker than to any other export market, and its economic relations with the region is being considered more and more important among business people and policymakers. This view was displayed by the Korean president's first-ever state visits to major countries in Latin America in September 1996: Argentina, Brazil, Chile, Peru and Guatemala. Interest was reconfirmed by the Korean president's second-ever visit to Mexico in June 1997. As Korea and Latin America adapt to the post-Cold War era and transformations in the international trading system, and now that Latin America's economy has recovered its dynamism, Korean and Latin American policy-makers are more interested in mutual cooperation than ever.

What will happen in the coming years? This paper argues that Korea will be forced to restructure its traditional pillars in foreign policy toward Latin America, and that Latin American countries will become major strategic partners in Korea's new focus on globalization. At the same time, it argues that improved economic relations between Korea and Latin America can be attained only by serious efforts to enhance economic interdependence, and that they should be strategic in the sense that both parties should

²) "Korea" refers to South Korea in this paper.

benefit from such relations while meeting their own economic challenges at the turn of this century. This concept of a strategic partnership between Korea and Latin America should be based on the reassessment of the current economic status. This paper reviews the policy context of Korea's traditional relations with Latin America, the trends of its trade and investment in the region, and then looks ahead to the turn of the century and tries to envision scenarios for the future.

TRADITIONAL RELATIONS OF KOREA WITH LATIN AMERICA

Until recently, Korea's foreign policy toward Latin America has been based on three pillars: anti-communist ideology, international emigration, and limited commercial relations.

First, anti-communist ideology dominated Korea's foreign policy during the Cold War era. At the end of the Japanese colonial rule (1910-1945), in the wake of World War II, the Korean peninsula was divided by the capitalist South and the communist North. Since establishing their governments in 1948, South and North Korea constantly confronted each other in the international arena over the issue of unification. Furthermore, the North Korea's invasion of South Korea in 1950 made security a priority concern in South Korea's foreign policy. Thus, South Korea's foreign policy has been oriented toward an anti-North Korea, anti-communist, and security-minded formula. South Korea continuously needed international support to secure its sociopolitical and territorial integrity against the northern threat, and also to gain international leverage over the north. The major diplomatic front where to fight against the north was the United Nations(UN). The imperative was quite simple: the more votes in favor, the better. For instance, both Koreas competed for exclusive admission to the UN. Thus, South Korea's foreign policy toward Latin America in this period was almost always linked to securing such support. Most Latin American countries were under rightist, anti-communist military rule, like South Korea, and backed South Korea's initiatives aimed at obtaining legitimacy and recognition by the international community.³

³) See Eduardo Jara R, "Korea and Latin America", speech at a luncheon meeting by the Korean Council on Foreign Relations, 9 Oct, 1996. Minister of Foreign Affairs Gong Ro-Myung appreciated "the valuable support" by Latin American countries on the question of South-North Korea relations, in his speech on "Korea-Latin America Relations in the Post Cold War Era" at the Argentine Council for International Relations (CARI) on August 30, 1995.

Second, Korean emigration began in the early twentieth century Yi Dynasty in response to economic difficulties and sociopolitical instability stirred by imperial clash of interests between Japan and Russia. In 1905, one of the first groups of overseas migrants headed for Mexico to work on sugar cane farms. Most of these first 1,033 Korean emigrants to Latin America settled in southern Mexico, while others later moved to Cuba. Roughly 20,000 descendants living in Mexico were not integrated into Korea's foreign policy framework because of political disconnection between the Yi Dynasty and the Republic of Korea caused by colonial rule. After the Korean War (1950-1953), some North Korean prisoners who did not want to be repatriated reportedly left for new settlements in Latin America. It was not until the Overseas Emigration Act (Act 1030) was instituted in 1962, however, that modern emigration to Latin America took full steam.

The principal destination designated under Act 1030 was Latin America. The Korean government intended to promote emigration to the region with the goals of "an efficient population policy, economic stability, and enhancement of national prestige."⁴ Korea in the early 1960s was plagued by sociopolitical and economic instability. In April 1960, students rioted to expel the dictatorial government, and in May 1961, a military coup d'etat took over what was now one of the poorest countries in the world. In 1963, the unemployment rate rose to 8.2 percent. Latin America, with its vast territory and rich natural resources, was attractive to contemporary Koreans, and the region welcomed more labor force for industrial development. The first emigrants under this scheme a group of 97 left for Brazil in December 1962. Since then, thousands of Koreans have emigrated to Brazil, Paraguay, Argentina, Peru, and Chile. An estimated 100 thousand Korean immigrants and their descendants are now living in Latin America.⁵ (See Table 1)

Third, Korea's export-led economy and Latin America's import-substitution economy fundamentally limited potential for their interdependency. Moreover, Korea's trade policy was traditionally linked to industrial countries. The United States and Japan have always dominated Korea's international economic relations since the early 1960s, when the

⁴) Article 1, Act 1030 (Overseas Emigration Act).

