

Korean Investments in Latin America

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Table of Contents

1. Introduction

Asia and Latin America: A Historical Imbalance

Benefits to come from the Global Trend of Regional Cooperation

Issues and Challenges

2. Korea's Overseas Investment

Overview of Korea's Overseas Investment

Incentives for Overseas Investment

Characteristics of Korean Overseas Investment

Evolution of Korea's Overseas Investment Regulation

Korean Overseas Investment: Comparison with Japan and Taiwan

Prospects of Korea's Overseas Investment: A Favorable Forecast

3. Korea's Investments in Latin America

Overview

Recent Trends

Prospects of Korean Overseas Investment in Latin America

The Effect of Korean Investment in the Latin American Economy

4. Korea's Trade with Latin America

Overview

Prospects

5. Korean Experience with Latin America

Implications of Korean Experiences

6. Options for Future Trans-regional Cooperation between Asia and Latin

America

7. Conclusion

1. Introduction

Latin America has been regarded as the forgotten continent to most Koreans. Recently, trade and investment between Korea and Latin America have been increasing rapidly. However, there has not been enough research to determine the driving forces of this change. In this paper, I would like to examine the current trend of Korean investments in Latin America while dealing with some related issues such as trade and human exchange.

Before going into the investment issues directly, I would like to review the overall relationship between Asia and Latin America, because it would be helpful to share a common perspective on the past.

Asia and Latin America have much in common in their vast growth potentiality and are emerging as two of the fastest growing regions in the world.

However, trans-regional cooperation between the two continents has not been seriously considered yet. With the rapid development of regional and global economic integration since the early 1990s, the trans-regional cooperation between Asia and Latin America has created an agenda of interest.

At this point, it is worth considering the recent economic histories of the two regions.

Asia has recorded rapid economic growth in the latter half of the twentieth century. Japan has become the second largest economic power in the world. Singapore, Taiwan, Hong Kong and Korea have grown as the Newly Industrializing Economies (NIEs), registering the fastest growth in the world in the 1980s. Moreover, ASEAN countries are catching up

with the four dragons. It has to be noted that the Chinese GNP is expected to surpass the United States' in the long run if it maintains its trend of rapid growth, which recorded an average annual increase of more than 10% from 1992 to 1995.

By comparison, Latin America registered relatively low growth rate during the same period. During the 1960s and 1970s, the Latin American economy was fettered by its import substitution policy, while at the same time politically it underwent a dark age of de facto military regimes. The decade of the 1980s has been a lost decade to Latin America, as it has suffered from hyper-inflation and the accumulation of budget deficits.

A breakthrough is under way in light of the inauguration of the civilian government in Chile in the late 1980s, initiating trade liberalization, the privatization of the public enterprises and the deregulation of government policies. This provided momentum for other Latin American countries to help adopt neo-liberal economic policies and revitalize the Latin American economies.

In the 1990s, Latin America in general maintains stable growth even though some Latin American countries underwent economic difficulties such as rises in unemployment and falling real income levels.

Table 1. Real GNP Growth Rate in Asia and Latin America (%)

	1978-1990	1991	1992	1993	1994	1995	1996
Asia (excluding Japan)	6.9	6.9	8.8	8.7	9.1	8.6	8.0
(Four NIEs)	8.0	7.9	5.8	6.3	7.6	7.5	6.5
Japan	4.1	0.8	1.7	0.9	2.8	2.1	2.3
Latin America	2.7	3.3	2.8	3.2	4.7	0.9	3.0

Source: IMF, World Economic Outlook, October 1996

Asia and Latin America: A Historical Imbalance

In 1995, Asia's GDP (excluding Japan) reached 2,497 billion dollars, comprising 8.7% of the world GDP. This figure is expected to rise to 12.8% in 2000, according to an estimate by the WEFA (Wharton Econometric Forecasting Associates).

Latin America's GDP was registered at 5.9% of the world GDP, 1,685 billion dollars, in 1995. The GDP share of Latin America is expected to grow to 6.4% by 2000.

Real GDP growth rate between 1991 and 2000 is estimated to average 7.6 % annually in Asia , and 3.9% in Latin America, according to the same source.

In terms of population, Asia (excluding Japan) totaled 2,860 million people in 1995, 53.2% of world population. Latin America's population was 462 millions, 8.6% of the world population in the same year.

In trade figures, Asia (excluding Japan) recorded 1,710 billion dollars in 1995, taking up 18.0% of world trade. By comparison, Latin America remained at 411 billion dollars, occupying 4.3% of world trade.

Table 2. Share of Asia and Latin America in the World (%)

	Asia (excluding Japan)		Latin America	
	1995	2000	1995	2000
GDP Share	8.7	12.8	5.9	6.4
Real GDP Growth(1991-2000)	7.6		3.9	
Population Share	53.2	53.3	8.6	8.7
Trade Share	18.0	23.1	4.3	4.7

Source: WEFA, World Economic Outlook, February 1996

According to Table 3, Korea, Hong Kong, Taiwan and Japan increased their trade share with Latin America between 1990 and 1994, while Malaysia, Singapore and China stayed unchanged or diminished. Despite the impressive increase in trade volumes between the two regions, the figure remained marginal because of their larger trade with other regions and more rapid trade increases with advanced countries.

Table 3. The Change in the Amount and Share of Trade with Latin America in some Asian Countries (millions of dollars, %)

	1990		1994	
	Amount	Share	Amount	Share
China	2,182	1.9	4,422	1.9
Hong Kong	2,157	1.3	5,221	1.7
Japan	19,067	3.6	26,662	4.0
Korea	3,780	2.8	9,832	4.8
Malaysia	719	1.2	1,517	1.3
Singapore	1,431	1.3	2,257	1.1
Taiwan	2,575	2.1	4,412	2.6
Thailand	962	1.7	946	1.0

Source: International Monetary Fund, Directions of Trade Statistics Yearbook, 1994. Directions of Trade Statistics Quarterly, Dec. 1995

Meanwhile, in most Latin American countries there was an obvious increase in Asian trade share, pointing to the conspicuous trade liberalization of Latin America.

Table 4. The Change in the Amount and Share of Trade with Asia in some Latin American Countries (millions of dollars, %)

	1990		1994	
	Amount	Share	Amount	Share
Argentina	1,563	9.5	4,633	12.0

Bolivia	89	5.5	189	8.2
Brazil	7,599	14.0	13,505	16.5
Chile	3,211	20.1	5,984	24.6
Colombia	875	7.0	1,924	9.2
Equador	381	7.6	1,635	15.2
Mexico	3,912	6.8	9,726	7.5
Panama	144	7.9	2,219	42.3
Peru	807	13.1	1,933	19.5

Source: International Monetary Fund, Direction of Trade Statistics Yearbook, 1994. Direction of Trade Statistics Quarterly, Dec. 1995.

In terms of prospects for the future development of trade between the two regions, we can conclude that the two regions are prepared to experience deeper cooperation in the future. Strong incentives for the mutual cooperation stand before the two regions.

Differences in industrial structure, coupled with Latin America's more open and liberal trade policy, are expected to come into play in the 21st century. However, strong efforts to promote mutual understanding should follow in the future.

