

# Dialogue on Korean Development Experience: Lessons for Bangladesh

Tuesday 23 December 2014  
The Westin Dhaka, Bangladesh

Session 1

Korea's Experience of Regional Cooperation: Lessons for Bangladesh

## **Korean Experience of Economic Cooperation** *Perspectives from Bangladesh*

Presented by

*Dr Khondaker Golam Moazzem*

Additional Research Director  
Centre for Policy Dialogue (CPD)

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Embassy of the Republic of Korea



Centre for Policy Dialogue (CPD)

## CPD Study Team

Dr Khondaker Golam Moazzem  
Additional Research Director  
Centre for Policy Dialogue (CPD)

and

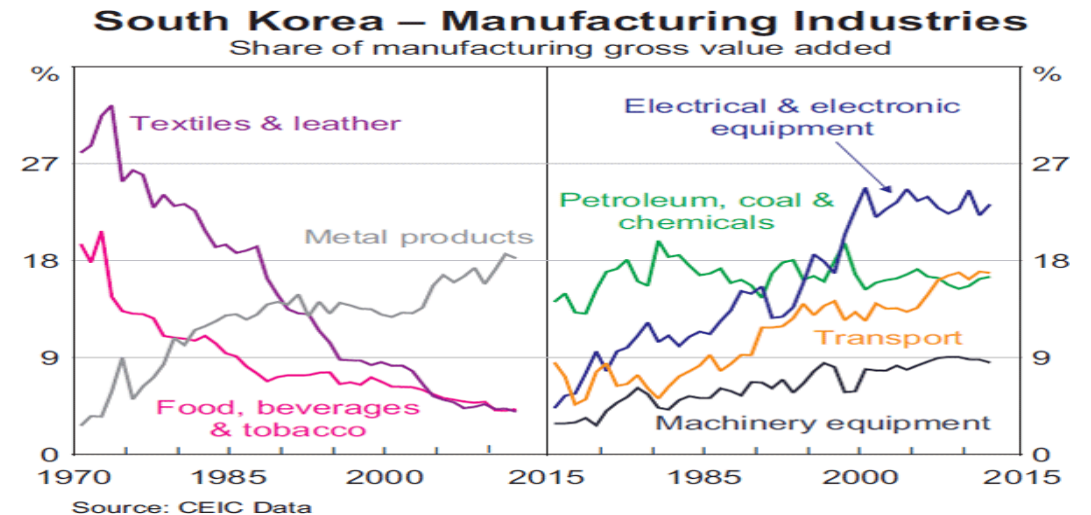
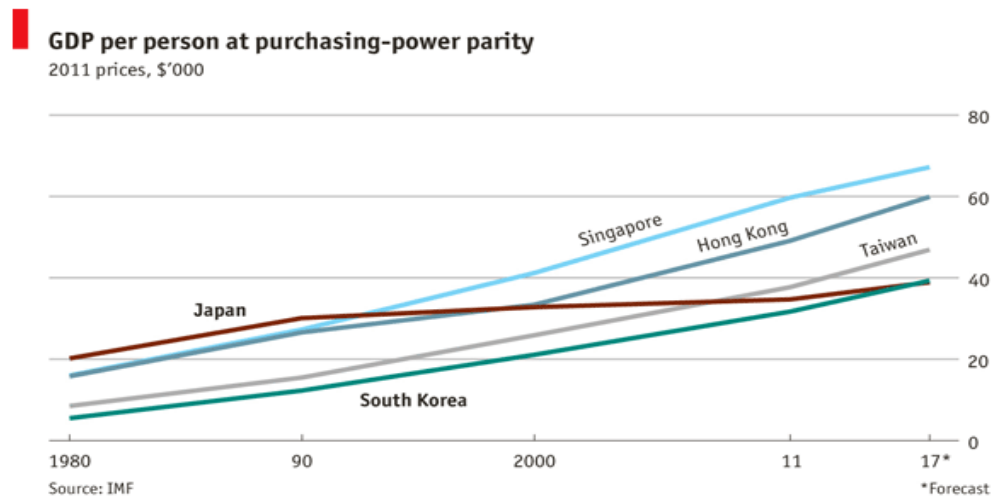
Ms. Meherun Nesa  
Research Associate  
Centre for Policy Dialogue (CPD)

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# 1. Korea's Growth and Development: Lessons for Bangladesh

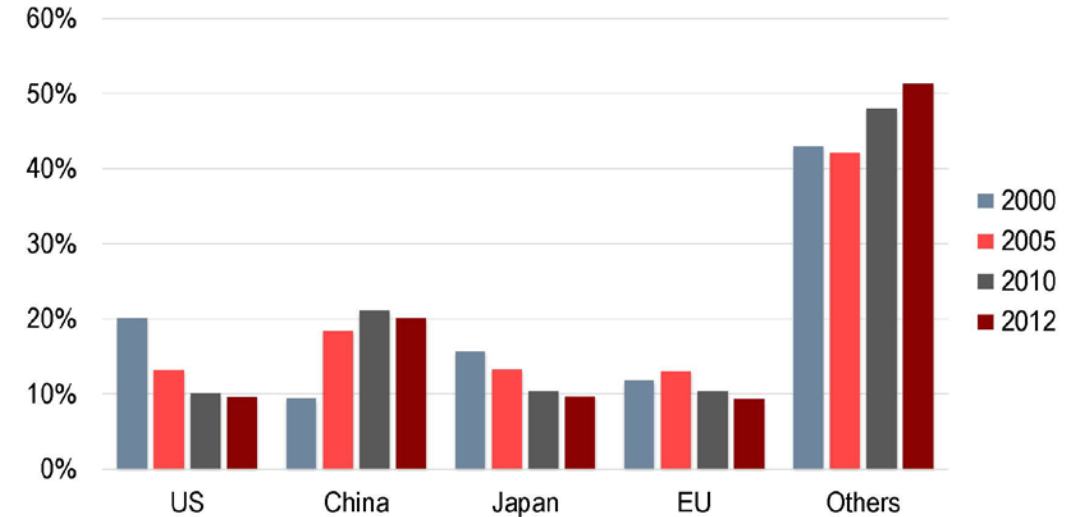
- Spectacular economic growth of South Korea in last 5 decades is an illustration of success of export-led industrialization (Taeho Bark, 2013)
  - Nominal GDP per capita grew about 250 times (\$80 to \$20,000) and became the economy with GDP over \$ 1 trillion; Per capita GDP is likely to overtake of Japan
  - Exports grew on average by more than 20% a year over three decades and more
  - Korean economy experienced major structural changes
  - Shipbuilding (2nd), steel (6th), automobile (5th), semiconductor (1st), smart-phone (1st), petrochemical (4th)
  - Became the 9th country with trade volume over 1 trillion USD in 2011
  - Became the 7th largest exporting country in 2010; 3% of the global export market share