⁵) The official figure by the Ministry of Foreign Affairs is about 88 thousand, but this may not include the people who did not want to report their residence in the region to a Korean Embassy.

military government launched its first five-year economic development plan under the banner of establishing "an export-oriented country." Although Korea's exports steadily grew, the Latin American market did not contribute to Korea's export growth. Under the import-substitution industrialization strategy, Latin America produced similar manufactured goods in light industries to Korea, but Korea did not reach the industrial level at which it could export industrial capital that Latin America needed.

In the 1960s, Korea imported various mineral ores from Brazil, Chile and other Latin American countries, while exporting limited consumption goods to Latin America. During this period, the trade balance was always extremely favorable to Latin America. When Korea's total exports first exceeded US\$100 million in 1964, reaching US\$119 million, exports to Latin America amounted to only US\$300 thousand and accounted for a meager 0.25 percent of total exports. The same year, Korea's imports from the region amounted to US\$1,573 million, accounting for 0.39 percent of total imports. Since the 1970s, as Korea's economy grew rapidly while developing export market diversification, Korea's exports to the region began to increase and the trade balance condition turned positive in 1977. At the same time, Korea became more and more interested in Latin America's abundant natural resources to support its nascent heavy and petrochemical industries. Hence, the first-stage complementary relationship between the two parties. As Korea diversified overseas markets, it began to import oil from Ecuador and Mexico in 1982, contributing to the doubling of the relative importance of imports from Latin America out of Korea's total imports to 4.13 percent. (See Table 2)

<Table 1> Ethnic Koreans in Latin America

Country	Immigrants		Sojourners		Total	
	1992	1995	1992	1995	1992	1995
Total	88,327	84,963	4,537	5,071	92,864	90,034
Brazil	43,593	37,952	176	179	43,769	38,131
Argentina	30,100	32,000	375	387	30,475	32,387
Paraguay	9,580	8,125	119	106	9,699	9,231
Guatemala	180	50	970	1,840	1,150	1,890
Chile	1,167	1,346	125	113	1,292	1,459
Peru	295	1,077	34	72	329	1,149
Mexico	449	641	343	303	792	944
Ecuador	881	855	100	50	981	905
Bolivia	1,009	800	195	72	1,204	874
Honduras	85	91	200	513	285	604
Dominica	111	213	592	362	703	575
Colombia	264	274	157	139	421	413
Panama	70	79	307	304	377	383
Venezuela	237	210	86	104	323	314
Costa Rica	167	165	184	143	351	308
El Salvador	4	7	66	181	70	188
Jamaica	5	4	155	128	160	132
Uruguay	53	48	13	6	66	54
Guyana	18	17	27	27	45	44
Nicaragua	-	-	-	29	-	29
St. Lucia	-	-	10	9	10	9
Trinidad-	6	6	9	2	15	8

Source: Ministry of Foreign Affairs, 1996.

<Table 2> Korea's Trade with Latin America

(Unit: US\$million, %)