Trade and investment between these two regions have only increased incrementally. It has to be noted that this trend is a particularly slow one considering that Asia's trade and investments with the other regions such as Europe and North America have achieved a higher level of interdependence.

It seems, therefore, that some explanations should be made for the underdeveloped relationship between Asia and Latin America. First, both regions were in similar stages of development characterized by more trade rivalry than cooperation, and second, the lack of economic complementarity due to a similar industrial structure and a difference in trade policy, that is, the export-oriented (outward-looking) versus the import-substitution (inward-looking) perspective, weakened economic exchange. Third, the economic instability and the investment barriers implemented through the strict government regulation especially prevalent in Latin America discouraged trade and investment between the two continents. In addition, there has been a serious lack of cultural exchange between the two regions.

Benefits to come from the Global Trend of Regional Cooperation

Of late, there has been a clear trend towards a regionalization of the world economy. As is seen in the cases of the European Union (EU), Asia-Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations (ASEAN), Common Market of the South (MERCOSUR) and the North American Free Trade Agreement (NAFTA), the formation of regional (if not exclusive) economic blocs is on the rise.

In Asia, efforts for regional economic cooperation have been strengthening in recent years. The Association of Southeast Asian Nations (ASEAN) is actively striving to transform the ASEAN Free Trade Agreement (AFTA) by reducing tariff rates among the member countries to less than 5 % until 2003. The framework of regional cooperation in Asia shows its widening range in the framework. The Asia Pacific Economic Cooperation (APEC) and Asia-Europe Summit Meeting (ASEM) are typical examples. Thus, Asia is

trying to establish an economic triangle with North America and Europe, the world's three most powerful economic centers. It should be noted that Asia's cooperation is based on the principle of open regionalism.

Meanwhile, Latin America is accelerating regional cooperation by establishing regional agreements such as the Central American Common Market (CACM), the Andean Common Market (ANCOM), the Caribbean Community and Common Market (CARICOM), and MERCOSUR. Such customs unions may be developing into the economic blocs. Latin America's cooperation with North America and Europe will be strengthened through the North American Free Trade Agreement (NAFTA), and EU-MERCOSUR Free Trade Area. NAFTA is trying to enlarge its membership to other South American countries. European Union and MERCOSUR member countries have basically reached an agreement to establish a free trade area by 2005, and this will be enlarged to twelve Mediterranean countries by 2010. Moreover, the Free Trade Area of the Americas (FTAA) will be pursued between North America and Latin America. The rapidly growing economic integration in the Latin American region is an impressive one. In December 1995, in Madrid, the United States and the European Union agreed to review the New Atlantic Agenda, including the establishment of the Trans-Atlantic Free Trade Area (TAFTA) in the future.

To avoid potential negative fall-out from inward looking or exclusive regional cooperation, trans-regional cooperation between various regions is an important issue. The Asia-Europe Summit Meeting (ASEM) held for the first time in Bangkok, Thailand in April, 1996 and the Trans-Atlantic Free Trade Area are good examples of such efforts.

In this context, fostering economic ties between Asia and Latin America is emerging as an important issue not only of interest to the parties concerned but also for the benefit of the global economy. Such an effort also corresponds to the need for a more balanced development of the world economy. As a result, stronger cooperation and increases in mutual exchange programs between Asia and Latin America are necessary.

Issues and Challenges

In this paper, I would like to evaluate the potentiality of Asian-Latin American economic ties by taking the focus of relationship between Korea and Latin America, analyzing past trade and investment between the two, and posing following questions:

- Were there any specific changes in the trend of Korean overseas investments to Latin America in recent years? Can we identify the reasons for such changes?
- What the prospects can we expect for Korean investment in Latin America? Will there be any specific differences in Korean investments that may not be seen in the other foreign direct investments in Latin America?

Second, difficulties experienced by Korean firms involved in trade and investment with Latin American countries will be presented to draw valuable lessons for the future.

Third, a framework of bilateral and multilateral measures to foster a new era of closer cooperation between Asian and Latin American countries will be proposed.

In conclusion, some action plans to promote economic partnership between the two regions will be recommended.

2. Korea's Overseas Investment

Overview of Korea's Overseas Investment

Until 1985, Korea's total overseas investment could be said to be in its infant stage, reaching less than 500 million dollars with investments confined to a few sectors: resource development such as mining and forestry, and trading aiming at promoting exports from Korea. An extensive capital control system existed until the mid-1980s in response to a deteriorating current account and a large foreign debt (See Table 5). As Korea achieved a surplus in the balance-of-payments in 1986, the Korean government began to liberalize the outward foreign direct investment. At the same time, rising wages, which affected the international competitiveness of Korean firms, prompted such a change of policy orientation. Taking advantage of its improved foreign exchange position, the Korean government relaxed regulatory controls as part of an overall economic liberalization plan¹.¹

Table 5. The Trend of Current Balance and External Debt in Korea

	1980	1985	1986	1990	1995
Current Balance (\$ bn)	-5.3	-0.9	4.6	-2.2	-8.9
Gross Debt (\$ bn)	27.2	46.8	44.5	31.7	79.0
Gross Debt/ GNP(%)	44.9	51.4	35.7	25.3	17.6
Net Debt (\$ bn)	19.6	35.5	32.5	63.7	18.2

Source: Korea Ministry of Finance and Economy

Since the mid-1980s, Korean overseas investment began to increase drastically due to the changes in economic realities both internationally and domestically. Korean firms had to advance into overseas markets in a serious way to maintain their international competitiveness. The rapid rise in wages in the domestic labor market, the large trade surpluses in the balance of payments since the mid-1980s, and the appreciation of the Won vis-à-vis the Dollar, the global trend of strengthening regional economic integration and the frequent trade conflicts with the advanced countries are the major factors that urged Korean firms to advance abroad.

The Korean government initiated a gradual financial opening since 1986 by taking such measures as simplifying application procedures, expediting the approval process,

progressively raising the threshold values, and enlarging the loan facilities available to Korean investors at the Korea Eximbank, a major financing institution for outward investment. Korea Eximbank's Investment Credit Commitments amounted to \$2,561 million as of the end of 1996, which is equivalent to 18.7% of total overseas investment stock in 1996.

Up to now, in terms of foreign direct investment, Korea's position has been more that of a host country than of a home country. As of the end of 1996, the stock of Korea's inward foreign direct investment (\$17.7 billion) still exceeded that of outward Foreign Direct Investment (FDI) (\$ 13.7 billion), as is the case in most of the developing countries. However, considering the galloping outward FDI and the inward FDI rapidly increased especially in 1996, whether or not Korea will be a net supplier in the near future is difficult to predict².

As of the end of 1996, total Korean overseas investment amounted to 13.7 billion dollars, recording a 28.9 % increase compared to its outward investment stock in 1995. The sharp increase in Korean overseas investment is a remarkable one, considering the fact that the sum of investments made from 1994 to 1996 comprises more than 70% of the total overseas investment stock in 1996. Furthermore, Korea's overseas investment in 1996 recorded the highest amount in its history, 4.1 billion dollars, equivalent to 40 % of total investment until 1995.

