

Dialogue on Korean Development Experience: Lessons for Bangladesh

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Session 1

Korea's Experience of Regional Cooperation: Lessons for Bangladesh

The Korean Economy in a Globalized World

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THE KOREAN ECONOMY IN A GLOBALIZED WORLD

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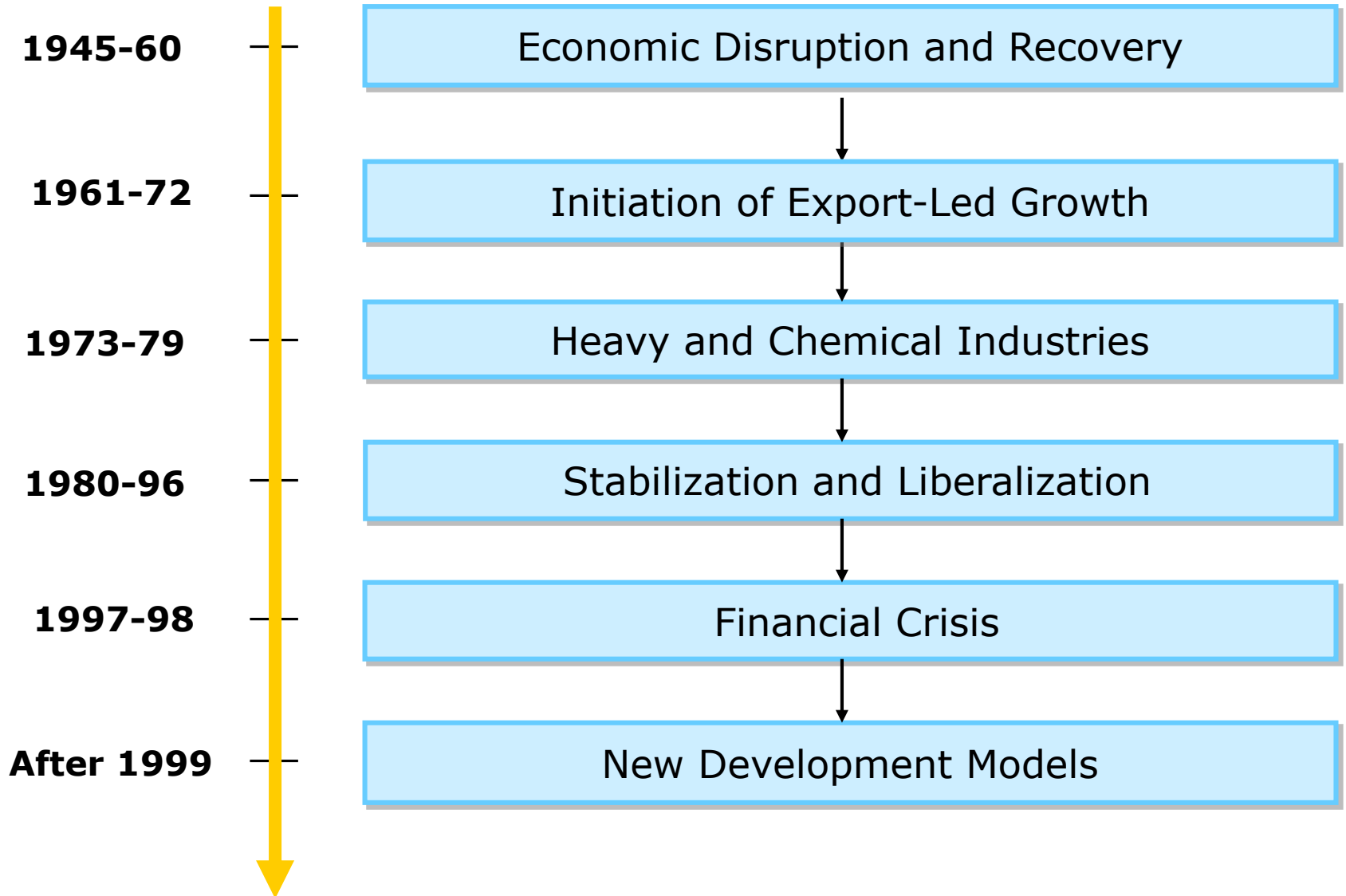


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Korea's Economic Growth: Overview



Korea's Economic Growth: Overview (Cont.)