	Exports			Imports			Total Trade			Balance
	Total (A)	To Latin America (B)	(B/A)	Total (C)	From Latin America (D)	(D/C)	(A+C)	(B+D)	(B+D) /(A+C)	(B-D)
1964	119	0.3 (-)	0.3	404	1.5 (-)	0.4	523	2.3 (-)	0.4	-1.2
1965	175	0.4 (33.3)	0.2	463	2.2 (46.7)	0.5	638	2.4 (4.3)	0.4	-1.8
1966	250	0.9(125.0)	0.4	716	4.2 (90.9)	0.6	966	4.9(104.2)	0.5	-3.3
1967	320	0.8(-11.1)	0.3	996	4.2 (0)	0.4	1,316	4.8 (-2.0)	0.4	-3.4
1968	445	1.5 (87.5)	0.3	1,463	3.5(-16.7)	0.2	1,908	5.0 (4.2)	0.3	-2.0
1969	623	5.3(253.3)	0.9	1,824	7.5(114.3)	0.4	2,447	13(160.0)	0.5	-2.2
1970	835	4.2(-20.8)	0.5	1,984	6.6(-12.0)	0.3	2,819	11(-15.4)	0.4	-2.4
1971	1,068	9.2(119.0)	0.9	2,394	13 (97.0)	0.5	3,462	22(100.0)	0.6	-3.8
1972	1,624	13 (41.3)	0.8	2,522	7(-46.2)	0.3	4,146	20 (-9.1)	0.5	6
1973	3,225	54(315.4)	1.7	4,240	14(100.0)	0.3	7,465	68(240.0)	0.9	40
1974	4,460	85 (57.4)	1.9	6,852	144(928.6)	2.1	11,312	229(236.8)	2.0	-59
1975	5,081	49(-42.4)	1.0	7,274	51(-64.6)	0.7	12,355	100(-56.3)	0.8	-2
1976	7,715	62 (26.5)	0.8	8,774	164(221.6)	1.9	16,489	226(126.0)	1.4	-102
1977	10,046	177(185.5)	1.8	10,811	89(-45.7)	0.8	20,857	266 (17.7)	1.3	88
1978	12,711	243 (37.3)	1.9	14,972	172 (93.3)	1.1	27,683	415 (56.0)	1.5	71
1979	15,055	355 (46.1)	2.4	20,339	296 (72.1)	1.5	25,394	651 (56.9)	2.6	59
1980	17,505	492 (38.6)	2.8	22,292	369 (24.7)	1.7	39,797	861 (32.3)	2.2	123
1981	21,254	808 (64.2)	3.8	26,131	724 (96.2)	2.8	47,385	1,532 (77.9)	3.2	84
1982	21,853	740 (-8.4)	3.4	24,251	1,001 (38.3)	4.1	46,104	1,741 (13.6)	3.8	-261
1983	24,445	509(-31.2)	2.1	26,192	984 (-1.7)	3.8	50,637	1,493(-14.2)	2.9	-475
1984	29,245	1,079(112.0)	3.7	30,631	1,419 (44.2)	4.6	59,876	2,498 (67.3)	4.2	-340
1985	30,283	1,078 (-0.1)	3.6	31,136	1,859 (31.0)	6.0	61,419	2,937 (17.6)	4.8	-781
1986	34,714	906(-16.0)	2.6	31,584	1,258(-32.3)	4.0	66,298	2,164(-26.3)	3.3	-352
1987	47,281	1,224 (35.1)	2.6	41,020	1,184 (-5.9)	2.9	88,301	2,408 (11.3)	2.7	40
1988	60,696	1,597 (30.5)	2.6	51,811	1,444 (22.0)	2.8	112,507	3,041 (26.3)	2.7	153
1989	62,377	1,738 (8.8)	2.8	61,465	1,544 (6.9)	2.5	123,842	3,282 (7.9)	2.7	194
1990	65,016	2,102 (21.0)	3.2	69,844	1,726 (11.8)	2.5	134,860	3,828 (16.6)	2.8	376
1991	71,870	2,860 (36.1)	4.0	81,525	2,296 (33.0)	2.8	153,395	5,156 (34.7)	3.4	564
1992	76,632	4,962 (73.5)	6.5	81,775	2,521 (9.8)	3.1	158,407	7,483 (45.1)	4.7	2,441
1993	82,236	4,922 (-0.8)	6.0	83,800	2,384 (-5.4)	2.8	166,036	7,306 (-2.4)	4.4	2,538
1994	96,013	6,430 (30.6)	6.7	102,348	3,280 (37.6)	3.2	198,361	9,710 (32.9)	4.9	3,150
1995	125,058	7,370 (14.6)	5.9	135,119	3,964 (20.9)	2.9	260,177	11,334 (16.7)	4.4	3,406
1996	129,715	8,961 (21.6)	6.0	150,339	4,392 (10.8)	2.9	280,054	13,353 (17.8)	4.8	4,569
1997(Oct)	112,249	7,085 (-2.7)	6.3	122,685	3,281(-10.8)	2.7	234,934	10,366 (-5.4)	4.4	3,804

* Variations in parentheses.

Source: Korea Trade Information Service (KOTIS).

However, growth of Korea's exports to the region was very slow as a result of severe restrictions by Latin American governments on all imports in response to the external debt crisis. In this context, Korea again regarded the Latin American market as an alternative export market for finished consumer goods when the situations in major export markets such as the US, Japan and Europe were aggravated. In short, Korea's export markets were usually industrial countries, and thus Korea had never watched closely or paid special attention to the Latin American market.

CHALLENGES TO THE TRADITIONAL PILLARS

In the 1990s, the political and economic situations around the world posed important challenges to the traditional pillars of Korea's foreign policy toward Latin America, and Korea-Latin America relations expanded rapidly from the political field into the economic realm.⁶

First, the end of the Cold War challenged the ideological basis of Korea-Latin America relations. At the end of the Cold War, Korea and Latin America vigorously diversified diplomatic relations beyond the Iron Curtain, mobilizing diplomatic resources as anti-communist ideology faded. Korea established diplomatic relations with the Soviet Union in 1990; and since the fall of the Soviet Union, Korea has developed cordial and cooperative relations with Russia. In 1992, Korea turned its back to Taiwan, once one of Korea's best anti-communist allies, and established diplomatic relations with China, North Korea's closest ally during the Cold War.⁷ Latin America's new democracies also sought their own way independent of U.S. foreign policy and diversified their foreign relations. The end of the Cold War and the two Koreas' simultaneous admission to the UN in 1991 meant that the Korean question was to be confined to the North Pacific basin. At the same time, Korea diversified economic relations from overdependence on the

⁶) See Won-Ho Kim, "Korea's Foreign Policy Toward Latin America: Current Problems and Future Directions", *Pusan International Forum*, v.18, Spring-Summer, 1996, pp. 91-116.

⁷) Since then, Korea-China bilateral relations have expanded rapidly in all areas to the extent that the two-way trade reached the level of US\$17 billion in 1995. See *Overseas Information Service*, *op. cit.*, pp. 58-59.

industrial world to increased trade and investment in the developing world. At the regional level, Korea became active in the Asia-Pacific Economic Cooperation (APEC).