# 1. Korea's Growth and Development: Lessons for Bangladesh

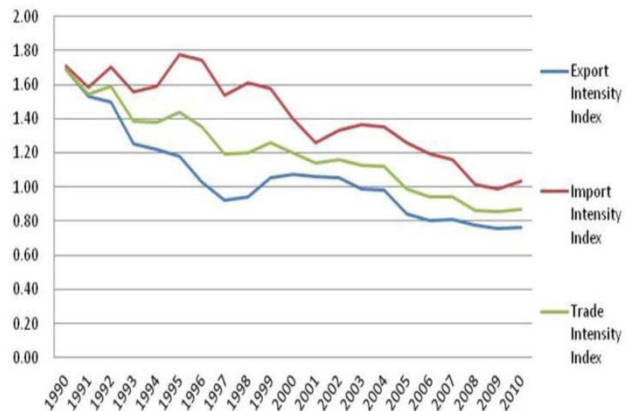
- Korea's bilateral trade pattern has changed over time.
  - Trade intensity with major economies has changed
- China is the single largest trade partner of Korea; overtaken USA, Japan and EU.
  - Korea-China trade increased from 6.3 billion USD in 1992 to 215.1 billion USD in 2012, which is a 34-fold increase.
- ASEAN countries are increasingly becoming major trade partner of Korea.
  - Korea's trade volume with ASEAN reached 131 billion USD (12.2%) in 2012 with Korea at 17.2 billion USD in surplus.
  - Korea-ASEAN trade is larger than Korea's bilateral trade with the US, Japan, or EU.

## Korea's Major Trade Partners

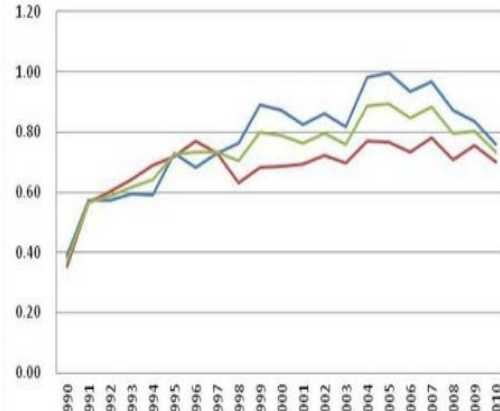


Source: Excerpts from Taeho Bark, 2013

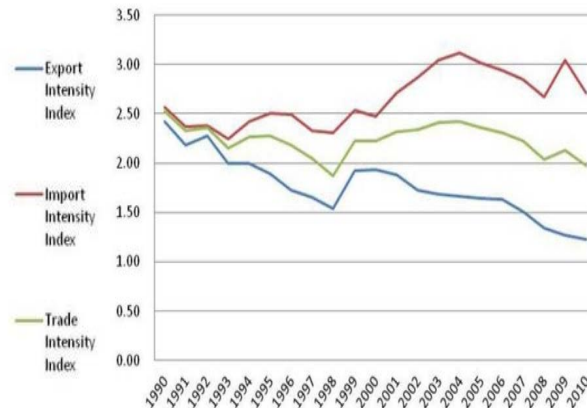
Trade Intensity Index : Korea - US



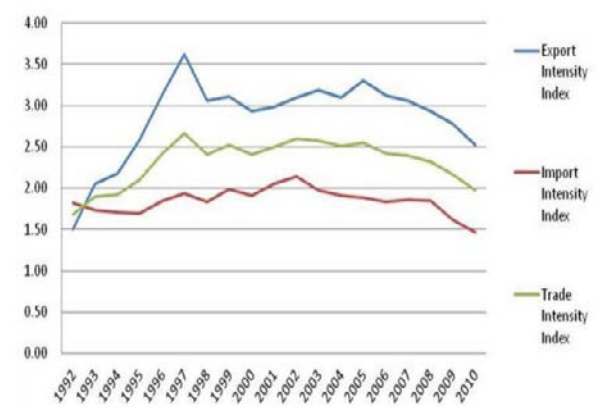
Trade Intensity Index : Korea - EU



Trade Intensity Index : Korea - Japan



Trade Intensity Index : Korea - China



Source: Excerpts from Taeho Bark, 2013

## 2. Economic Cooperation: Korean Perspective

- Since the establishment of the FTA Roadmap in 2003, Korea has actively pursuing FTAs with its key trading partners.

