



KOREA COMPASS

TRACING THE IMPACTS OF KOREA'S ENGAGEMENTS AROUND THE WORLD

KOREA'S ENGAGEMENT IN LATIN AMERICA

By Juan Felipe López, Aymes El Colegio de México

This paper builds on the assumption that Korean engagement with Latin American countries is related to resources endowment on both sides. This makes for an interdependent relationship in which Korea must overcome many obstacles in order to ensure its position as a credible partner for its Latin American counterparts.

In the early stages of state formation in the 1950s and 1960s, Korean foreign policy and diplomacy targeted political aims, principally in a search for recognition as the legitimate representative of the Korean state. By the late 1980s, as economic development reached an advanced stage and international recognition was not such a pressing issue, economic aspects were targeted as the core imperatives for national security.¹ More recently, political support against nuclear proliferation in the Korean Peninsula has reentered the agenda with regard to Latin America, although, ultimately, economic issues predominate. Within a globally driven foreign policy, trade, investment, and cooperation were the main areas to be emphasized in order to facilitate Korean access to resources, technology, and markets, as well as to improve efficiency in production processes. The Korean engagement with Latin America, thus, has to be understood within this context.

Although the current relationship between Korea and Latin America is principally economic, it mostly runs in one direction; the interest is not reciprocated on the Latin American side. Since securing resources is a prime concern, Korean foreign policy has been, at least comparatively speaking, more consciously designed than that of Latin American governments, who tend to be more reactive to the circumstances after the fact. This is reflected in the passivity of Latin American governments and firms towards East Asian countries in general, and Korea in particular. They do not have a clear and proactive foreign policy to engage effectively with East Asia, as Korea does for Latin America.

Trade and investment between Korea and Latin America have increased steadily in the last 20 years, even in higher rates than Latin American trade with traditional partners such as United States and Europe. Despite the more conscious engagement policy on the Korean side, trade and investment with Latin America are rather marginal in relative terms. For instance, Korea is the sixth-largest

trade partner of Mexico, with only 2%.² Furthermore, even though Mexico is said to be one of the main targets of Korean investment and cooperation, it is not even within the country's 15 or 20 top partners. Such relative marginality is present in most cases. This suggests that there is great potential, and perhaps plenty of opportunities, to develop stronger and more significant ties.

CURRENT STATUS OF KOREA-LATIN AMERICA ENGAGEMENT

Why is Korea engaged in Latin America and what are the country's economic interests in the region? Notwithstanding the assertion that Latin America is a strategic region for Korea, the globalization approach may not be as literal as it is claimed. Korean trade and investment is heavily concentrated in other countries in Asia (Kwak and Mortimore 2007).³ Despite the marginality for both sides, Korean and Latin American scholars, as well as some government officials normally consider that Korea and its firms aim for natural resources (mining, agricultural goods, and notably energy sources) and cheap labor for assembly work.

This is reflected in the terms of trade, in which most of the bigger Latin American economies import Korean manufactured goods and high-level technology products while exporting raw materials and light manufactured goods (Mesquita Moreira 2011). This structural asymmetry is due to the more advanced industrial development of Korea and a resource-rich, but less developed, industrial and technological base in Latin America. Some like to call this a relationship of complementarities.

In the specific case of Mexico (and perhaps Central America in general), the geographical factor plays an important role in the country's trade and investment patterns. Being the southern neighbor of the United States and having developed a fairly extensive infrastructure gives Mexico a particular edge over the other economies in attracting Korean firms. This is enhanced by the country's relatively open economy, which serves the intra-industry and intra-firm trade for re-exporting. Around 70% of Mexican imports from Korea are inputs that would be assembled into final goods for export to the U.S. That is why the Mexican

1. Especially in the 1990s, Korean foreign policy targeted Latin America in a quite comprehensive fashion. A number of trade, investment and cooperation agreements were signed with countries of this region, several projects for cultural and academic cooperation were launched and Korea has been actively involved in the main regional forums and organizations such as the IDB (as non-borrowing member country), OEA Organization of American States (as permanent observer), Rio Group, MERCOSUR, and so on. See Kim (1996).