Second, Korea's economic growth and Latin America's economic difficulties challenged the usefulness of the emigration policy. The initial aims of Act 1030 were not met in practice. Due to the rapid economic growth and improved industrial structure achieved over the past three decades, the problem of unemployment has virtually been overcome in Korea.⁸ In fact, manpower shortages exist in some industrial sectors shirked by Koreans,⁹ and partially replenished by Korean-Chinese and Southeast Asians. Once-high population growth has been curbed remarkably in recent years due to successful family planning campaigns and shifting attitudes, dropping to 0.88 percent in 1996.¹⁰ Korean per capita, meanwhile, rose to US\$10,076 in 1995.

One of the initial purpose of emigration policy was to strengthen international relations through overseas settlements, which would develop and secure local natural resources. Yet, unlike ethnic Japanese in Brazil¹¹ and other Latin American countries, ethnic Korean latecomers did not receive sufficient support from their motherland, and had to stand on their own feet. They found their way in doing business mostly in trade as well as in the textile and garment industry, independent from late investment projects by enterprises

⁸) The unemployment rate stood at 2.0 percent in 1995.

⁹) This kinds of jobs are called in Korea "3D": dirty, difficult, and dangerous.

¹⁰) A notable trend in the population structure is that it is getting older, making some policymakers encourage deliveries. See Overseas Information Service, *Facts about Korea*, Seoul, 1997, p. 11.

¹¹) The first long-term Japanese investment in Brazil, the Bratac Company for Brazil Colonization (Bratac Sociedade Colonizadora do Brasil), was established in 1929 by private capital from the 12 Japanese provinces; eight years later, it was transformed into a financial institution in order to provide funds for expanded activities of the Japanese-Brazilian community. Active Japanese trade and investment in Brazil after World War II was partly due to the presence of the large immigrant population. See Ernani T. Torres, "Brazil-Japan Relations: From Fever to Chill", in B. Stallings and G. Szekely, (eds.), *Japan, the United States, and Latin America*, Baltimore, Johns Hopkins University, 1993, pp. 126-128.

there, or settled in new North American habitats.¹² One important contribution of ethnic Koreans in Latin America, however, was to awaken interest in trade between Korea and Latin America.

Third, market-oriented economic reform and trade liberalization of Latin American countries since late 1980s have provided Korea with new opportunities to advance its economic relations with Latin America. In the 1990s, Korean exports to Latin America continuously increased due to consumer purchasing power. During the first half of the 1990s, despite the overall world economic slowdown, the average annual economic growth rate in Latin America remained more than 3.1 percent except for 1995, registering 0.2 percent because of Mexico's financial crisis and its impact region-wide. The region's once-widespread hyperinflation has been stabilized from 1,188.3 percent in 1990 to 18.3 percent in 1996. Especially, Brazil's anti-inflationary policy, laid out in the "Real Plan" in July 1994, has been successful in taming the spiraling inflationary rate of 2,497.6 percent in 1993 to 9.1 percent in 1996.¹³

Furthermore, Latin American governments strive to improve financial structure, by privatizing state-owned companies and enhancing their credibility, and to promote the private sector's initiative in economic development through deregulation. Latin American governments are aggressively pursuing a regional-integration strategy as shown in the newly formed MERCOSUR, strengthened CACM, ANCOM, and CARICOM, and negotiations for FTAA.

Korea must now reevaluate the fundamentals of its relations with Latin America; its traditional pillars such as anti-communist ideology, international emigration, and limited commercial relations no longer serve the dynamic political and economic environments surrounding Korea and Latin America. As more practical issues such as trade, investment, the environment, and crime dominate international relations, especially since the end of the Cold War, the agenda for Korean-Latin American relations should begin to focus on economic cooperation in its broad sense.

¹²) See Won-Ho Kim, *ibid.*

¹³) See ECLAC, *Economic Survey of Latin America and the Caribbean 1996-1997*, Santiago, 1997.

STRENGTHENED ECONOMIC RELATIONS

Strengthened Korea-Latin America economic relations can be observed in trade, investment, and development cooperation.

Trade relations have advanced remarkably in the 1990s. Among Korean exports to the region, cars and electronic goods were the major factors in expanding export volume. The growth rate of Korean exports to Latin America was the highest compared with those to other regions: 199 percent during 1991-1994, compared with 96 percent to Asia (although the difference in volume is significant: US\$6.5 billion to Latin America; US\$31.8 billion to Asia in 1994). Korea saw a trade surplus of US\$4.5 billion with Latin America in 1996, when its total trade deficit reached US\$20.6 billion. This rapid growth of exports can be attributed to surging demand and better standards in Latin America and to an aggressive Korean effort to seek overseas markets and enhance competitiveness. In 1996, Korea's trade volume with Latin America amounted to US\$13.4 billion, accounting for 4.8 percent of Korea's total trade, the highest proportion among Asian countries. (See Table 3 and Table 4)¹⁴ Exports to Latin America accounted for 6.0 percent of total Korean exports in 1996, and Korea belongs to the list of top ten trading partners to most Latin American countries. This means that the Latin American market is more significant to the Korean economy than ever, and *vice versa*. Latin America should no longer serve as a mere consumer market of finished products or an alternative export market needed to efficiently manage industrial markets.