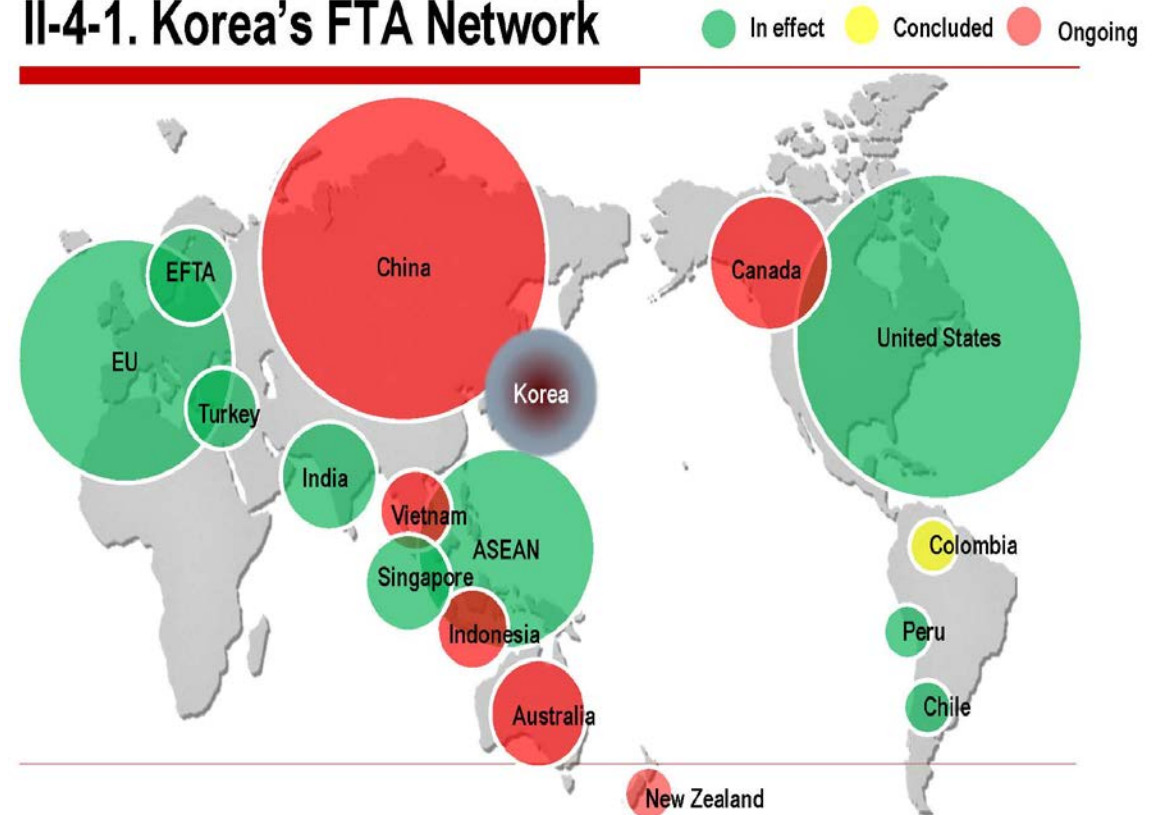
### **Motivations of FTA (Taeho Bark, 2013)**

- Penetrating into foreign markets
- Attracting foreign investments and technology
- Coping with the multiplying FTAs among other countries and regions (Domino Effect)
- Weakening of the multilateral trading system of the WTO
- Establishing international production network
- Regulatory reforms through opening of domestic market
- Competition for regional hegemony
- Enhancing negotiating power

## 2. Economic Cooperation: Korean Perspective

- Nine FTAs are in effect
  - Chile, Singapore, EFTA, ASEAN, India, EU, Peru, US, Turkey
- FTAs concluded
  - Columbia (in the process of domestic ratification).
- FTAs currently under negotiations
  - China, Canada, Mexico, GCC, Australia, New Zealand, Indonesia, Vietnam, Korea-China-Japan, RCEP (ASEAN+6), Korea-Japan
- FTA negotiations Korea considers to start
  - MERCUSUR, Israel, Central America, Malaysia
- If such FTAs come into effect, South Korea will become an 'FTA hub', engaged in free trade with economies representing over 70 per cent of the global economy