2. That is behind United States (65%), China (6%), Japan (3%), Germany (2.8%), and Canada (2.7%), (Average 2007-2009 according to the Mexican Ministry of Economy, <http://www.economia-snci.gob.mx>)

3. See also www.kita.org

government does not consider the growing trade deficit between Korea and Mexico to be a problem.

It must be added that even the economic engagement has evolved from natural resource-seeking and market-seeking to efficiency-seeking internationalization (Kwak and Mortimore 2007), as wages and land prices in Korea became a drawback for global competition. Nevertheless, Latin America is not targeted for investment in high-tech activities, whether acquisition or development. Apparently, given the current circumstances described above, the lack of an effective economic policy for industrial upgrading, and the passivity of engagement from Latin American governments towards Korea, the exchange structure will remain the same for a long time. But can the Korean approach to international trade make a difference?

UNIQUENESS OF THE KOREAN APPROACH

Some Latin American countries are interested in partnering with Korea; most likely so inclined because of the China factor. In this regard, how is the Korean approach in Latin America unique?

Latin American countries could be interested in having Korea as a significant partner in three areas. First is as a source of capital and technology. There is an expectation that Korea could contribute to the creation of jobs and facilitate technological upgrading through foreign investment. A second one is the possibility to deem Korea as counterbalance to the presence of other major economic powers such as Japan and China, under the assumption that even while acknowledging Korean industrial superiority compared to Latin American counterparts, there are some commonalities with developing countries. This may influence the perception that Korea is a more trustworthy partner and has less of an inclination to dominate local economies. Thirdly, Korea can be seen as a diversifying force in economic and political relations (more realistically in South America as opposed to in Mexico).

Given this background, is the Korean approach in Latin America unique? In some respect we can say it is. Korea is a special case in international relations because it has become a middle power export-oriented country in a fairly short time. However, similar to Japan, this strength is often challenged by its small natural resources endowment. This has come together with a permanent or structural dependence on the external sector, which drives its foreign economic policy to engage actively with many countries and seek for mutual benefits (Dent 2002). In these conditions Korea is often the most vulnerable party because it has to compete with major powers and overcome the costs of doing business in Latin America where superficiality of business and political relationships are commonly found. Consequently, Korea is faced with challenges of establishing long-term partnerships with local business and politicians.

Therefore, Korean firms that invest abroad, especially in Latin America, do so in partnership with traditional suppliers,⁴ expanding their national business networks and leaving just a few chances to incorporate local business suppliers into the production and value chains.

Furthermore, to overcome the lack of knowledge, the Korean government and several of its agencies have been developing a worldwide policy of country branding through soft power means since the early 1990s. As a certain Mexican student discovered, in

some cases there can be a relationship between Korean cultural diplomacy and cooperation for development and the fostering of economic expansionism of trade and foreign direct investment (Tadeo 2011).

What makes the Korean case special—although not quite unique—is that its foreign policy is very much related to the economic necessity of guaranteeing the supply of raw and intermediate materials for its export sector, materials that can only be found abroad. In recent times, the challenge is even greater as it also is looking for cheaper labor to maintain its competitiveness in significant markets.

What is interesting and unique is that the Korean model replicates economic internationalization formulas similar to those of powers traditionally at the core of the international economic system. With some exceptions (i.e., India) most periphery economies have not been able to catch up and reduce the industrial and technological gaps. Korea is a unique case in the sense that without being a real empire, it is now in a position near to the so-called core and has several transnational firms dominating significant shares of world markets in high-tech and extremely competitive sectors, such as automobiles, information and communications technology, electronics, aerospace, steel, and so on.

Without having the stigma and suspicion of a great power, Korea can easily mingle with developing countries as a success story that is willing to contribute in helping others to raise their own levels of development. Being part of the OECD and the G20 places Korea in a pivotal position that helps to bridge the interests of the less developed economies with the rich countries. Cultural diplomacy and international cooperation policy also play strategic roles in enabling Korean objectives, helping countries to see Korea sympathetically and softening perceptions of the country abroad.