Table 6. Trend of Korea's Overseas Investment by Year

(projects, millions of dollars)

	Annual Investment		Accumulated Investment	
	Projects	Amount	Projects	Amount
1968-1985	603	571	443	484
1986	52	184	476	645
1987	92	411	536	936
1988	176	224	680	1,130
1989	269	570	926	1,523
1990	339	959	1,243	2,336
1991	453	1,125	1,673	3,373
1992	500	1,255	2,138	4,507
1993	682	1,317	2,754	5,578
1994	1,476	2,347	4,161	7,649
1995	1,285	3,058	5,327	10,234
1996	1,370	4,134	7,270	13,714

Source: Bank of Korea, The Statistical Yearbook of Overseas Investment, 1995, and Ministry of Finance and Economy (for statistics in 1996)

As for annual flows of investment, the recent increase rate in overseas investment is an explosive one. Korea's recent investment experienced a sharp rise in volume until 1991, followed by a relative slowdown in growth in 1992 and 1993, and again a rapid increase from 1994 to 1996.

Table 7. Annual Growth Rate of Outward Investments on the Basis of Stock and Flow(%)

	1989	1990	1991	1992	1993	1994	1995	1996
Stock	34.8	46.8	44.4	33.6	23.8	37.1	33.7	28.9
Flow	154	68.2	17.3	11.6	4.9	78.2	30.1	35.1

Source: Bank of Korea, The Statistical Yearbook of Overseas Investment, 1995, and Ministry of Finance and Economy (for statistics in 1996)

Incentives for Overseas Investment

What were the major incentives for Korean overseas investment? To answer that question, it would be useful to analyze the available investment statistics.

Theoretically speaking, we cite often several factors: export-promotion, easier market access (including both national and regional market), resource seeking and economic restructuring.³³

In the Korean case, one of the main incentives for overseas investment can be traced more to the increased rate in wages than that of labor productivity. Between 1990 and 1994, annual average increase in wages exceeded that of labor productivity by 5.8%, signifying the fact that Korea lost its relative competitiveness compared to other economies.

Table 8. The Comparison of the Average Increase Rate of Wages and Labor Productivity in the Selected Countries between 1990 and 1994 (Annual average %)

	Korea	U.S.	Japan	Taiwan
Increase in Wages(A)	15.8	3.2	2.4	9.7
Increase in Labor Productivity(B)	10.0	3.4	1.1	6.5
A-B	5.8	-0.2	1.3	3.2

Source: Korea Ministry of Finance and Economy

Until the middle of the 1980s, most Korean overseas investments were made in the field of resource development such as mining, forestry and fishery, and trading. However, during the last ten years, the share of manufacturing increased rapidly in total investment from 19.2% in 1985 to 56.7% in 1995.

Table 9. The Share of Manufacturing in the Total Overseas Investment on the Basis of Volume (%)

	1980	1985	1990	1995
Share of Manufacturing	17.0	19.2	45.4	56.7

Source: Bank of Korea

This phenomenon is estimated to be closely related with the diminishing share of manufacturing in the Korean domestic economy since 1988 when the share was at its point. In other words, the growing shift of manufacturing abroad and the diminishing share of manufacturing in the Korean economy may have a positive relationship.

Table 10. The Share of Manufacturing in GDP in Korea (%)

1975	1980	1986	1988	1990	1995
26.1	29.7	30.8	32.8	29.2	26.9

Source: Bank of Korea

Labor-intensive industries such as textiles, garments, shoes, and leather processing still occupy more than 50 percent of the total number of projects. However, this segment's share in total investment has dropped off in recent years.

In terms of the geographical distribution of Korean overseas investment, the major regions for outward investment have been South East Asia, North America, and Europe (See Table 11).

Among the typical types of outward FDI --export-oriented manufacturing, natural resource-seeking and market -seeking --, the major motivation of Korean investments varies according to the regions and the specific industries. Generally, Korea's investments in Europe and North America can be interpreted as market-oriented. Korean industry reacted to the uncertainty caused by the North American Free Trade Agreement (NAFTA) and the European Union (EU), by increasing local manufacturing. The United States is still its greatest partner for investment, absorbing 26.5% of the total Korean investment as of the end of 1995 on the basis of overseas investment stock. Moreover, Korean investments in South East Asia can be characterized as production-oriented investment taking advantage of relatively low wages and transference of companies' production base for better productivity. China and Indonesia are the major investment partners in the region, and recently Viet Nam is emerging as a promising partner. In particular, China has become Korea's largest investment partner on the basis of annual flow since 1994.

Table 11. Korea's Overseas Investment by Region on the Basis of Investment Stock (millions of dollars, %)

	1980	1985	1990	1995
South East Asia	51(31.6)	120(24.8)	715(30.6)	4,574(44.7)

(China)	0(0)	0(0)	22(0.9)	1,886(18.4)
North America	33(23.4)	153(31.7)	1,150(47.3)	3,152(30.8)
(U.S.A)	33(23.4)	92(19.0)	807(34.6)	2,708(26.5)
Europe	5(3.6)	60(12.4)	152(6.5)	1,544(15.1)
Latin America	4.6(3.3)	10(2.1)	121(5.2)	337(3.2)
Africa and Others	26(18.6)	101(20.9)	187(7.9)	531(5.2)
TOTAL	140(100.0)	484(100.0)	2,334(100.0)	10,224(100.0)

Note: () represents the share of the total investment.

Source: Bank of Korea

Characteristics of Korean Overseas Investment

More characteristics can be derived by analyzing Korean investment behavior.

First, the share of small and medium industry has been rising because of worsening competitiveness and the growing expenses of production in Korea. It has become inevitable for such industry to transfer its production base, utilizing their production technology and managerial know-how and combining more advantageous labor conditions.

Table 12. The Share of Small and Medium Industry in Korea's Overseas

Investment (%)

	1985	1990	1995	1995(Stock)
Number of Projects Basis	26.9	53.4	71.7	67.3
Amount Basis	2.1	16.3	19.7	26.9

Source: Bank of Korea

Second, large-scale investments have been growing in recent years. The share of large projects (more than 10 million dollars) rose from 7.5% in 1980 to 57% in 1995. The average amount per project increased from 0.49 million dollars in 1980 to 1.92 million dollars in 1995. Moreover, average volume per project in 1996 has increased to 3.0 million dollars per project (total 4,134 million dollars, 1,370 projects). This reflects the more active participation of large companies including Chaebols as part of corporate globalization strategy.

Table 13. The Share of Investments by Volume per Project on the Basis of Stock (%)

	1980	1985	1990	1995
More than \$10	7.5	43.1	52.1	57.0

million				
1 million to 10 million	65.8	40.6	35.4	31.8
Less than \$1 million	26.7	16.3	12.5	11.2
Average Volume per project	0.49 million	1.09 million	1.88 million	1.92 million

Source: Bank of Korea

Third, Korean firms favor 100% investment rather than joint ventures with the local company. 57.5% of Korean overseas investment is entirely Korean owned explaining the fact that Korean firms mainly depend on the form of ownership for their managerial initiative.