An important characteristic of trade relations is that Latin American exports are still heavily skewed towards primary products or low value-added primary processed goods such as petroleum, iron ore, copper, steel, aluminium, pulp, and agricultural products. On the other hand, Korean exports to Latin America are mainly manufactured goods, among others, electronic goods including color TVs, electric goods, steel, and automobiles. This has caused some protests on the part of Latin American countries over trade imbalances. Recently, exports of electronic parts for assembly to Mexico, Brazil and Argentina have risen in accordance with increased investment. Exports of raw and subsidiary materials including textiles for the sewing industry are on the rise although Korean exports of high value-added products like capital goods, industrial machinery, installations, and chemical goods still do not figure prominently in trade with Latin America. Therefore, Korea-Latin America trade has shown an "inter-industry trading" pattern rather than an "intra-industry cooperation" pattern.¹⁵

¹⁴) Discrepancies between Korea's trade data in Table 2, and Tables 3 and 4 are the result of different sources.

¹⁵) See Young Kon Kim, "The Economic Relationship between Korea and Latin

<Table 3> Asia's Trade with Latin America

(Unit: US\$million, %)

		1990	1991	1992	1993	1994	1995
Korea	Total trade	134,885	152,749	156,184	167,873	201,635	260,630
	w/LatAm	3,780	4,454	5,176	9,351	9,832	9,342
	LatAm/total(%)	2.8	2.9	3.3	5.6	4.8	3.6
Japan	Total trade	522,953	551,457	572,673	603,294	669,327	778,940
	w/LatAm	19,067	21,724	23,412	24,044	26,662	30,046
	LatAm/total(%)	3.6	3.9	4.1	4.0	4.0	3.9
China	Total trade	116,791	135,759	167,335	195,163	236,458	280,762
	w/LatAm	2,182	2,357	2,984	3,728	4,422	5,738
	LatAm/total(%)	1.9	1.7	1.8	1.9	1.9	2.0
Hong Kong	Total trade	164,625	198,852	242,962	273,601	313,168	366,309
	w/LatAm	2,157	3,042	3,885	4,421	5,221	6,133
	LatAm/total(%)	1.3	1.5	1.6	1.6	1.7	1.7
Singapore	Total trade	113,707	125,490	135,656	159,464	196,542	242,584
	w/LatAm	1,431	1,805	1,877	2,159	2,257	2,734
	LatAm/total(%)	1.3	1.4	1.4	1.4	1.1	1.1
Thailand	Total trade	56,480	66,736	73,158	83,176	98,514	129,378
	w/LatAm	962	1,041	1,075	1,005	946	1,431
	LatAm/total(%)	1.7	1.6	1.5	1.2	1.0	1.1
Malaysia	Total trade	58,590	71,154	80,636	92,632	118,308	146,212
	w/LatAm	719	884	982	1,193	1,517	1,830
	LatAm/total(%)	1.2	1.2	1.2	1.3	1.3	1.3

Sources: International Monetary Fund, *Direction Of Trade Statistics Yearbook*, 1994; *Direction Of Trade Statistics Quarterly*, June 1996.

America: Past, Present and Future Prospects", in Soo-Keun Kim et al.(eds.) *Comparison of Development Experiences: Latin America and Korea*, Ajou University Press, 1993, pp. 239-240.

<Table 4> Asia's Exports to Latin America

(Unit: US\$ million, %)

		1990	1991	1992	1993	1994	1995
Korea	total exports	65,027	71,241	74,781	83,535	98,319	124,796
	to LatAm	2,026	2,184	3,057	6,426	6,541	6,102
	LatAm/total(%)	3.1	3.0	4.1	7.7	6.7	4.9
Japan	total exports	287,664	314,845	339,864	362,583	395,203	443,004
	to LatAm	9,658	12,221	15,052	15,963	17,574	18,610
	LatAm/total(%)	3.4	3.9	4.4	4.4	4.4	4.2
China	total exports	62,876	71,940	85,492	91,611	120,825	148,755
	to LatAm	785	568	875	1,594	2,295	2,986
	LatAm/total(%)	1.2	0.8	1.0	1.7	1.9	2.0
Hong Kong	total exports	82,143	98,578	119,532	135,005	151,396	173,546
	to LatAm	1,538	2,286	3,051	3,554	4,300	4,920
	LatAm/total(%)	1.9	2.3	2.6	2.6	2.8	2.8
Singapore	total exports	52,753	59,219	63,475	74,071	92,259	118,185
	to LatAm	707	996	1,089	1,357	1,444	1,621
	LatAm/total(%)	1.3	1.7	1.7	1.8	1.6	1.4
Thailand	total exports	23,072	28,811	32,475	37,111	44,886	55,876
	to LatAm	298	377	405	402	340	502
	LatAm/total(%)	1.3	1.3	1.2	1.1	0.8	0.9
Malaysia	total exports	29,420	34,405	40,709	47,080	58,751	71,024
	to LatAm	201	373	460	660	916	1,066
	LatAm/total(%)	0.7	1.1	1.1	1.4	1.6	1.5

Sources: International Monetary Fund, *Direction Of Trade Statistics Yearbook*, 1994; *Direction Of Trade Statistics Quarterly*, 1996. 6.