Initial Condition of the Korean Economy: One of Poorest Countries in the World

- Japan's Imperial Control (1910-45)*
- The Korean War (1950-53)*
 - Extreme devastation*
 - Rapidly expanding population since the war*
 - Few manufacturing industries*
 - Agrarian economy with very low productivity*

*The Korean economy started from the ashes of the Korean war and succeeded in making of "**Miracle of Han River.**"*

*From the world's poorest agrarian society, Korea transformed itself to **one of the most fast-paced industrializing economy.***

Korea's Economic Growth: Overview (Cont.)

Stages of Economic Development in Korea

*The key element in the successful progress of the Korean economy can be credited to successive **Five-Year Economic Development Plans** started in 1962.*

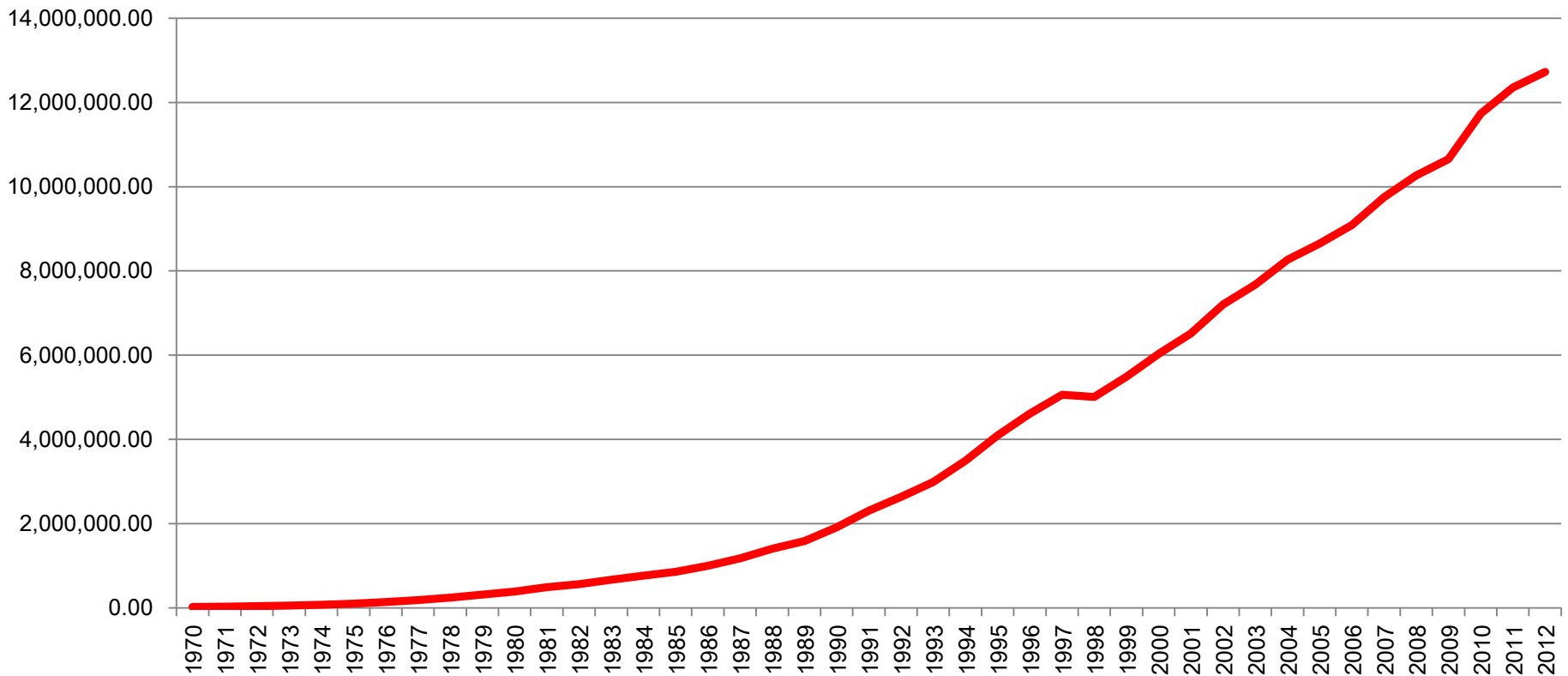
- 1961~72: Initiation of export-led growth (light industries)*
- 1973~79: Promotion of heavy industries and the chemical industry*
- 1980~96: Stabilization, liberalization, and renewed growth*
- 1997~98: Asian financial crisis*
- 1999~current: New development models*

Korea's Economic Growth: Overview (Cont.)

Korea's GDP since 1970

- GDP (Current): \$8.2 bill. in 1970, \$1,304.3 bill. in 2013 (159.1 times)
- Per Capita Income: \$253 in 1970, \$25,972.5 in 2013 (102.7 times)

Trend of GDP (Hundred Million Won, Current Price)



Korea's Economic Growth: Overview (Cont.)