Table 14. The Structure of Ownership of Korean Overseas Investment
as of end of 1995

	(%)		
Less than 50%	50%	51-99%	100%
13.6	7.2	21.7	57.5

Source: Bank of Korea

Evolution of Korea's Overseas Investment Regulation

In 1968, Korean government set up the first set of regulation in the face of a Korean firm's first outward investment: timber development project in Indonesia. Investments were restricted to countries with diplomatic relationship and projects were limited to those generating foreign exchange or to those contribute to long-term stable supply of essential materials.

Then in 1978, regulations were tightened because of a growing possibility of capital flight by Korean firms, and growing need to more closely monitor their activity. In 1980, government policy shifted again as the need for more active FDI began to be felt since the protectionism and the resource nationalism gained further momentum. Thus, partial liberalizing measures were taken which included loosening requirement for domestic firms eligible to make investment and simplified approval procedures.

Since 1986 when Korea's balance-of-payments turned to surplus, the liberalization of the investment has been on the way. The major liberalization efforts were made in the 1990s. Particularly in 1994, Korea adopted a 'negative list' system instead of existing positive list system, whereby permitting all outward investments except a few designated list area. Now, Korea has an almost completely liberalized investment regime since 1996. Recently, a step-by-step liberalization in the outward investment has been taken (See Table 15)

Currently, overseas investment projects of less than 10 million dollars accounting for more than 95% of total overseas investments, shall be made freely without any government intervention. Notifications are required for projects of between 10 and 50 million dollars. Projects exceeding 50 million dollars are subject to obtaining approval from the Bank of Korea. In fact, nearly all investments are completely liberalized.

Table 15. Recent Liberalization Measures in Overseas Investment

	Approval	Notification	Automatic Approval	Prohibited Fields of Industry
1992	More than \$2 million → \$5 m	Less than \$5 million	Less than \$300 thousand	30
1993				30→17
1994	More than \$5 million→\$10 m	Less than \$10 million		17→14
1995	More than \$10 million→\$ 50 m	Less than \$50 million	Less than \$10 million	14→3
1996				3→0

Source: Korea Ministry of Finance and Economy

Korean Overseas Investment: Comparison with Japan and Taiwan

Korean overseas investment is small in its absolute volume and share of GDP in comparison to Japan and Taiwan (See Table 16). In its volume of investment, Taiwan excels Korea. Because Taiwan removed almost all restrictions in 1987 while Korea did it in the 1990s.

Table 16. Outward FDI Stock in Korea, Japan and Taiwan

(billions of dollars, %)

	1980	1985	1990	1993	1994	FDI Stock/ GDP in 1994
Korea	0.1	0.5	2.1	5.6	7.6	2.0
Japan	19.6	44.0	201.4	259.8	277.7	6.0
Taiwan	0.1	0.2	12.9	18.9	20.8	8.6

Source: UNCTAD, World Investment Report 1995

Very distinct features can be found in comparison of the three countries.: According to a research⁴⁴ of UNCTAD, Japan has experienced four stages of evolution in its outward investment strategy. Japan started its massive overseas investment in the 1960s in order to move away from the labor-intensive light industries that started to lose competitiveness

due to shortage of unskilled labor and rising wages. Second wave of Japanese outward FDI occurred during 1978 to 1985 in order to push out heavy and chemical industries, which were considered to be inadequate and incompetent in the future. The third wave of shifting the production base of automobiles and electronics occurred during 1986 to 1990 as a way of alleviating trade frictions while, at the same time, continuing to capitalize on the competitiveness by using foreign direct investment. Since 1990, outward FDI in Japan emphasized the strategic alliances with foreign companies in the field of research and development and product innovation.

The changes of Japanese strategy shows that the strategy evolved in accordance with the conditions in the optimal way to reduce costs, assure market access and react in response to the growing regional integration. In this sense, Japan has taken advantage of the FDI effectively to strengthen its economic capability. The geographical distribution of Japanese overseas investment is quite balanced both in developed and developing countries.

Similar evolution of overseas investment strategy can be seen in Taiwan and Korea, except the fact that each country differs in its timing and its specific conditions. Taiwan's investment strategy seems to be more concentrated on South East Asia and China than the others. This can be partly explained by the strong cultural affinity among the Chinese throughout Asia and the efficient network of Overseas Chinese⁵⁵. In Taiwan, the speed of shifting the manufacturing industry abroad was quite rapid. Between mid-1987 and 1994, it amounted to more than 2,000 projects, 8.9 billion dollars in volume.

Korea's overseas investment is booming in the 1990s. Although being a late starter and having still an insignificant volume in its investment size compared to Japan and Taiwan, Korea's strategy in the future may be characterized as the diversification of investment partners which places particular emphasis on the emerging market, including Latin America.

Table 17. Comparison of Outward Investment in Japan, Taiwan, and Korea in 1994

	Japan	Taiwan	Korea
Outward Investment in 1994 (\$ million)	41,501	2,579	2,347
ASEAN and China(%)	15.7	48.1	34.3
USA(%)	42.2	5.6	22.6
Others(%)	42.1	46.3	43.1

Source: JETRO. Overseas Direct Investment in the World and in Japan (JETRO Whitebook)

Prospects of Korea's Overseas Investment: A Favorable Forecast

The Korean government has gradually reduced its regulation on overseas investment during the last 10 years. The central idea formulated during the developing stage in the

1960s of preventing the capital flows evolved into promoting and deregulating overseas investment in the mid-1980s.

Government regulations on the prohibited investments for certain fields of industry have been completely abolished as of June 1996. Such liberalizing measures for investment encourage and expedite overseas investment.

In conjunction with the Korean government's investment promotion policy, Korean companies' needs for overseas investment are growing: Small and medium companies want to secure a more efficient production base by moving abroad, and avoiding labor disputes. Since the early 1990s, large industrial groups have been pursuing a so called 'globalization strategy' by combining and interlinking the production factors internationally through overseas investment .

In this regard, the prospect for Korean overseas investment is expected to accelerate in the long run because the intrinsic need for structural adjustment will continue, and as a result, the acceleration of the global management will be inevitable. Moreover, despite the prospect of Korea's widening trade deficit in the short run, the trend of liberalization of overseas investment will not retreat.

In addition, Korea's accession to the Organization for Economic Cooperation and Development as the 29th member in 1996 will directly affect Korea's position in the overseas investment code because OECD is dealing with the Multilateral Agreement on Investment in 1997. It is expected that the MAI will call for removing all investment barriers to allow corporations to freely set up business in foreign countries.

It should be noted that in Korea, worries over the phenomenon of 'hollowing out domestic firms' caused by the massive withdrawal of the Korean manufacturing factories abroad are sharply on the rise. However, it seems that such transfer of manufacturing facilities have been the general phenomenon that is seen in some advanced countries such as the United States and Japan in the process of international market adjustments. It should be noted that what is important is not the fact that Korean firms are moving abroad. The more important thing would be whether or not other factors of competitiveness are emerging and replacing the outgoing manufacturing capacity at the same time.