More significantly, Korea-Latin America economic relations have improved with aggressive direct investment being realized recently. Compared with major world investors, Korea lags behind in terms of overseas direct investment. Major countries invested massively in Latin America from the 1950s through the 1970s because local governments pursued policies protecting domestic markets and encouraging greater involvement by foreign companies. Korea could not afford overseas direct investment until the early 1980s, when Latin America came into this scene as bases aimed at export opportunities toward North American markets. Taking advantage of the U.S. Caribbean Basin Initiative (CBI), Korea's small and medium-sized companies invested heavily in Central America and the Caribbean in the 1980s. From the early 1990s to the present, Mexico has been spotlighted through NAFTA opportunities. Many Korean conglomerates including the electronic Big-3 (LG, Samsung, and Daewoo) began to invest huge amounts of capital in northern and central Mexico.

In the mid-1990s, Koreans have been investing on a mammoth scale in South America, particularly in Brazil. Korea's investment in Brazil is targeted at the local consumers of 160 million to produce cars and electronics. As of December 1993, there were only four cases of Korean direct investment in Brazil, amounting to US\$2.2 million. By the end of 1995, these figures rose to 10 cases worth US\$198.3 million. Korean investment in Brazil will increase even more as many Korean conglomerates have drafted plans for new business ties with Brazil. Aggregate Korean investment in Brazil is expected to reach US\$2.5-3 billion within several years.

Korea's investment in Latin America is more active than any other Asian country in the 1990s. This boom is a result of several factors. First, Latin America is considered a ripe investment opportunity for Korean companies, which expect Latin America's economy to maintain the stability and steady growth that it has been showing in recent years. Moreover, there is a welcoming attitude toward foreign investors in Latin American communities amid their market-oriented economic reforms which include privatization, deregulation and liberalization. Second, subregional economic integration schemes like MERCOSUR are now considered more dynamic than ever. As MERCOSUR was launched as a customs union in January 1995, and many foreign enterprises rushed into Brazil, Korean conglomerates felt the serious need to invest. Furthermore, Brazil's import tariff hikes in early 1995 to correct the trade deficit favored local investors, particularly in car production. Brazil also had a slight comparative advantage as interest in Mexico decreased due to the peso crisis beginning in December 1994. More importantly, Korea's globalization strategy drove its enterprises to new frontiers in industrial production.

Korea launched its globalization strategy as a new development model for an economic soft-landing in the 1990s. Until the early 1990s, Korea had sustained an average annual growth rate of nine percent. However, Korea's economy has begun to slow down recently. Its economic difficulties were evident in the high trade deficit of US\$15.2 billion in 1996 and the current account deficit of US\$23.7 billion. In other words, the external sector's imbalances had a large negative effect on Korea's economy since Korea's dynamism is greatly dependent on trade. Some analyses have shown that the surging trade deficit was mainly attributed to the sharp price fall in major export goods like semi-conductors, the steady weakening of the Japanese yen, and pervasive labor strikes. Yet, structurally, the fundamental problem of Korea's economy came from the loss of its international competitiveness: high costs¹⁶ and low efficiency.¹⁷ Accelerating these structural problems is the rapid change of the global trade regime and the internationalization of Korea's economy. Since the conclusion of the Uruguay Round of the GATT negotiations, Korea has been facing fierce international market competition as

¹⁶) In particular, wages have risen much faster in Korea compared to other competing nations. During the past ten years, the annual wage increase was 19.7 percent in Korea, while wages in Taiwan and Hong Kong rose 14.5 percent and 10.8 percent, respectively. Manufacturers' shipping and handling costs in 1994 accounted for 15.7 percent of GDP while the figures for the US and Japan were only 10.5 percent and 8.8 percent, respectively. See LG Economic Research Institute, "Korean Economy Overview", 29 November, 1996.

¹⁷) Basically, the inefficient financial system added to Korea's loss of international competitiveness in the financially competitive world. The problem of inefficiency was exposed plainly in early 1997, when one of the middle-class conglomerates, Hanbo, failed under the weight of massive debts. Sammi followed, and along with Jinro, Dainong and Kia, the group which includes Korea's third biggest automaker, were later on life support. Poisoned with poor financial structure, most Korean conglomerates could survive in the past due to extra-market conditions including monopolization, government-instigated financing, unreasonable expansion far beyond their means to pay, and collusive practices with politicians. As of July 1997, total failed loans extended to conglomerates reached almost 22.8 trillion won, or USD\$23.6 billion. See Hyundai Research Institute, "Continued Bankruptcies and Worries about a Banking Crisis", *VIP Economic Report*, Sept, 1997; Sang-moon Hahm, "Strengthening the Financial Industry's Competitiveness", *The Korea Economic Weekly*, 29 Sept, 1997.

well as issues related to the trend of forming economic blocs. This is why serious analysts and policy makers argued for economic restructuring and globalization of production to increase international competitiveness.¹⁸

Consequently, the streamlining of organizations and the geographic reallocation of production facilities are taking place as part of Korean businesses' efforts to globalize production. Korean enterprises have been promoting globalization strategy in order to take advantage of the new pattern of international division of labor. This pattern has gained momentum from such fundamental global changes as the end of the Cold War and the advent of the information era. "Global management" has become the new motto for Korean corporate executives. Since many industries are no longer price competitive, overseas direct investment has become a practical alternative to domestic production. In this context, Korean corporations stepping up investment in Western Europe, Eastern Europe and Latin America. In particular, Latin America is considered one of the last frontiers left to Korean enterprises.