Korea's GDP Growth Rates since 1970

- Average of annual growth rates

1971-2010 (40 years): 7.4%

1971-80: 9.1%;

1981-90: 9.8%

1991-2000: 6.6%;

2001-10: 4.2%

- Years over 10%: 1971 (10.4%), 1973 (14.8%), 1976 (13.5%), 1977 (11.8%), 1978 (10.3%), 1983 (12.2%), 1986 (12.2%), 1987 (12.3%), 1988 (11.7%), 1999 (10.7%)

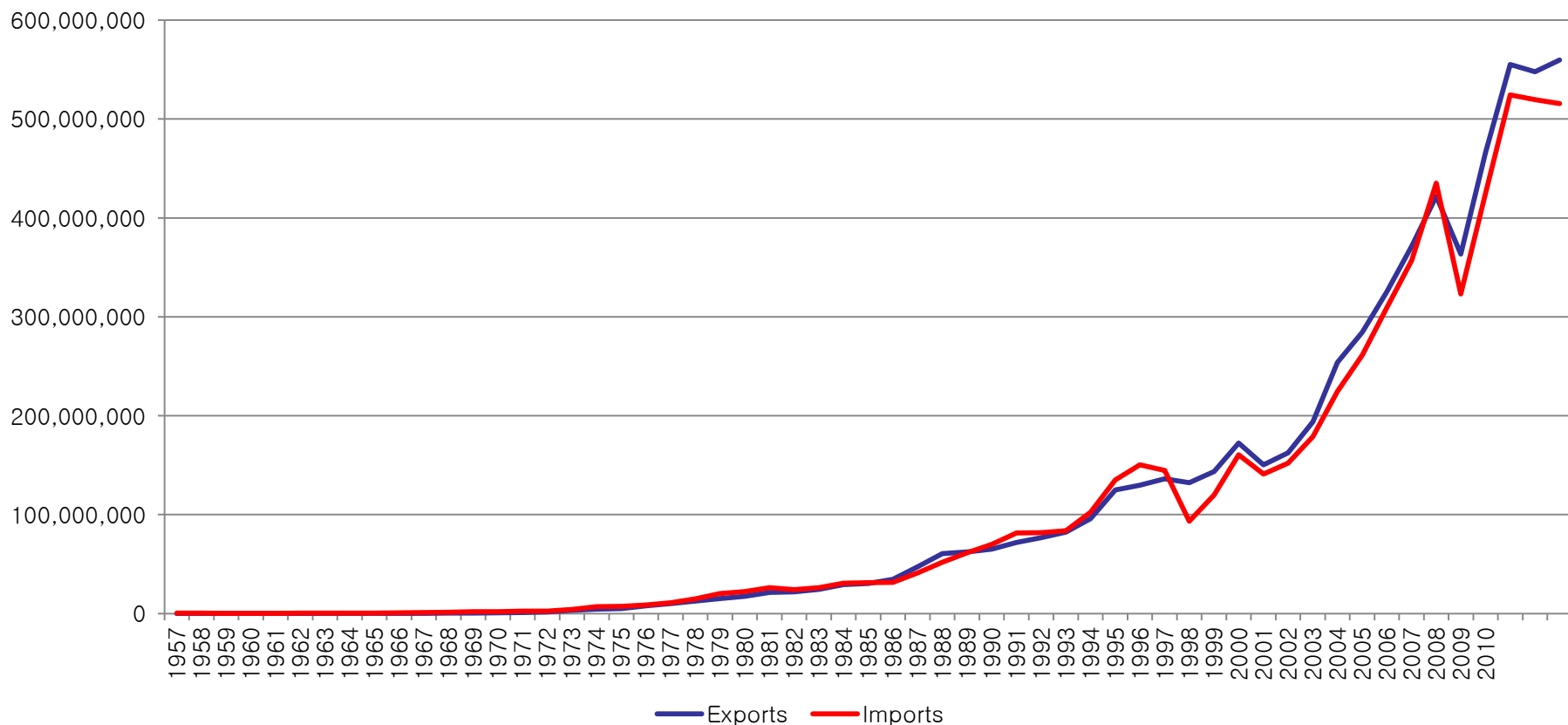
- Years with negative growth rates: 1980 (-1.9%), 1998 (-5.7%)

- Economic growth in recent years: 2006 (5.2%), 2007 (5.1%), 2008 (2.3%), 2009 (0.3%), 2010 (6.3%), 2011 (3.7%), 2012 (2.0%), 2013 (2.8%)

Trade Performance in the Development Process

Overview of Korea's Trade

- Korea's trade statistics show dramatic trade growth between 1957 and 2013, even though the recent trade collapse due to the financial crisis.