3. Korea's Investments in Latin America

Overview

Korea's direct investment in Latin America was meager in total amount and small in average volume per project. However, since 1995, Korean investment in Latin America has been increasing: 214.3% annual increase in 1995, and 57.1% in 1996. As a result, in 1996, it reached 242 million dollars, which is equivalent to almost 5 times of that of 1994. As of the end of 1996, Korea initiated 317 investment programs in Latin America for a total of 689 million dollars and 5.0% of total Korean foreign investment, which was 13.7 billion dollars as of the end of 1996.

If we consider investments not captured by the statistics, such as the small investments made by an individual without permission, or investments made by the Korean transnational corporations' subsidiaries with a foreign entity (particularly based in the United States), the total amount invested in Latin America is estimated to reach about 1,150 million dollars as of the end of 1996.⁶ Average volume per project in Korea's Latin American investment has increased rapidly in the recent years from 1.38 million dollars in 1992 to more than 6 million dollars in 1996.

Table 18. Korean Investment in Latin America by Year

	1992	1993	1994	1995	1996	1996(Stock)
Projects(A)	26	31	33	30	37	317
Amount(B) (\$ million)	36	44	49	154	242	689
B/A	1.38	1.42	1.48	5.13	6.54	2.17

Source: Ministry of Finance and Economy

A lot of investments began only in the middle of the 1980s by some garment manufacturers. It coincides with deteriorating competitiveness of some labor-intensive industries due to the high wages and rising costs in Korea and the new opportunities created by the Caribbean Basin Initiative of the United States. So, most of the Korean investments were concentrated on resource-seeking investments: the garment and apparel industry for low cost labor in the Caribbean and Central American countries to benefit from the Caribbean Basin Initiative, and the fishery industry to get access to Argentina and Panama. Moreover, local trading offices were established to promote exports from Korea.

Table 19. Korea's Investments to Latin America by Countries as of 1995

(projects, millions of dollars)

	Number of Projects	Amount	Major Fields
Argentina	30	46	Fishery, Manufacturing(Mfg.)
Brazil	10	20	Mfg., Trade
Chile	14	26	Fishery, Mfg.
Colombia	4	4	Mfg., Trade
Jamaica	30	21	Mfg.
Guatemala	26	21	Mfg.
Honduras	8	9	Mfg.
Mexico	22	66	Mfg., Trade

Panama	43	67	Mfg., Fishery
Total	238	337	

Source: Bank of Korea

Manufacturing, fisheries, and foreign trade business are the three major sectors for Korean investment. Manufacturing occupies 56.3% of total projects with average amount reaching 1.44 million dollars per project in 1995.

Table 20. Korea's Latin American Investment by Industry as of 1995

(projects, millions of dollars)

	Number of Projects	Amount
Manufacturing	134	193
Fishery	52	46
Trading	35	34
Mining	3	33
Others	14	31
Total	238	337

Source: Bank of Korea

Recent Trends

As mentioned earlier, the statistics of the Bank of Korea don't cover the important investments through foreign entities based in a third country (for example, the United States). The major Korean investments to Mexico were made through the local subsidiaries based in the United States. Samsung Electronics set up an industrial complex investing about 420 million dollars to manufacture products such as color TVs, refrigerators and washing machines in Tijuana, Mexico. Moreover, Daewoo and LG are also producing home electronic appliances in Mexico (Sonora, Queretaro, Mexicali). The recent investments in Mexico appears to be related to the establishment of NAFTA.

In Brazil, the Korean transnational corporations like Samsung, Daewoo, and LG have started or are planning to build manufacturing factories for home electronic goods in Manaus, Sao Paulo. And Hyundai is considering various projects including automobile assembly in this area.

We can find several differences in the current trends which can not be found in past Korean investments to Latin America. First, the active participation of the Korean TNCs is remarkable. Second, large scale investments are increasing. Third, the investment sectors are not confined to the traditional labor-intensive manufacturing sectors, but more technology-intensive and important industries. Fourth, the economic impact of this investments will not be negligible to the domestic economies in Latin America. In terms of employment, upgrading the industrial structure, and technology transfer, Korean investments are expected to play a more important role than ever.

At this moment, it would be meaningful to ask why Korean companies are rushing in Latin America. The answer would be explained by two factors: one is the intrinsic needs that Korean investors are facing; the other is the extrinsic factors that are related to the host country. The intrinsic needs of the Korean firms originate from three factors: the cost factor, market factor, and corporate strategy factor. There are four extrinsic factors: 1) the improved economic conditions in Latin America, 2) the growing domestic market potential due to the increase in middle-income class, 3) the rising complementarity in the industrial structure between Korea, 4) and Latin America and the growing uncertainty caused by regional integration.

In case of Korea's Latin American investments, investment until the 1980s can be explained mainly by the cost factors, and in some cases market factors. However, the investment in the 1990s seems to be more recognized as one phase of corporate strategy of globalization, combined with other intrinsic and extrinsic factors. Latin America will be regarded as an increasingly important strategic partner of Korean firms.

Prospects of Korean Overseas Investment in Latin America

In the early 1990s, the Korean perspective on Latin America started to change drastically. Thus, prospects for Korean overseas investment in Latin America will be bright in consideration of several factors:

First, Latin American economic dynamism and the growing market potentiality provide strong incentives for investment. The macroeconomic stability and liberal trade and investment policy in Latin America give assurance to Korean investors. Second, unprecedented large scale investments are under way by Korean companies. As such, the focus of Korean economic frontier is shifting away from expansion of exports to international exchange of capital, labor, technology, and services. Third, the growing tendency of regional economic integration prevalent in Latin America urges Korean firms to consider overseas investment as a measure of risk dispersion.

In this context, it is worth noting that the major Korean industrial groups are in the process of planning new large-scale investments in Latin America. Mexico, Brazil, Argentina and Chile will be the important partners of Korean investments. The visit of the President of the Republic of Korea to the several Latin American countries in September 1996 is the proof of Korea's enhanced interest in Latin America.

Additional investments are expected to be made in diverse fields: electronic home appliances, automobile manufacturing, telecommunications, construction, mining, and agricultural development.

A new era of cooperation will be opening as Korean enterprises begin to recognize Latin America as an important partner of trade and investment. It is estimated that additional investment is planned to reach more than 2 billion dollars as of 1996. (See Table 21). Future Korean investments in Latin America are expected to diversify its sectors, and to be capital-intensive and technology-intensive rather than labor-intensive.

One of the advantages that Korean investment will bring would be that the resources and services they supply are better adapted to the needs of the recipient countries. The

technology involved is often relatively well-known , mature and standardized, but it has been adopted to conditions more typical of developing countries. ⁷Moreover, as was indicated in recent research⁸, Korean TNCs that will play the leading role in the Korean investments, would have some advantages that may not be found in the traditional TNCs: they would adopt a lower-price strategy and provide a generous technology transfer rather than pursue monopolistic advantages based on product differentiation, and in some cases, would seek risk-taking decisions from the Third World TNCs' perspective.

I have to also note that cooperation in the field of social infrastructure along with the growing number of privatization plans in Latin America has gained the attention of Korean investors. Thus, the cooperation between Korea and Latin America will be more concrete and significant in the future.