Lastly, it can also be argued that the role played by the Korean president in the engagement with Latin America is relevant and gives a significant push to the agenda of furthering economic and political relations that probably would be very limited, if it is maintained even at the ministerial level. Summit diplomacy certainly elevates the level of commitment, and may unlock some pending issues. However, given the lack of consciousness of Korean status in the world economy and the low profile that Korea maintains in some Latin American governments' list of priorities, such diplomatic moves do not guarantee success, as was the case of the 2010 visit of Lee Myung-bak to Mexico, during which he did not achieve any concrete result for his free trade agreement agenda. A drawback, as it probably was in this case, is that this opens his regime to accusations of failure and further criticism (Uscanga 2011).

Notwithstanding the uniqueness of the Korean approach to Latin America, the above can also suggest several challenges.

CHALLENGES OF KOREA'S APPROACH AND POLICY RECOMMENDATIONS

What are the distinct challenges that Korean investors face in Latin America? Given the very recent engagement between the two, there are many challenges ahead on the road to forging a fruitful relationship for both sides. For instance, Kwon et al. (2009) identified 16 specific challenges to Korea's overseas direct investment in Latin America. In a recent IDB report, Mesquita

4. Whether inviting them to establishing operations in these countries or directly through intra-firm trade.

Moreira and colleagues (2011), and earlier Kwak and Mortimore (2007) addressed many more. All can be summarized into six major challenges.

Challenge 1: China. The threat posed by China could be the main concern for the Korean government and its business prospects. China is currently aggressively expanding its economic influence as buyer and investor in sectors that directly compete with Korea's goals of gaining access. Korea can try to formulate strategic alliances with local producers and suppliers and commit to becoming a true partner by sharing knowledge and decision-making, thus forming a solid counterbalance to Chinese firms.

Challenge 2: What is Korea? Until very recently, there was little public attention on Korea in Latin America. This means that general social constructions about the country are heavily influenced by a few ideas filtered by international media and, to some extent, business marketing, academic programs and research. Sometimes, all we hear about Korea are stories of lawmakers brawling during votes on controversial bills in the National Assembly, or military actions by North Korea that seem to bring the peninsula to the brink of war. Common knowledge about Korea is very limited, and few are aware that it is home to big companies that play in the great leagues of information and communication technologies as well as heavy industry. Sadly enough, many elite politicians and businessmen in Latin America are among those who are yet to be educated about this. This environment does not necessarily help to build a positive view, and often biases perceptions towards bewilderment or indifference.

Challenge 3: Why should I care? Given the lack of knowledge described above, Korea must work to attract genuine curiosity and interest in a region where it is little known. This means realizing the importance of thinking more about a reality that is already around us. Few realize that many Korean products are part of our everyday life; only some can acknowledge the increasing influence of Korea in international affairs beyond its role in the Northeast Asian region. An ample and more explicit awareness campaign can be promoted and developed in many fronts; for example, expanding Korean studies programs and subjects in universities and more advertisement of the many cooperation projects from Korean agencies already in place. Cultural and artistic exchanges can also contribute to this aim, as people's "discovery" of Korean cultural richness is usually pleasant. This can make a big difference as business and relevant government officials realize the current status of economic engagement and its potential. This will thus be translated into deeper engagement with local interests.

Challenge 4: Conclude agreements and develop meaningful business partnerships. Is an FTA the only way to facilitate business and technological upgrading? Clearly not. Korea must seek alternative means to engage in order to succeed in its aims of gaining access to Latin American resources. Some countries are more willing to do so through FTAs, but others, such as Mexico, could be convinced in other ways. Alternative measures can include the establishment of legal instruments, R&D centers and inclusion of more local firms in the production value chain. Providing (low-skilled) jobs is not enough for a country that prides itself for supporting localization. Certainly, infrastructure, educational levels, and business practices in Latin America may not be all too attractive to engage with on a long-term basis, so the challenge lies with Latin Americans. That leads to the next challenge.

Challenge 5: Low technological level in Latin America. This factor is one of the driving forces that explains why Korean companies expand their own networks with little involvement from local suppliers (López Aymes and Salas-Porras, forthcoming). The knowledge economy that prevails in Korea is not present in Latin America, which Korea can do little about. Therefore, the type of internationalization that Korean firms can exercise in Latin America will stick to what is available: cheap labor and natural resources.



"PULL QUOTE HERE."