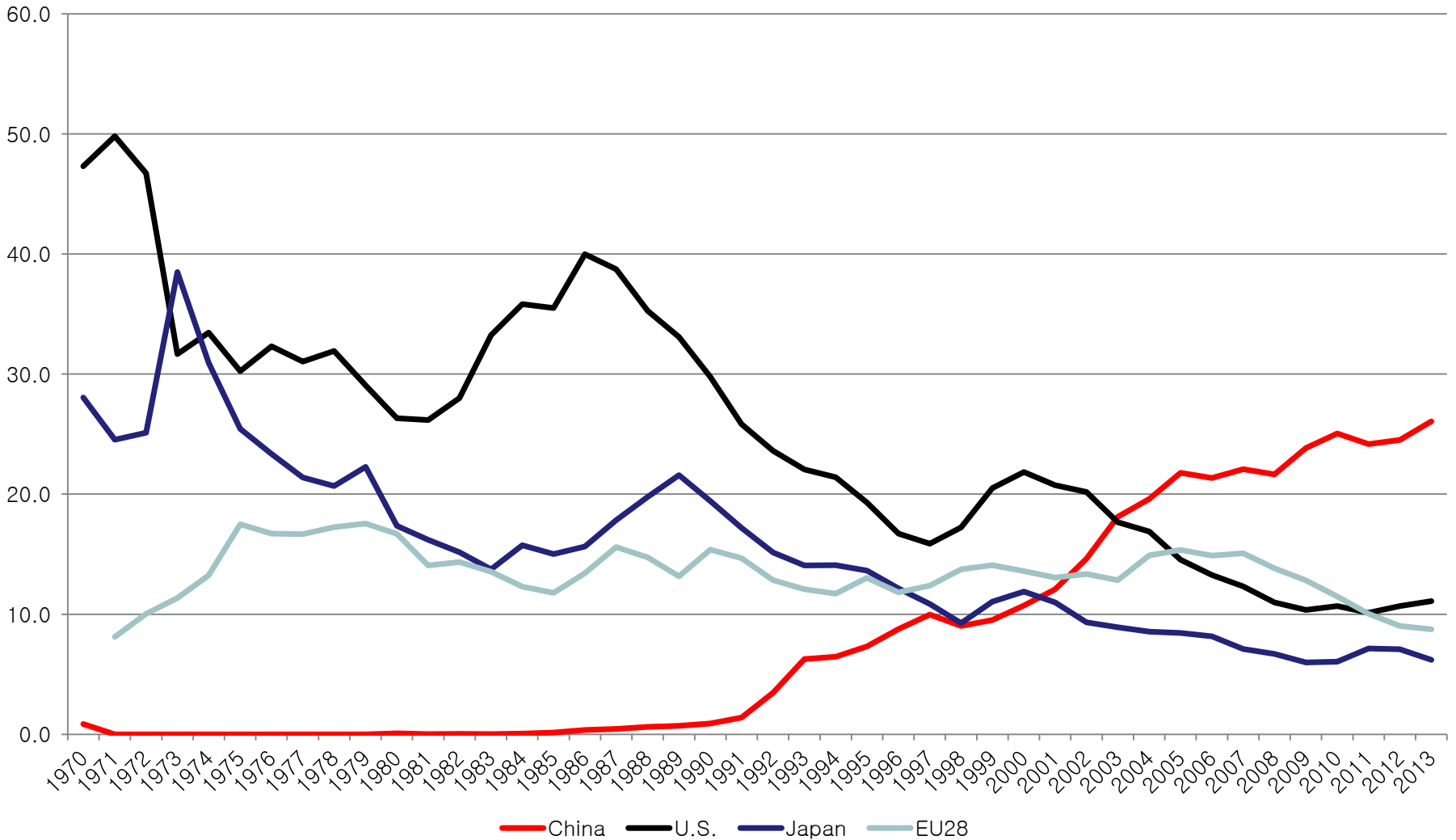
Trade Performance (Cont.)

Overview of Korea's Trade (Cont.)