Table 21. Examples of Tentative Korean Investments and Projects Planned in Latin America (Projects are subject to change). (millions of dollars)

	Planned Investment	Industry
Argentina	20	Agricultural Development
Brazil	More than 1,400	Home electronic appliances, Electronic Parts, Automobile production, LNG power plant, Steel mining & manufacturing
Chile	200	Timber Processing, Copper refinery, telecommunications
Mexico	700	Electronic appliances
Peru	30	Steel product, Oil exploration

Source: Excerpts from the Korean newspapers (September 1996)

The Effect of Korean Investment in the Latin American Economy

The degree that such inward FDI will contribute to the host country's industrial capabilities should be studied further. In general, linkages between FDI and trade critically depend on the type of FDI involved and the underlying motive for international exchange.⁹ Theory suggests that foreign investment can affect trade positively or negatively. In East Asia, however, the element of trade-investment nexus have worked predominantly in a positive way¹⁰.**10**

Thus, in consideration of the experiences of some Asian countries, FDI should be translated into productivity-enhancing domestic investment, minimizing the consumption effect. The reduction of uncertainty inherent in doing business in developing country is a prerequisite to attract foreign investments. Nowadays there seems to be severe competition to attract the higher quality of investment in both developed and developing countries. A research ¹¹**11** showed that adequate degree of investment promotion by the governments would be effective to attract more FDI.

In an increasingly globalized economic environment today, strengthening the domestic basis for international production and trade by exploiting FDI and trade linkage would be an import agenda for the Latin American governments..

4. Korea's Trade with Latin America

Overview

In 1995, for the first time in its history, Korea's trade with Latin America exceeded 10 billion dollars. Korea's exports to Latin America totaled 7.4 billion dollars and imports from Latin America reached 4.0 billion dollars. This trade figure has more than doubled since 1991, from 5.2 billion dollars in 1991 to 11.4 billion dollars in 1995.

Korea's trade share with Latin America accounts for 4.4 % of the former's total trade in 1995. This is the highest ratio among other Asian countries. Japan's trade ratio with Latin America was at 4.0 % in 1995.

Korea's total exports to Latin America reached 7.4 billion dollars in 1995, starting from 300 thousand dollars in 1964. In 1995, the share of exports to Latin America versus total Korean exports increased to 5.9 % ¹²**12** from 0.3 % in 1964. The growth rate in Korean Latin American-bound exports has increased more than 50 % since 1990, to 2.1 billion dollars.

Table 22. Trend of Korean Trade with Latin America by Year (millions of dollars)

Year	Export	Import	Trade
1981	807	724	1,521
1985	1,079	1,859	2,938
1986	907	1,258	2,165
1987	1,226	1,184	2,410
1988	1,606	1,444	3,045
1989	1,740	1,544	3,284
1990	2,104	1,726	3,830
1991	2,879	2,298	5,177
1992	4,962	2,521	7,483
1993	4,922	2,384	7,306
1994	6,430	3,280	9,710
1995	7,370	3,964	11,334

Source: Korea Trade Association

The sharp boost in Korean exports to Latin America in the 1990s can be partly explained by local market conditions such as increase in the import demand due to the relative appreciation of the local currency vis-à-vis the dollar, and the reduction of the tariff rate and non-tariff barriers. Recent liberalization in trade and investment regimes in Latin American countries contributed to the activation of the bilateral trade.

However, changes in Korea's economic picture are also responsible for most of the appreciation in trade. Home electronic appliances, textiles, steel products and automobiles are the major items of Korean export, and across these products Korea experiences a comparative advantage vis-à-vis its Asian competitors and a relative advantage in automobile trade over Europe. In addition, the active marketing efforts of the Korean firms contributed.

In 1995, imports from Latin America reached 4.0 billion dollars from 1.5 million dollars in 1964, making up 2.9 % of total imports, a considerable increase compared with 0.4 % in 1964. Imports from Latin America have increased by 25.9% annually since 1990, a lower rate than Korean export increases during the same period.

The relatively slow growth in imports from Latin America is due to price reduction of its primary goods, the weakening of Latin America's price competitiveness due to the appreciation of the local currency vis-à-vis the dollar, and a Korean dependence of the primary products of South East Asia.

Prospects

The Korean economy has entered a new stage where it should globalize its market of goods, services, and technology. In this sense, Korean firms are actively participating in the new emerging markets as well as existing markets. The importance of Latin America in the Korean trade will grow in the future. It seems that the trade performance in the future will vary in parallel with the ongoing large investment projects in Latin America and the participation in the social infrastructure and privatization projects.

5. Korean Experience with Latin America

Korean companies have experienced many difficulties in doing businesses in Latin America. The most frequent difficulties are:

- Language barriers and cultural gaps
Korean small businesses in Latin America have had difficulty in communicating with the employees for lack of adequate knowledge of lingual skills in either Spanish or Portuguese, resulting in lower profits due to inadequate production management, lack of technical assistance, and lack of confidence-building between the employer and the employees.
- Differences in labor practice and work ethic

Korea and Latin Americans operate under different work ethics and different labor practices and labor laws. The lack of such knowledge gives rise to unnecessary labor conflicts.

- Ignorance of the local laws

Lack of strict recognition of the labor laws and the social security laws in Latin America are hard barriers to overcome for Korean businesses.

- Geographical distance

Although Korea has about 100 thousand Korean immigrants living in Latin America, the exchange of human contact has been scarce because of the great geographical distance between them. Even as the increasing presence of Korean businesses and the continuing efforts of those businesses to bridge cultural gaps begins to increase mutual understanding, the great geographical distance between the parties hinders commutation and cross cultural exposure.

- The lack of a legal framework protecting and promoting foreign investment
The lack of a bilateral legal framework such as the Double Taxation Prevention. Agreements and the Foreign Investment Protection Agreements has contributed to the underdeveloped relationship between Korea and Latin America.

- Delay of Korea's admittance of the Inter American Development Bank

Despite Korea's willingness to become a member state in the Inter American Development Bank since the early 1980s, it still has not received membership. This weakens Korea's efforts to participate in public projects and the construction of social overhead capital.

In summary, most of the factors for an underdeveloped Latin-Asian relationship are surmountable with more concerted efforts. The more opportunities that exist to exchange ideas and to close the cultural gap, the greater the acceleration of economic relations.

Implications of Korean Experiences

Historically, Korea and Latin American countries experienced a situation in which common interests were hard to pursue because of differences in their respective economic development models and economic policy directions. Korea has been adopting an export oriented development strategy while Latin American countries focus on an import substitution strategy. There was little room for cooperation between them.

In trade policy, Korea's position was more similar to that of the advanced countries in that Korea emphasizes exports of manufactured goods while Latin America stressed the importance of maintaining the price of the primary goods and the import substitution of manufactured goods.

However, the recent trend of liberalization in trade and investment in Latin America is encouraging to the rest of the world. Notwithstanding the macroeconomic instability occasionally seen in some Latin American countries, most of the Latin American countries have a healthy status, pursuing neo-liberal economic policy after the “decada perdida” in

the 1980s. The new vitality teeming in Latin America, coupled with its strengthened regional cooperation, suggests new hope of deeper cooperation with the Asian countries.