### II-4-1. Korea's FTA Network

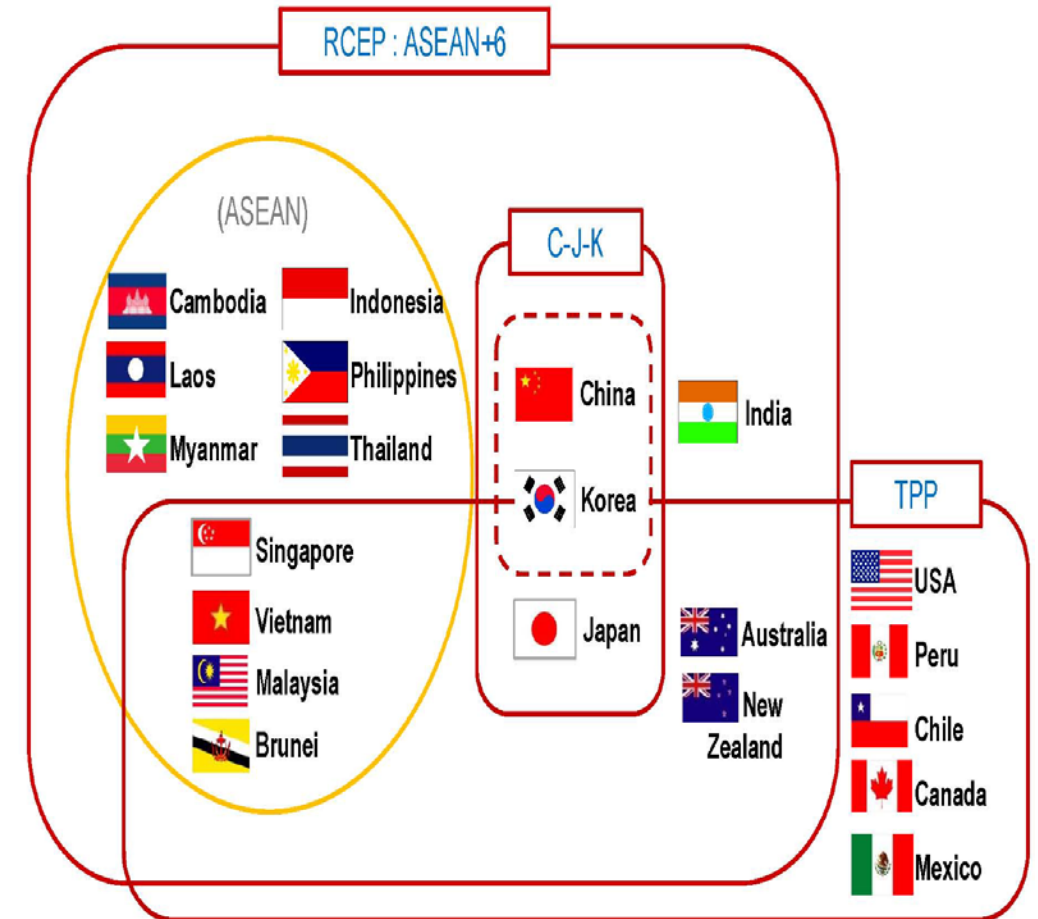


Source: Excerpts from Taeho Bark, 2013

## 2. Economic Cooperation: Korean Perspective

- The US-led Trans-Pacific Partnership (TPP) is the initiative to form mega-regional trade bloc in the Asia-Pacific region.
- Since South Korea has already signed FTAs with most current TPP members and is engaged in FTA negotiations with those remaining, there is no immediate incentive for it to join the TPP.
- If South Korea joins the TPP at this juncture, most effects of the FTAs would diminish significantly.
- South Korea's decision to join the TPP will depend on careful consideration of factors such as regionalism with respect to China and Japan, progress in the trilateral FTA negotiations and participation by other countries in the Asia Pacific.
- In spite of all this, South Korea may get prepared to join the TPP in the medium term.
- It is important to note that formation of the TPP is likely to have adverse effect on LDCs.

### Trade Integrations in Asia-Pacific



Source: Excerpts from Taeho Bark, 2013



## 2. Economic Cooperation: Korean Perspective

- Korea's outward FDI flow has increased in recent years
- Host market size has a positive influence on it
  - This indicates that market seeking is a key motivation for outward FDI
- South Korean outward FDI is also driven by the motive to acquire strategic assets
- South Korean outward FDI functions not only to exploit ownership advantages but also to obtain previously out-of-reach competitive advantages

**Korea's Outward Flow of FDI (million US\$)**

Outward Flow of FDI	2008	2010	2011	2012	2013
South Korea	19633	28280	29705	30632	29172
World	1999326	1467580	1711652	1346671	1410696
Share of World Flow (%)	0.98	1.93	1.74	2.27	2.07
<b>Outward Stock of FDI</b>	<b>1990</b>	<b>2013</b>			
South Korea	2301	245882			
World	2087908	26312635			
Share of World Stock (%)	0.11	0.93			

Source: Bangladesh Bank Survey data

### 3. Korea's Economic Cooperation with LDCs

#### **Preferential Market Access to Products Originated from the LDCs**

- South Korea provides preferential market access to products originated from developing and LDCs.
- List of tariff preferences for LDCs include over 11000 products (HS 10 digit level).
  - RoO is very high (40 per cent local value addition)

#### **Development Assistance**

- In 2010, Korea took the lead in adopting the “Seoul Development Consensus for Shared Growth” and its “Multi-Year Action Plan on Development” during the G20 Seoul Summit
- In 2011, assuming co-chairs of the G20 Development Working Group, Korea played a leading role in implementing the G20 development agenda
- At the Cannes Summit, the G20 identified major bottlenecks to development in developing countries and provided solutions in key pillars including 'infrastructure' and 'food security.'
- In 2011, Korea hosted the Fourth High Level Forum on Aid Effectiveness (HLF-4)
- As the host country of the HLF-4, Korea played a key role in shaping the agenda and providing logistical support for the success of the forum

# 3. Korea's Economic Cooperation with LDCs

## Development Assistance

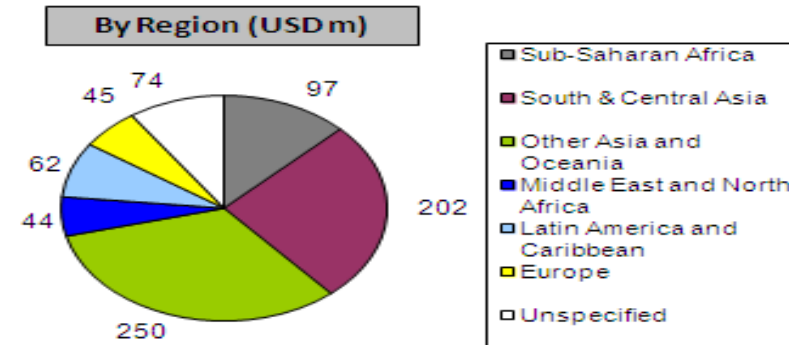
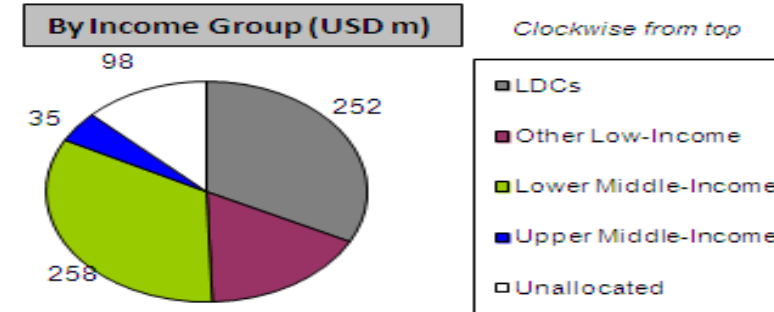
### KOREA

Net ODA	2009	2010	2011	Change 2010/11
Current (USD m)	816	1 174	1 325	12.9%
Constant (2010 USD m)	933	1 174	1 245	6.1%
In Won (billion)	1 040	1 356	1 467	8.2%
ODA/GNI	0.10%	0.12%	0.12%	
Bilateral share	71%	77%	75%	

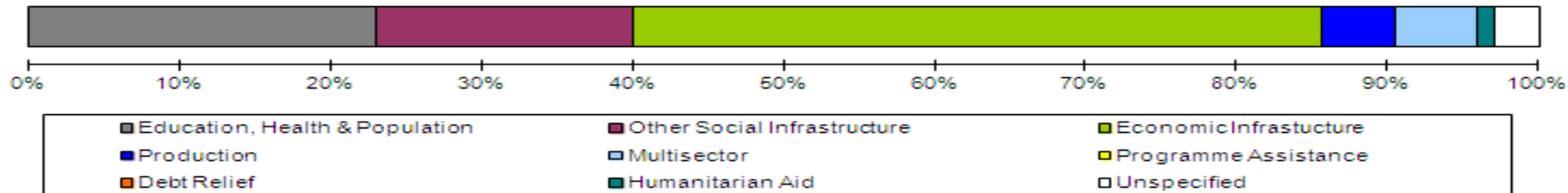
P. Preliminary data.