- *Exports: \$22 mill. (1957), \$835.2 mill. (1970), \$10.0 bill. (1977), \$559.6 bill. (2013, 670.0 times since 1970)*
- *Imports: \$442.2 mill. (1957), \$1,984.0 mill. (1970), \$515.6 bill. (2013, 259.9 times since 1970)*
- *Years with trade surplus:
Year 1986 was the first year ever with trade surplus.
1986-89, 1998-2007, 2009-13*
- *Trade balance in recent years
1996: -\$20.6 bill. (the greatest deficit ever)
2010: \$41.2 bill. (the second greatest surplus)
2013: \$44.0 bill. (the greatest surplus ever)*

Trade Performance in the Development Process

Korea's Major Export Destinations



Trade Performance (Cont.)

Korea's Major Export Destinations (Cont.)

- The U.S. had been Korea's greatest export destination over 30 years.

→ 1971: US (49.8%), Japan (24.5%)

→ 2013: China (26.1%), U.S. (11.1%), EU28 (8.7%), Japan (6.2%)

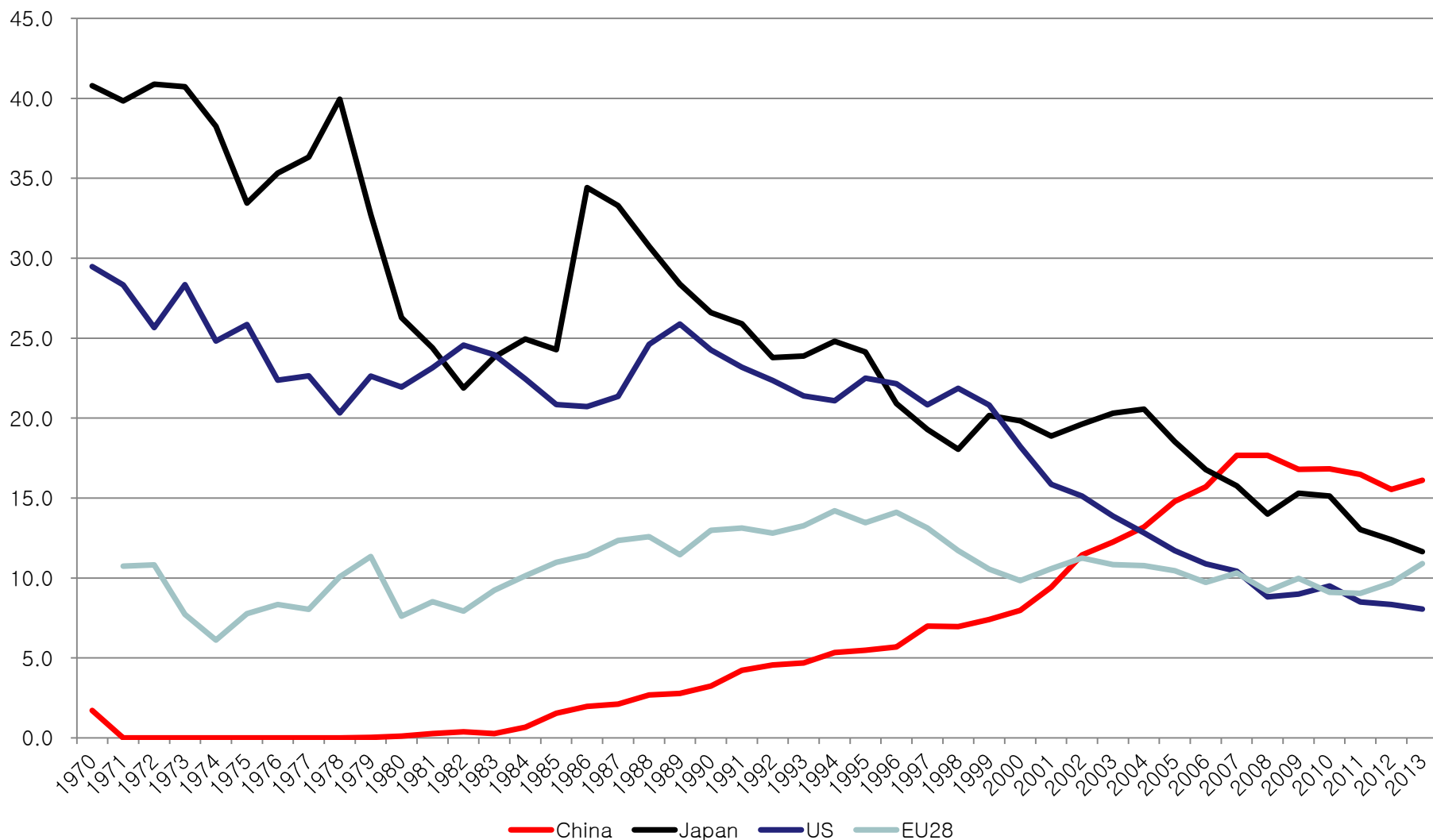
- Since 2003, **China** has been the top destination of Korea's exports.