Korea's interest with Latin America is a strong one as the latter is a stable supplier of abundant natural resources, and an important partner of trade and investment which can minimize the adverse effect of the regional economic blocs. The importance of Latin America as a partner of technical transfer and investment is gaining more consensus in Korea. Korea's efforts since the early 1980s to cooperate with the Inter American Development Bank are expected to gain support from the Latin American countries.

The potential growth of trade and investment between Korea and Latin America seems to be considerable in that Korea has adequate development experiences which Latin America is seeking and Korea's manufacturing technology and capital accumulated in the last 30 years makes Korea an attractive investment partner with Latin American countries. A new era of cooperation between the two awaits them in the future.

6. Options for Future Trans-regional Cooperation between Asia and Latin America

To promote trans-regional cooperation between Asia and Latin America, we may pursue three options:

First, the individual countries of the two continents can gather under the flag of The Asia Pacific Economic Cooperation (APEC). Pacific Rim countries encompassing Asia, North America, and Latin America can be in the same category.

Second, we can think of the possibility that both regions may join together under NAFTA or some other Latin American-initiated regional framework. However, this concept isn't consistent with any existing regional cooperation frameworks and makes for awkward matching in geographical sense.

Third option is to establish a new transregional framework for the two continents, linking Asia and Latin America directly.

As one of the Asian participants in this conference I would like to propose several protocols for deeper economic cooperation between Asia and Latin America.

First the establishment of direct dialogue between Asia and Latin America should be considered. This will help form a complete action plan for future cooperation. We can consider a so-called Asia-Latin American Meeting (ALAM) at the summit level of both continents to promote understanding and direct dialogue.¹³ **13** To render this, it would be recommendable to establish and activate an informal group of eminent persons representing the two continents. After that, government to government consultation and business to business consultation between the two continents would be useful to facilitate dialogue and mutual understanding.

Second, the adherence of more Latin American countries to Asia Pacific Economic Cooperation (APEC) will contribute to the further cooperation. Besides existing APEC member countries, such as Mexico and Chile, Asia will welcome any new candidates of Latin American countries including those who have already expressed its adherence like

Peru, Argentina and Colombia. Furthermore, the member countries of MERCOSUR should seriously review an adherence to APEC in the sense that this will contribute to facilitating the FTAA and the final goal of global integration. An enlarged APEC will assist in the removal of serious trade and investment barriers. In addition, due to its considerable progress in its negotiation, APEC will help save the time and efforts, comparing to establish a new framework.

Third, some institutional frameworks to promote the mutual understanding between the two continents should be established, including the relevant government officials, scholars, and businessmen. This will help lay the basis of mutual understanding and vital lines of communication.

It has to be noted that any efforts for trans-regional cooperation should be based on the concept of open regionalism, as is the case of APEC and ASEM. An exclusive relationship between the member countries will be harmful for the world economy. In this context, the concept of open regionalism is an indispensable element in exploring the possible modalities of trans-regional cooperation, which should also contribute to strengthening the mutual trade regime through.

However, securing the further arena for free trade by the trans-regional framework by the existing multinational framework such as World Trade Organization (WTO) should be pursued at the same time.

7. Conclusion

With the relative economic slowdown and failure of its import substitution policy in the 1980s, Latin America has finally returned to the liberal track of free trade in the 1990s, while Asia has always pursued an export oriented policy. And the development of transportation and the communication technology has enabled the two continents to become closer and help reduce the communication barriers between them.

However, in the 1990s, after a long period of Latin American hibernation in the 1980s, the two continents have found a much different partnership due to the respective economic evolution in the 1980s. The difference in the evolution of the two regional economies, coupled with their dynamism, points to a closer partnership in the future.

In consideration of the Korean experiences, the persisting tendency of cultural isolation and linguistic gaps between the two has dampened possibilities for cooperation. Only a small fraction of Asian immigrants to Latin America have been in the socioeconomic position to expedite cooperation between the two continents.

Therefore, the possible action plans to fuel trade growth can take the form of frequent meetings and seminars both at the government level and at the academic and business level to identify the scope of trans-regional cooperation. Establishing an Eminent Persons Advisory Council between the two continents and a Forum of Trade and Investment between Asia and Latin America could be considered, for example. The emphasis for a new initiative should be placed on creating more opportunity to promote human contact in order to shorten the cultural gap between the partners. Therefore, establishing a new

framework for an exchange of scholars, government officials and businessmen should be emphasized as a means to enhance mutual understanding between Asia and Latin America.

In addition, establishing an Asian and Latin American Summit Meeting will be important as a next step, as trans-regional cooperation between Asia and Latin America can become the genuine agenda for creating a framework for cooperation between the two.

The new close relationship between Asia and Latin America deserves more recognition, for the two are the fastest-growing regions in the world.

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Appendix

1. Korea's Overseas Investment Stock by Industry

(millions of dollars, %)

	1980	1985	1990	1992	1994	September 1995
Mining	1.5(1.1)	171.2(35.4)	446.7(19.1)	580.3(12.9)	678.1(8.9)	693.0(7.2)
Forestry	22.4(16.0)	62.9(13.0)	77.6(3.3)	77.3(1.7)	79.2(1.0)	77.6(0.8)
Fishery	9.0(6.4)	6.2(1.3)	87.8(3.8)	123.9(2.7)	104.8(1.4)	94.5(1.0)
Manufacturing	23.9(17.0)	92.8(19.2)	1,061.4(45.4)	2,273.7(50.5)	4,191.1(54.8)	5,455.3(56.7)
Construction	24.6(17.5)	36.0(7.4)	51.9(2.2)	61.2(1.4)	137.7(1.8)	196.7(2.0)
Transport & Storage	2.3(1.6)	2.5(0.5)	6.7(0.3)	23.9(0.5)	40.9(0.5)	74.0(0.8)
Trading	27.8(19.8)	71.8(14.8)	410.3(17.6)	938.0(20.8)	1,750.6(22.9)	1,934.2(20.1)
Real Estate	13.3(9.5)	22.9(4.7)	38.0(1.6)	84.7(1.9)	152.6(2.0)	159.4(1.7)
Others	15.4(1.1)	17.7(3.7)	155.3(6.6)	343.5(7.6)	513.8(6.7)	934.4(9.7)
TOTAL	140.3(100)	483.9(100)	2,335.7(100)	4,506.6(100)	7,648.8(100)	9,619.1(100)

Note: () represents the share of each industry in the total investment stock.