Top Ten Recipients of Gross ODA (USD million)	
1 Vietnam	82
2 Afghanistan	59
3 Mongolia	36
4 Bangladesh	36
5 Sri Lanka	34
6 Indonesia	30
7 Cambodia	27
8 Philippines	27
9 Laos	26
10 Angola	24
Memo: Share of gross bilateral ODA	
Top 5 recipients	32%
Top 10 recipients	49%
Top 20 recipients	68%

Gross Bilateral ODA, 2009-10 average, unless otherwise shown



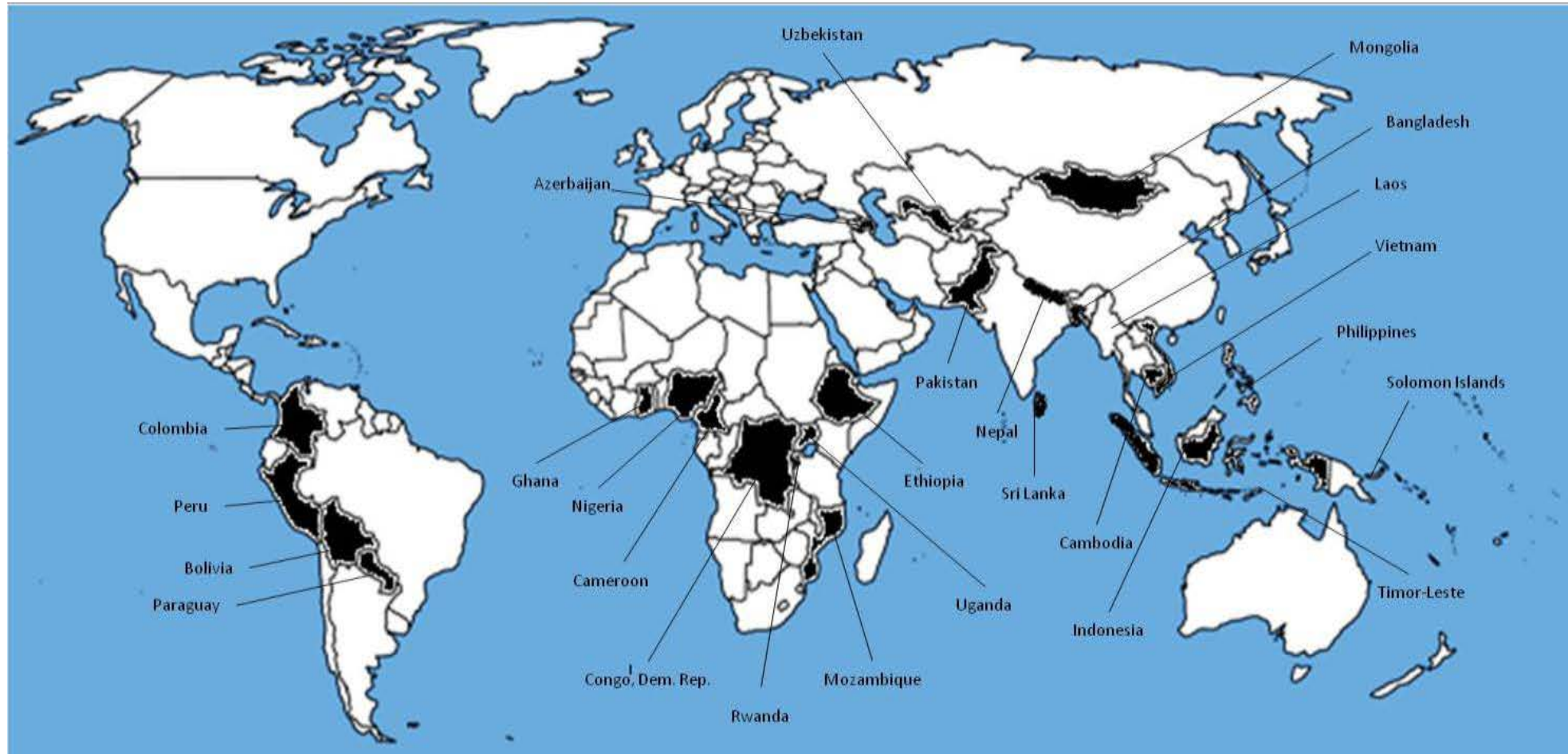
**By Sector**



### 3. Korea's Economic Cooperation with LDCs

#### Development Assistance

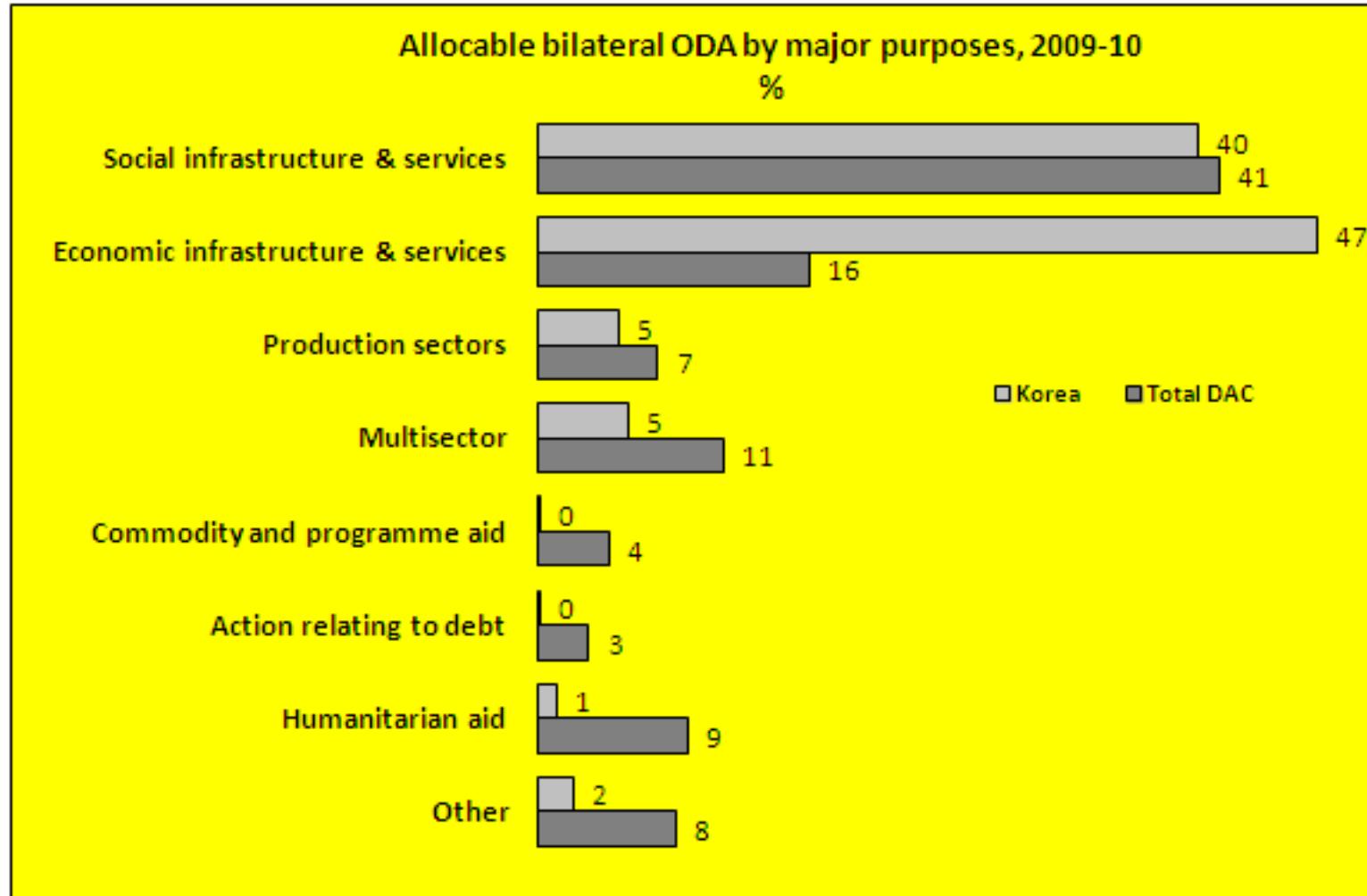
Korea's 26 priority partner countries, 2012



Source: OECD, 2012

### 3. Korea's Economic Cooperation with LDCs

#### Development Assistance



Source: OECD, 2012

### 3. Korea's Economic Cooperation with LDCs

#### **Future Direction of Korea's ODA**

- Korean government is fully committed to fulfilling the pledge to triple its ODA volume to USD 3 billion or 0.25% of its GNI by 2015
- Korea is also endeavoring to improve the quality of development assistance
  - By undertaking fundamental reforms in the ODA system including increasing the share of untied aid
- In October 2010, Korea adopted the "Strategic Plan for International Development Cooperation"
- Three core pillars of strategies include
  - Systematically documenting the development contents of successes and failures derived from Korea's development experience
  - Strengthening ODA implementing capacities
  - Taking a proactive role in addressing global issues

## 4. Bangladesh-Korea Economic Relation

- Bangladesh's export to Korea has registered a significant rise over the last several years.
  - Av. yearly growth (2005-13): 80%.
  - Share of export to Korea is very low compared to over all export share to non-traditional markets (about 12-15%).
- Import from Korea has registered rise at moderate level.
  - Its share in Bangladesh's global import did not rise over the years.
- Compared to other East Asian countries, trade with Korea has remained at moderate level
- Opportunities for enhancing bilateral trade is largely unexplored