In other words, the implications of Korea's globalization for Korean-Latin American economic relations are bound to be enormous. What makes Korea's globalization strategy in Latin America more significant is the recent trend towards free trade and economic integration among Latin American countries. This causing diversion of trade in favor of intra-regional trade, forcing Korean enterprises to adapt a more sophisticated approach to the region.

Moreover, Latin America strategically needs more Korean capital. Latin America's restructuring economies' prime economic objective is to attract foreign investment. Direct foreign investment will help to accelerate the pace of economic modernization and to raise levels of domestic productivity. As Latin American nations lack accumulated capital, they have to depend heavily on foreign capital, including loans from developed nations such as the U.S., Japan and Europe, international financial institutions like the IBRD and the IDB, and commercial banks in the case of national or large-scale projects. The more investment that Latin America can attract from the Asia-Pacific region, the closer the

¹⁸) Korea's decision to join the Organization for Economic Cooperation and Development (OECD) in 1993, and the conclusion of accession negotiations in 1996 were steps in this direction. These were decisions that will help Korea face the changing global business environment, further liberalize and deregulate the economy, and give initiative and responsibility to the private sector instead of relying on government protection and regulation.

region will be to attaining its long-term objective of diversifying trade and investment. Korean investment in Latin America has been useful because it is mainly direct investment in productive sectors. In this context, Korean industries may further invest their capital and technology successfully to search for necessary primary resources, new industrial partners and new markets. Korea's globalization strategy can be tested by its successful participation in the new economic order in Latin America.

Korea has two vehicles for carrying out the nation's official development assistance (ODA) policy: the Economic Development Cooperation Fund (EDCF) and the Korea International Cooperation Agency (KOICA). The EDCF was established in 1987 to provide bilateral loans to developing countries thanks to economic growth and the surplus in Korea's balance of payments. For the most part, Asian and African countries have benefited from the EDCF. Ecuador was the first Latin American country to be approved, receiving a loan of US\$15 million in May 1995 for the Rural Telecommunication Ecuador-Korea (TREK) Project by Empresa Estatal de Telecomunicaciones (EMETEL).¹⁹ Paraguay and some Central American countries were in the process of being approved in 1997. The EDCF will be instrumental in assisting new industrial cooperation between Korea and Latin America.

KOICA was established in April 1991 to execute Korea's major international cooperation programs by incorporating diverse operations and funds such as provision of equipment, project cooperation, development studies, technical training, and dispatch of experts, medical doctors, and Korean Overseas Volunteers (KOVs). In principal, KOICA's grants support basic human needs including health care and education. Total aid to Latin America in 1996 amounted to US\$4.2 million, or 10.3 percent of KOICA's total aid. Major beneficiaries include Peru, Paraguay, Bolivia, Costa Rica, Dominican Republic, Guatemala, El Salvador, and Ecuador.²⁰

INSTITUTIONAL COOPERATION

Given the traditionally low profile of Latin America in the Korean framework of

¹⁹) Ministry of Finance and Economy and the Export-Import Bank of Korea, *EDCF Annual Report 1996*, pp. 55-56.

²⁰) See Korea International Cooperation Agency, *Annual Report 1995*.

international relations and *vice versa*, momentum for strengthened economic relations can only be maintained if they are institutionalized and pursued seriously by governments and the private sector. An institutional approach promises intensification of mutual understanding, mutual confidence and joint efforts for further relations. While the role of the private sectors should be to identify areas of cooperation and opportunities, that of the governments must be to formulate a cooperation model to facilitate deepening interdependent economic relations.

At the private sector level, there are eight bilateral economic cooperation committees being co-coordinated by the Korea Chamber of Commerce and Industry (KCCI) and their counterparts in Argentina, Bolivia, Brazil, Chile, Colombia, Jamaica, Mexico and Peru. They have convened to exchange and discuss views on the economic situations of Korea and each of the Latin American countries, as well as ways to enhance bilateral trade and investment. However, their presence tends to be very symbolic, and their activities are stereotyped: meetings have usually been held on the occasion of reciprocated presidential visits. They tend to be composed of people from larger companies. Such lack of dynamism may indicate that the private sector's institutional cooperation efforts are not efficient enough to enhance mutual business interests, or that the committees failed to identify agenda for mutual interests and implement their discussions through private and public channels. To supplement this shortcoming, the Korean Council on Latin America and the Caribbean (KCLAC) was created among business people and academics in late 1996.

The Korea Trade-Investment Promotion Agency (KOTRA), a governmental institution, is the most active institution in promoting trade and investment between Korea's small and medium-sized companies and their Latin American counterparts. It has made significant contributions to increased economic relations between Korea and Latin America. KOTRA offices at eleven major Latin America cities collect and disseminate relevant business information in the form of data bases. In early 1997, it expanded its Sao Paulo office into a regional headquarters.