Source: Bank of Korea

2. Korea's Overseas Investment Stock of the Manufacturing Sector by Industry

(millions of dollars)

	1985	1990	1992	1994	September 1995
Food products and beverages	5.0	80.2	123.1	166.3	234.1
Textiles & Apparel	3.4	150.3	310.6	545.5	661.6

Footwear & Leather	2.3	49.6	90.3	210.1	258.2
Timber & Furniture	6.9	27.0	94.3	117.4	145.0
Paper & Printing	1.4	17.0	49.4	86.1	94.4
Petro-chemical products	18.5	129.1	264.5	408.1	497.3
Non Ferrous Metal	29.3	42.6	117.4	231.5	322.2
Basic Metals	4.5	247.8	399.0	464.4	497.3
Fabricated Metal Products, Machine and Equipment	15.7	279.9	667.2	1,627.4	2,355.4
Other manufacturing	5.8	37.7	157.9	334.3	409.8
TOTAL	92.8	1,061.4	2,273.7	4,191.1	5,455.3

Source: Bank of Korea

3. Korean Overseas Investments by Industry and by Year

(millions of dollars)

	Mining	Forestry	Fishery	Manufacturing	Construction	Transport & Storage	Trading	Others	TOTAL
1968-1980	1.5	24.9	10.4	32.9	26.3	2.6	30.6	16.0	145
1981	0.2	10.4	0.2	4.6	4.5	0.1	7.9	0.4	28
1982	69.1	7.0	0.1	6.1	5.9	0.3	8.9	3.4	101
1983	45.2	19.3	0.1	25.9	2.6	0.6	12.2	2.8	109
1984	15.1	5.3	0.1	13.04	4.5	0.1	7.9	3.9	50
1985	71.4	3.2	2.1	20.7	1.6	0.1	11.1	2.6	113
1986	83.1	0.5	3.8	73.2	1.9	0.1	15.4	4.7	183
1987	218.9	0.4	2.3	156.2	2.8	1.0	19.6	8.5	410
1988	65.0	0.5	13.6	82.2	6.4	0.5	42.7	5.5	216
1989	75.9	34.2	39.2	278.5	12.9	2.0	61.3	65.6	570
1990	152.0	5.6	27.9	488.9	4.9	1.7	223.2	54.5	959
1991	123.3	0.3	14.4	598.1	12.7	9.3	232.9	124.2	1,115
1992	150.1	1.9	26.0	651.3	0.4	9.7	303.3	75.4	1,218

1993	144.7	4.4	7.8	536.1	20.2	6.1	413.4	127.6	1,262
1994	111.7	1.0	8.7	1,489.1	64.3	11.4	487.9	124.1	2,305
1995	74.3	3.2	12.4	1,982.0	78.5	36.2	299.7	579.7	3,064
1996	216.0	6.3	3.6	2,182	82.6	15	929.5	698.5	4,134
TOTAL	1,618	128	173	8,626	330	97	3,107	1,897	15,976
Share (%)	10.1	0.8	1.0	54.1	2.1	0.6	19.5	11.9	100.0

Note: Above statistics are made on the basis of gross investment. In this regard, they differ from actual investment that excludes withdrawal.

Source: Korea Ministry of Finance and Economy

4. Korean Investment Stock in Latin American Countries by Industry as of the End of 1995
(millions of dollars)¹⁴

	Mining	Forestry	Fishery	Manufacturing	Construction	Transport & Storage	Trading	Others	TOTAL
Argentina	16.3(2)		27.2(24)	0.1(2)	0.9(1)		1.5(1)		46.0(30)
Barbados								0.4(1)	0.4(1)
Bermuda				0.7(1)					0.7(1)
Bolivia				0.9(2)			0.11)	0.8(1)	1.8(4)
Brazil				17.3(5)			0.5(4)	2.1(1)	19.8(10)
Cayman Islands			0.5(1)					8.3(1)	8.8(2)
Chile	16.4(1)		3.8(5)	3.5(5)			1.8(3)		26.0(14)
Colombia				2.6(2)			1.0(2)		3.6(4)
Costa Rica				8.7(8)				2.5(1)	11.2(9)
Dominica				3.6(3)					3.6(3)
Ecuador				0.6(1)			0.3(2)		0.9(3)
El Salvador				7.4(7)					7.4(7)
Guatemala				20.8(30)					20.8(30)
Guyana		3.6(1)							3.6(1)
Honduras				0.3(2)	20.9(24)				21.2(26)
Jamaica				9.2(8)					9.2(8)
Mexico			0.1(1)	57.4(16)	0.02(1)		8.2(3)	0.3(1)	66.0(22)
Nicaragua		1.0(1)		2.3(1)					3.3(2)
Panama			13.1(16)	29.3(13)		7.3(7)	16.3(5)	1.0(2)	66.9(43)

Paraguay				1.7(2)					1.7(2)
Peru									0(0)
Saint Lucia				0.5(2)					0.5(2)
Saint Vincent				0.9(1)					0.9(1)
Surinam								0.2(1)	0.2(1)
Uruguay			0.02(1)						0.02(1)
Venezuela							0.8(2)		0.8(2)
Virgin Islands			0.3(1)	4.7(2)	1.5(1)		3.9(2)		10.4(6)
TOTAL	32.7(3)	4.6(2)	46.1(52)	192.8(134)	2.5(4)	7.3(7)	34.3(25)	16.6(11)	337.0(238)

Note: () represents the number of projects. Source: Bank of Korea

¹Park, Yung Chul and Won-Am Park(1993). Capital movement, real asset speculation, and macroeconomic adjustment in Korea in Helmut Reisen and Bernard Fisher, eds., Financial opening : Policy Issues and Experience in Developing Countries(Paris: OECD)

²In 1996, Korea's outward FDI flow recorded \$4,134 million, 34.8% increase from \$3,067 million in 1995, while the inward FDI flow increased at a more rapid rate at \$3,201 million, 64.9% increase from \$1,941 millions in 1995.

³UNCTAD, World Investment Report 1995

⁴UNCTAD. World Investment Report 1995(New York), p241-244

⁵Sung, Yun-Wing. Subregional Economic Cooperation: Hong Kong ,Taiwan, South China and beyond, in Chen, Edward K.Y. And Peter Drysdale, eds., Corporate Links and Foreign Direct Investment in Asia and the Pacific(Australia, 1995), P59

⁶Woo, Je-Ryang, The investment Strategy of the Korean Companies in Latin America, (Paper presented at the Seminar for the Korean Companies in Seoul, August 1996).

⁷Oman, Charles. New Forms of Foreign Direct Investment: The Cases of India, Korea and Brazil(Paris, 1993) OECD

⁸ Kim, Seong-Soo. Determinants of Magnitude of Foreign Dirrect Investment: An Analysis of Korean Manufacturing MNCs, Dissertation presented to University of North Texas(1993)

⁹ UN, Foreign Investment and Trade Linkages in Developing Countries(New York, 1993), p30

¹⁰Petri, Peter A. Interdependence of Trade and Investment in the Pacific, in Chen, Edward K.Y. And Peter Drysdale, eds., Corporate Links and Foreign Direct Investment in Asia and the Pacific(Australia, 1995)

¹¹ Wint, Alvin George. Investment promotion: How Governments Compete for Foreign Direct Investmet, Dissertation presented to Harvard University(1988), p5-2

¹²This figure is incidentally the same as the share of Latin America in the world GDP in 1995.

¹³ Kim, Won-Ho. Economic Cooperation with Latin America (Paper presented at a Seminar for the Korean companies in August 1996, Seoul)

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