**Bilateral Trade between Bangladesh and Korea ('000 US\$)**

	2005	2010	2011	2012	2013
<b>Bangladesh's Export</b>					
to Korea	43647	155233	201358	295049	332478
to World	9331583	19230983	24313744	27270682	30999233
Share of BD's Export to Korea	0.47	0.80	0.82	1.01	1.07
<b>Bangladesh's Import</b>					
from Korea	583154	1222361	919114	1458891	1427204
from World	12630526	30503835	41221652	30960075	33337324
Share of BD's Import from Korea	4.62	4.00	2.23	4.71	4.28

Source: Trade Map

**Bilateral Trade between Bangladesh and East Asia: Position of Korea ('000 US\$)**

	2005	2010	2011	2012	2013
<b>Bangladesh's Export to</b>					
Korea	43647	155233	201358	295049	332478
East Asia	354321	978275	1352400	1688865	1828488
Korea's Share in Export to East Asia	12.32	15.87	14.89	17.47	18.18
<b>Bangladesh's Import from</b>					
Korea	583154	1222361	919114	1458891	1427204
East Asia	3730679	9447776	6453858	12468298	12005878
Korea's Share in Import from East Asia	15.64	12.94	14.25	11.70	11.88

Source: Trade Map

## 4. Bangladesh-Korea Economic Relation

- Despite having duty-free market access for Bangladeshi products in the Korean market, Bangladesh has yet to enhance its export to Korea
  - RoO: high local content requirement (40%)
- Top 20 products are accounted for 83 per cent of total export
  - Leather, T-shirts, cooper ally, trousers, light petroleum oil, anoarks, footwear, other garment products.
  - Major products are those which have domestic backward linkage industries.
  - Facilitate to diversify export.
  - If Korea relaxes the RoO, Bangladesh would be able to export much to Korean market
- Bangladesh's competing countries enjoy advantages in bilateral trade with Korea
  - Graphical proximity (China, Vietnam, Cambodia)
  - Operation of FTA (India; Vietnam in the future)
- Major Imported products from Korea include machineries, iron steel, telephones, automobiles, machineries for air-conditioning system, knitting machines, electroplates
  - Mostly capital machineries, raw materials and intermediate products