- Korea is NOT the only country that has a bigger share with China.

→ It is a phenomenon that most countries are experiencing.

Trade Performance in the Development Process

Korea's Major Import Partners



Trade Performance (Cont.)

Korea's Major Import Partners (Cont.)

- While Japan had been Korea's biggest import partner, China's share has been getting bigger in recent years.

→ 1971: Japan (39.8%), US (28.3%), Germany (3.1%)

→ 2013: China (16.1%), Japan (11.6%), U.S. (8.1%), EU28 (10.9%), Saudi Arabia (7.3%)

- Saudi Arabia has been one of Korea's five main resources of imports since 1980, which indicates the importance of oil imports for the Korean economy.

Trade Performance in the Development Process

Korea's Major Exporting Commodities

Top 5 exporting goods in 1977 vs. Top 5 exporting goods in 2013

	Exports	Share
Garments /Clothes	\$1.9 bill.	19.3%
Vessel	\$0.53 bill.	5.3%
Footwear	\$0.50 bill.	5.0%
Wood	\$0.48 bill.	4.7%
Fishes	\$0.44 bill.	4.3%

	Exports	Share
Semiconductor	\$50.7 bill.	9.0%
Cars	\$44.3 bill.	7.9%
Ships	\$34.0 bill.	6.1%
Displays	\$27.4 bill.	4.9%
Auto parts	\$26.1 bill.	4.7%

Trade Performance (Cont.)

Korea's Major Exporting Commodities (Cont.)

- Like other developing countries in the world, **textiles/clothing/garment industry** had been the most important commodity with the highest share of exports in Korea.
- However, changes in Korea's export structure have led to related changes in its industrial structure as a result of the **export-oriented industrialization strategy**.
- In recent years, semiconductors, automobiles, wireless communication apparatus, vessels, and petroleum-related chemicals have been Korea's key exporting goods.

Trade Performance in the Development Process

Korea's Major Importing Commodities

Top 5 importing goods in 1977 vs. Top 5 importing goods in 2013

	Imports	Share
Crude Petroleum	\$1.9 bill.	18.1%
Wood	\$0.5 bill.	5.0%
Cereals/Fruits	\$0.41 bill.	3.9%
Other Agricultural Products	\$0.38 bill.	3.6%
Textile Machinery	\$0.30 bill.	2.8%

	Imports	Share
Crude Petroleum	\$99.3 bill.	19.3%
Natural Gas	\$30.6bill.	5.9%
Semiconductors	\$28.2 bill.	5.5%
Naphtha	\$21.7 bill.	4.2%
Coal	\$11.6 bill.	2.3%

Trade Performance (Cont.)

Korea's Major Importing Commodities (Cont.)

- Korea's imports reflect its **lack of natural resources** as well as its national trade promotion strategies.
 - Crude petroleum has been the top importing good so far.
- In 1970s, textile machinery was one of top importing goods because textile industry was still important in the Korean economy but its own machinery industry was not as advanced as that of its competitors.
- In recent years, Korea exports semiconductors but it imports them as well.
 - **Inter-Industry Trade**: international exchange of widely dissimilar goods
 - **Intra-Industry Trade**: simultaneous importing and exporting of similar products

History of Korea's FTAs

1990s: First Step to the FTA World

→ *In 1998, the Korean government decided to **participate in the regional trade liberalization** by negotiating FTAs.*

Korea has been putting its policy focus on multilateralism rather than regionalism.

However, in a practical response to the spread of regionalism throughout the world, Korea decided to expand regional integration, hoping to secure foreign markets through FTAs with major trading partners.

→ **Chile** was selected as the first FTA partner to Korea and the negotiation started in December 1999.

History of Korea's FTAs (Cont.)

1990s: First Step to the FTA World (Cont.)

→ Why Chile as the first FTA partner?

*Korea had **NO experience** in negotiating FTAs.*

*Korea had a very **passive** approach to select FTA partners, focusing on how to reduce negative effects of FTAs on sensitive products, rather than how to maximize benefits of FTAs.*

Chile is geographically far from Korea and not a major trading partner, implying that effects wouldn't be great.

*→ Therefore, the Korean government considered Chile as a **sparring partner**.*

History of Korea's FTAs (Cont.)