Challenge 6: Localization and incentives. Firms in a very competitive market, such as electronics and the automotive industry, face tremendous pressures for quality, efficiency, and quantities. It is thus understandable that their internationalization follows familiar organizational notions under similar working standards. Trust is a fundamental ingredient among firms' networks, which is difficult to find in Latin America. Another common concern is the high levels of labor rotation, in which complaints about lack of loyalty or low labor ethic are often heard. These are real problems not only for Korean firms but for most international and domestic firms. At the same time, however, how much incentive will a qualified worker or manager have to commit to a Korean company if he/she will invariably encounter strict limitations on aspirations to climb the organizational ladder? In other words, are Korean firms willing to localize management as well? The localization in terms of engaging local producers in the value chain is a problem that can be attenuated as business standards spread and as mutual understanding is fostered. Regarding rotation, perhaps the situation can be improved through a different set of incentives, other than salary.

POTENTIAL FOR JOINT U.S.-KOREA PARTNERSHIP IN LATIN AMERICA

What is the United States engagement in Latin America? The U.S. engagement in Latin America covers a wide range of mechanisms and many levels, from bilateral to multilateral, through civil society and through transnational corporations. Their purposes are also diverse, but mostly related to security, trade and investment. Needless to say, the U.S. is ubiquitous and deeply involved in most issues of the continent as its natural area of influence. Interestingly, the U.S. relationship with Latin American countries are permanently contested and are certainly set up under a very fragile balance where the military presence is rather exceptional. As Korean interests in Latin America are not bound to traditional (military) security issues other than economically related, the U.S.-Korea strategic alliance should take a different approach than that of East Asia. A common feature is, however, dealing with the Chinese booming presence and the consequences of becoming one of the main trade partners of Latin American countries. The current architecture that Korea and the U.S. have in place in Latin America is mostly of economic and political nature

and covers both multilateral and bilateral mechanisms. While the U.S. has spent decades in building its own influence, it was not until the mid-1990s that Korea joined the formal architecture and started to set its foot in the region (Kim 1996). This process has been consolidating in recent years. Korean membership to the IDB since 2005 has been particularly relevant, and its participation as an observer in the most relevant regional forums and cooperation mechanisms puts Korea in close and formal ties with the U.S. as both share the common interest to keep Latin American countries open to trade and investment. The bilateral framework is more of a work in progress, where free trade agreements seem to be the ultimate goal. As mentioned above, Korea should put more emphasis in engaging through cooperation agreements to improve sympathies and increase local technological capabilities to level the playing field.

The U.S. and Korea can work together in Latin America on other issues such as citizenship security, climate change, green growth, and sustainable development. This can be achieved through international forums (G20 and specialized multilateral organizations) and getting organized civil society to be more involved in decision-making. Certainly, it is hard to get comprehensive and sustainable agreements over issues such as climate change and green growth. Despite their popularity and importance, political economic barriers must be removed. Sustainable development and keeping open economies are areas where the U.S.-Korea partnership could work more or less harmoniously (as both face the same challenge of China). The challenges for Korea mentioned in the previous section could also be partially mitigated through such a partnership as long as Korea finds ways to accommodate its economic

concerns into the regional formal architecture.

Perceptions on the level of engagement and presence of the U.S. in Latin America are complex, vary by country and sector, and are not always positive. As a result, Korea has to carefully balance its partnership with the U.S. Ultimately however, given the entrenched and longstanding relationships between the U.S. and many Latin American countries, Korea can learn from the its presence in the region and act constructively.

CONCLUSION

The Korean engagement in Latin America is a relatively recent strategy that obeys mostly to economic imperatives. It is very important for Latin America that Korea be more involved, especially to contribute to diversifying economic relationships and as a counterforce to the increasing and overwhelming presence of China. This is a mutual concern, as Korea is also in need to keep its non-traditional partner economies open. The challenge of getting the Latin American public, governments, and business interested in fostering collaborative attitudes towards Korea is of great importance. One way to overcome such challenge and its related consequences could be through the active participation in the regional mechanisms, and partnering with United States in projects that contribute genuinely to the regional development, such as educational infrastructure and technological upgrading.

ABOUT THE AUTHOR

About the author text goes here.

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