## 4. Bangladesh-Korea Economic Relation

- Korea has impressive investment record in Bangladesh.
  - Korea is the major investor among the East Asian countries
- Major Korean investment target to different manufacturing industries including textiles, leather goods and banking
  - Korea has the largest investment in textiles among East Asian countries and it accounted for 1/4<sup>th</sup> of total FDI in textiles and apparels
  - A major share of Korea's FDI include trading, leather and leather products
- Over 31000 Bangladeshis are currently working in Korea.
  - Mainly skilled workers
  - Average 1000 workers migrated every year
  - Less than 0.5 per cent of total Bangladeshis are working in Korea
- There is huge potentials for Bangladeshi skilled workers/professionals in Korean labour market

## 4. Bangladesh-Korea Economic Relation

**FDI Stock from Korea to Bangladesh Compare to Total FDI Stock from World (mil. US\$)**

	2005	2010	2011	2012	2013	2014
<b>Total FDI Stock</b>	3537.15	6072.07	6165.81	7750.24	8593.49	8624.81
<b>FDI Stock from Korea</b>	204.92	340.05	390.24	573.75	640.62	661.07
<b>Share of Korean FDI Stock among East Asian countries</b>	35.38	28.48	29.09	38.78	43.34	42.56
<b>Share of Korean FDI Stock among total FDI Stock</b>	5.79	5.60	6.32	7.40	7.45	7.6

Source: Bangladesh Bank, 2014

**Sectoral Distribution of Korea's FDI in Bangladesh (mil. US\$)**

Country	Year	Gas	Textile & Wearing	Bank	Telecommunication	Power	Food	Cement	Fertilizer	Metal & Machinery Products	Agriculture & Fishing	Chemicals & Pharmaceuticals	Trading	Leather & Leather Products	Leasing	Others
Korea	2014	-	449.10	62.82	-	-	0.13	-	-	0.13	4.57	0.29	18.55	51.07	-	74.54
Total Stock	2014		1215.8	1923.4	1651.3	1174.1	471.1	188.2	240.7	-	-	232.2	170.8	173.4	124.8	-
Share of Korea among Total FDI stock (%)	2014	-	23.3	3.8	-	-	0.06	-	-	-	1.9	0.16	10.6	40.9	-	7.6

Source: Bangladesh Bank, 2014

## 4. Bangladesh-Korea Economic Relation

- Korean EPZ is the first private sector EPZ in Bangladesh
  - The country's largest private export processing zone
- KEPZ has faced different kinds of problems:
  - Government plans to take back part of the 2,492 acres of land allotted to the KEPZ 16 years ago
  - Land related and legal tangles triggered mainly by the non-cooperation from the local administration and some government agencies and public representatives
  - Several foreign investors, including the Japanese, over the years had contacted the KEPZ authorities for plots but had to back out realising the land related complications
  - KEPZ did not get gas and electricity as per the understanding with the government: 160 megawatts of electricity in phases and 80 million cubic feet of gas a day
  - But KEPZ received only 14 megawatts of electricity and no gas supply. About 84MW electricity from a 100MW power plant built for the KEPZ is being supplied to others

## 4. Bangladesh-Korea Economic Relation

- Bangladesh and South Korea have signed a framework agreement on March 18, 2014 to increase aid volume.
  - Country Partnership Strategy for Bangladesh (2012-2015)
  - Major focus on health, education, and governance
- KOICA is implementing eight development projects with a total cost of \$42.7 million
  - \$13.75 million project for Establishment of National Institute of Advanced Practice Nurses in Bangladesh.
  - So far, more than 1500 government officials received professional trainings and master degrees from different specialized Korean institutions and universities
- KOICA also supported Bangladesh in rural and agricultural development, ICT and reducing climate change impacts

**Korean ODA to Bangladesh (million US\$)**

	2005	2010	2012
<b>All Recipient</b>	752.4	1173.8	1597.5
<b>Bangladesh</b>	31.9	54.7	46.8
<b>Share of ODA to Bangladesh (%)</b>	4.24	4.65	2.92

Source: OECD, 2014

**Share of Korean ODA to Bangladesh (million US\$)**

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Korean Aid</b>	20.07	74.60	60.13	37.84	13.29
<b>Total Aid</b>	2227.77	1777.16	2126.47	2811.00	1827.30
<b>Share of Korean Aid</b>	0.90	4.19	2.82	1.34	0.72

Source: Bangladesh Economic Review, 2014

## 5. Prospect for Enhancing Economic Cooperation between Korea and Bangladesh

- There is strong potential for enhancing trade cooperation between Bangladesh and Korea
- Bangladesh may have both for offensive and defensive interests
  - Defensive: Korea has already signed a number of agreements with competing countries (e.g. India, ASEAN) and is negotiating with Vietnam
  - Offensive: Bangladesh has potentials to enhance trade in goods and services in Korea
  - Signing of FTA would reduce the level of RoO
- Bangladesh imports most of the exported products that is in Korea's top 50 list
  - Most of those products have limited domestic manufacturing base
- Bangladesh's export to Korea would rise significantly if RoO make more flexible
  - Bangladesh would better compete with other countries