2000s: More Active to Participate into Regionalism

*→ In 2003, the Korean government announced its strategy on regionalism: so-called **Roadmap in FTA Negotiations**.*

→ The current situation (December 2014):

Ten FTAs entered into force;

Five FTAs finished their negotiations and waiting for the schedule of entering into force or approval from the National Assembly;

Three FTAs are under negotiation; and

Seven FTAs are in consideration with joint-study or in preparation.

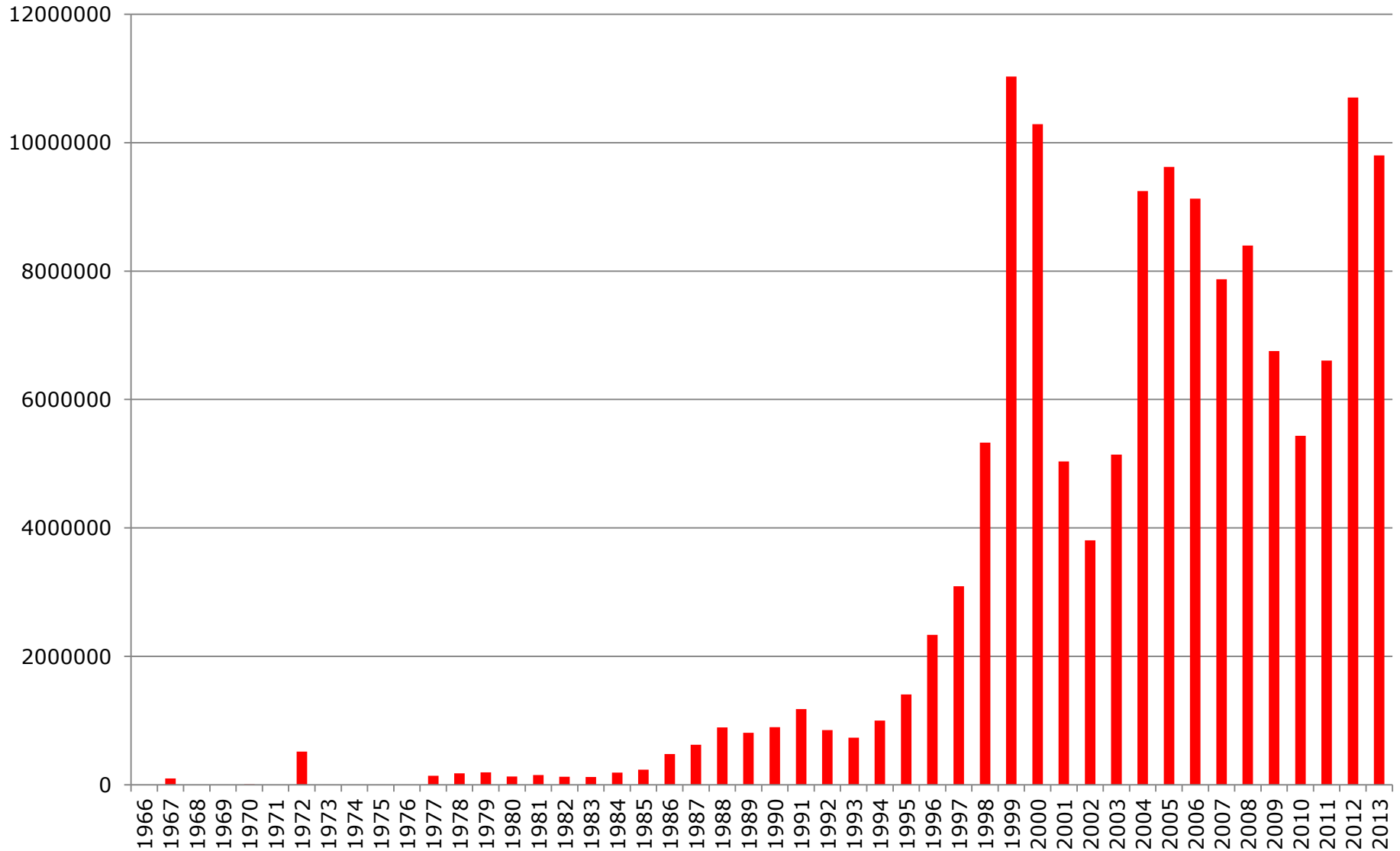
History of Korea's FTAs (Cont.)