Important developments in trade and investment have failed to stimulate inter-governmental cooperation efforts. Inter-governmental institutions such as bilateral joint commissions were not active until 1996, when the Korean president made first-ever state visits to Argentina, Brazil, Chile, Peru, and Guatemala,²¹ and decided to create a

²¹) The Korean president's recent visits to Latin America also served as a political forum to encourage the business community in Korea to approach the region strategically.

Latin American Bureau at the Ministry of Foreign Affairs. The Korean government's recent regional-level approach to Latin America may offset the sluggish results at the bilateral level. As Latin American countries pursue a regional approach to international issues, group level cooperation is also increasing in importance. Korea has fostered relationships with the Rio Group²², MERCOSUR,²³ and Central America.²⁴ This recent trend towards positive cooperation stems from a reevaluation of each other's markets: Korea comes to see Latin America as one of its most important partners in trade and investment as the Latin American countries emerge as newly-shaped economies driven by stabilization and market-oriented structural readjustment, while Korea has grown from one of the world's poorest countries into a leading industrial powerhouse in half a century.

FUTURE PROSPECTS AND NEW CHALLENGES

In the late 1990s, the Korean economy is facing a financial crisis. Major Latin American countries such as Brazil and Argentina are suffering from the impacts of the East Asian financial crisis. Thus, economic stability in both sides should be the major factor in determining Korea-Latin America economic relations in the medium term. Particularly, Korea's ability to achieve successful economic restructuring will affect trade and investment. A devalued won may contribute to some increase in export competitiveness, but imports and overseas investments will stagnate. Although the long-term prospects for Korea-Latin America trade and investment are bright,²⁵ there are

²²) The first ministerial meeting between Korea and the Rio Group Troika was held in September 1996, and the second in September 1997 both at the United Nations headquarters in New York.

²³) The first consultative meeting between Korea and MERCOSUR was held in Asuncion, Paraguay, in April 1997.

²⁴) The first consultative meeting between Korea and Central America was held in San Salvador in August 1997.

²⁵) As institutional support, the Korean government's former regulations on overseas investments, which were once restricted by tight foreign exchange control policies, have been eliminated to encourage business activities abroad. Notably, Korean companies are free to make outward investments beginning August 1, 1997 by simply reporting to their prime

several challenges to deal with for a mature relationship in addition to the immediate task of economic stabilization.

Above all, strategic cooperation between Korean entrepreneurs and local business communities will determine a ultimately successful relationship, given the comparative disadvantage of Korean investors in Latin America vis-a-vis more experienced Europeans and North Americans. The Korean business community with advanced technology and large capital hopes for cooperation with Latin American businesses in promoting globalization by increasing Korea's investment presence in the region for mutual benefits. Also, the new economic relationship between Korea and Latin America can be enhanced by cooperating to maximize trade and investment opportunities in the rest of Latin America. The Latin American entrepreneurs will be able to coordinate cooperation with the Korean business sector in this emerging region of the world. Accumulation of joint efforts and experiences in Latin America will open possibilities for further cooperation in other third-markets.

What is more important in the investment issue is the diversification of the investment fields. If any, agriculture should be a prospective area of bilateral cooperation. Korea is growing interested in overseas agriculture and livestock industries since Korea is currently opening wider its own agricultural sector. For this reason, bilateral cooperation in this sector will benefit both countries, as these products can be exported back to Korea. This formula can also be applied to other sectors such as mining and forestry.

If one can view the next stage of inter-regional cooperation above unilateral investment in Latin America, Korea will be a key actor. Latin America should expand its export markets and service markets to Asia, which is the most dynamic area of the world. For Latin American countries to advance in this region in the long run, cooperating with Korea is a must. Korea's unique geography provides it with significant advantages. Equidistant from Tokyo and Beijing, Korea is the East Asia's natural business center. Korea can serve as an ideal springboard for business ventures in the East Asian region where half of the world's growth will take place in the next 10 years. Korea is endowed with highly-skilled labor, facilities for retraining and adaptation, developed connections with other industries, and also cultural integration with its neighbors.²⁶

creditor banks. Under former regulations, companies had to win approval from the Central Bank for investment amounts greater than US\$50 million.

²⁶) For instance, Korea invested US\$1.91 billion in China between 1990 and 1995, or 46.3 percent of Korea's total investment in Asia during that

Finally, Korea's immediate policy agenda in inter-governmental cooperation includes gaining diplomatic support for admission to the Inter-American Development Bank (IDB), the key development bank in Latin America. The IDB is the only major financial institution in the world which Korea has yet to join. From the Latin American side, their immediate policy agenda may include participation in Pacific cooperation institutions for their economic objectives in expanding export markets and, in general, helping to diversify its trade patterns. Cooperation in PECC and APEC will be prosperous agenda in institutional cooperation in the near future.²⁷

period. Korea's investment in Vietnam, India and the former Soviet Union is also increasing rapidly.

²⁷) See Won-Ho Kim, *Policy Directions for Korea-Latin American Economic Relations*. Policy Research Series, KIEP, April, 1996.

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