# 5. Prospect for Enhancing Economic Cooperation between Korea and Bangladesh

## Possible 'Natural Partners' for Forming FTA

Bangladesh's Export Side			Bangladesh's Import Side		
Export to -	No. of Top 50 Products Exported	Tariff Faced by Bangladesh's Products	Import from -	No of Imported Products by Bangladesh	Tariff Range
Australia	34	0	Australia	13	0-16.7
Belgium	47	0	Belgium	18	5
Brazil	28	12997	Brazil	17	0-25
Canada	49	0	Canada	15	0-25
China	35	3-13.6	China	35	0-25
Czech	35	0	Czech	6	0-25
Denmark	36	0	Denmark	5	0-25
France	46	0	France	22	0-25
Germany	49	0	Germany	33	0-25
India	11	0	India	42	0-25
Italy	47	0	Italy	22	5----25
Japan	42	0	Japan	26	0-25
Malaysia	11	0-343.7	Malaysia	28	0-25
Mexico	29	0-30	Mexico	14	0-25
Netherlands	45	0	Netherlands	25	0-25
New Zealand	22	0	New Zealand	5	0-25
Norway	33	0	Norway	4	5----25
Poland	45	0	Poland	6	0-25
Portugal	10	0	Portugal	3	14.6-25
<b>Korea</b>	<b>28</b>	<b>1.5-13</b>	<b>Korea</b>	<b>28</b>	<b>0-25</b>
Russia	44	0-32.8	Russia	16	0-25
Spain	49	0	Spain	20	0-25
Turkey	43	0-25	Turkey	20	0-25
UK	47	0	UK	19	0-25
USA	50	0-20.3	USA	29	0-25

Source: Trade map

## 5. Prospect for Enhancing Economic Cooperation between Korea and Bangladesh

### Major Exporters of Top 50 Products Imported by Korea from Bangladesh in 2013

Product code	Top 10 Products Exported to Korea by Bangladesh	Korea, Republic of's imports from Bangladesh (US\$)	Major Exporters of Korea
'410712	Grain splits leather "incl. parchment-dressed leather", of the whole h	75841	Bangladesh, Italy, Brazil, <b>India</b> , Pakistan
'610910	T-shirts, singlets and other vests, of cotton, knitted	23629	<b>China</b> , <b>Vietnam</b> , <b>Indonesia</b> , Bangladesh, Myanmar
'740400	Waste and scrap, copper or copper alloy	22828	USA, South Africa, Saudi Arabia, Philippines, Thailand
'620342	Mens/boys trousers and shorts, of cotton, not knitted	20623	<b>China</b> , <b>Vietnam</b> , Myanmar, Bangladesh, Italy
'271012	Light petroleum oils and preparations	16800	UAE, Qatar, <b>India</b> , Saudi Arabia, Kuwait
'620193	Mens/boys anoraks and similar articles, of man-made fibres, not knitted	16019	<b>Vietnam</b> , <b>Myanmar</b> , <b>China</b> , <b>India</b> , Bangladesh
'630622	Tents, of synthetic fibres	14317	<b>China</b> , Bangladesh, <b>Vietnam</b> , Taipei, Estonia
'640419	Footwear o/t sports, w outer soles of rubber/plastics&uppers of tex mat	10001	<b>China</b> , <b>Vietnam</b> , <b>Indonesia</b> , Bangladesh, Italy
'620462	Womens/girls trousers and shorts, of cotton, not knitted	8795	<b>China</b> , <b>Vietnam</b> , Italy, USA, Bangladesh
'620293	Womens/girls anoraks & similar article of man-made fibres, not knitted	8529	<b>Vietnam</b> , <b>China</b> , <b>Myanmar</b> , <b>Indonesia</b> , Bangladesh

Source: Trade Map

## 5. Prospect for Enhancing Economic Cooperation between Korea and Bangladesh

- Most of the products of Korea's export interest to Bangladesh face relatively low tariff mainly because of the nature of products such as raw materials and intermediate machineries (where tariffs are usually low).
- The number of finished consumer goods imported from Korea with high tariff (25 per cent) is small in number (9 out of 30 products).
  - Less pressure on domestic market as well as less pressure on loss of revenue.
- Although a large number of export products are apparels related (HS codes 61 and 62: 19 out of 31 products), a number of non-traditional export products are exported there.
- Thus, the scopes for enhancing export both traditional and non-traditional products are significant if RoO become flexible and preferential market access extended to other products.



## 5. Prospect for Enhancing Economic Cooperation between Korea and Bangladesh

- Now if Bangladesh could form FTA with Korea, its economy would be more competitive
  - Firstly, by enjoying the benefit at par with those of other South East Asian countries
  - Secondly, it would be better competitive over those of other supplying countries currently providing same or higher level of tariff vis-à-vis those of Bangladeshi product
  - The unit value of different exporting countries shows that Bangladeshi product is not necessarily the most competitive one in the Korean market
  - Hence reduction of tariff in other competing products as well as reduction of local content requirement under a possible FTA between Bangladesh and Korea would favourably contribute to Bangladesh's export to selected categories of products

## 5. Prospect for Enhancing Economic Cooperation between Korea and Bangladesh

- There are scopes for enhancing temporary migration to Korea (Mode 3) particularly for skilled workers.
- Korean investment in Bangladesh would accelerate if a regional value chain operate between countries of East Asia and South Asia
- By signing FTA, Bangladesh could attract Korean investment and trade in the value chains operate between Korea, China, India and ASEAN countries
- Korea's strong manufacturing base in SME related industries could benefit Bangladesh as well.

## 6. Concluding Remarks

- Bangladesh can take a number of lessons from Korea's success and strategies for economic cooperation.
  - Korea's policy for export-led industrialization could be a lesson Bangladesh to develop its manufacturing sector for global market
    - Korea has successfully utilized FTAs with major developed and developing economies
  - Korea's contribution towards development of developing world is increasingly visible.
  - Although Korea provides duty free market access to major products of Bangladesh under its GSP scheme for LDCs, Bangladesh has yet to utilise the facility due to high RoO.
    - Korea may consider reducing the level of local content requirement (RoO)
  - There are opportunities for further strengthening regional value chains which operate between East Asia and South Asia
    - Bangladesh could be a 'hub' in such regional value chains
  - Given the potentials for enhancing bilateral economic cooperation in terms of trade, investment and services, Korea and Bangladesh may consider signing a comprehensive economic partnership agreement (CEPA)
    - Proposed CEPA would highlight on FTA, investment and service related issues

Thank you.

<moazzemcpd@gmail.com>