Korea's FTA Policy: Current Situation

Status	Countries
<i>FTAs in Force</i>	<i>Chile (April 2004); Singapore (March 2006); EFTA (Sep. 2006); ASEAN (Goods: June 2007, Services: May 2009, Investment: Sep. 2009); India (Jan. 2010); EU (July 2011); Peru (August 2011); U.S. (March 2012); Turkey (May 2014); and Australia (Dec 2014)</i>
<i>Talks Completed</i>	<i>Columbia (approved, Apr 2014); Canada (effective as of Jan 2015); China (negotiation was over, Nov 2014); New Zealand (negotiation was over, Nov 2014); and Vietnam (negotiation was over, Dec 2014)</i>
<i>Talks Ongoing</i>	<i>China-Japan-Korea (Since Mar 2013); Indonesia (Since July 2012); and RCEP (Since May 2013)</i>
<i>Consideration</i>	<i>Japan (Since Dec. 2003, but Stalled Since Nov. 2004); Mexico (Since Feb 2006, but stalled since 2008); GCC (since Jul 2008, but stalled 2009); MERCOSUR; Israel; Central America; and Malaysia</i>

Korea's Policy to Attract FDI: Recent Trend

Annual FDI Inflows (US\$ Thousand)



Korea's Policy to Attract FDI: Recent Trend

*In the initial period of Korea's modern economic growth during 1960s, the **inflow of foreign capital** was encouraged to make up for **the shortage of domestic savings and foreign reserve**.*

*→ However, the Korean government preferred **foreign borrowing**, which brought foreign capital **under its control**, to FDI, which is generally under foreign investors' control.*

In 1997, FDI inflows to Korea increased by 117.6% right after being a member of the OECD.

→ In general, the membership of the OECD sends a good sign to foreign investors.

Korea's Policy to Attract FDI: Recent Trend

*After the **financial crisis** in 1997, FDI inflows to Korea had a record of \$11.0 billion in 1999.*

→ Financial crisis: Shortage of foreign reserve

*→ Policy response: Promote exports, reduce imports and **attract FDI***

However, FDI inflows kept declining in 2008-09, especially due to the global financial crisis and then bounced back in recent years.

Country Division: *FDI stock has originated largely from the EU, the United States, and Japan.*

→ FDI Stock (1962-2013): EU \$59.6 billion (42.4%); Japan: \$26.1 billion (18.6%); U.S. \$23.8 billion (16.9%)

Korea's Policy to Attract FDI

● **Goal: Create an Investment-Friendly Environment**

Strategy 1: Provide attractive investment opportunities

- *Task 1-1: Designate certain multinational investment projects to be provided with a supporting task-force team;*
- *Task 1-2: Facilitate investment in parts and materials fields and core technologies;*
- *Task 1-3: Expand foreign investment in the service sector;*
- *Task 1-4: Attract foreign investment in the primary sectors of the three **Free Economic Zones** (Incheon, Gwangyang, Busan-Jinhae);*

Korea's Policy to Attract FDI

● **Goal: Create an Investment-Friendly Environment**

Strategy 1: Provide attractive investment opportunities (cont.)

- *Task 1-5: Attract foreign investment in national and regional projects;*
- *Task 1-6: Strengthen functions of **Invest Korea** to better provide services to foreign investors; and*
- *Task 1-7: Bring resolution to complaints/suggestions from presently-invested foreign companies doing business in Korea.*

Korea's Policy to Attract FDI

● **Goal: Create an Investment-Friendly Environment**

Strategy 2: Ensure favorable conditions for foreign investors

- *Task 2-1: Provide foreign invested companies with easy access to land plots;*
- *Task 2-2: Ease regulations and simplify procedures for foreign invested companies to use plots*
- *Task 2-3: Offer incentives that meet individual investors' needs;*
- *Task 2-4: Establish advanced tax, accounting, and foreign exchange systems;*
- *Task 2-5: Strengthen IPR (Intellectual Property Rights) protection;*

Korea's Policy to Attract FDI

● Goal: Create an Investment-Friendly Environment

Strategy 2: Ensure favorable conditions for foreign investors (cont.)

→ Task 2-6: Improve working conditions for foreign invested companies;

→ Task 2-7: Foster sound and stable labor-management relations;

→ Task 2-8: Improve employment conditions for foreign invested companies;

→ Task 2-9: Promote public awareness of foreign investment;

→ Task 2-10: Upgrade educational, medical, residential, and immigration services for foreign nationals; and

→ Task 2-11: Minimize inconveniences caused by language barriers, etc.

Korea's Policy to Attract FDI

● **Overall Benefits of FDI**

*Foreign companies' introduction of **new management know-how and training of Korea workers** has had a positive spin-off effect on domestic firms in the economy.*

*Overall, the economic benefits of FDI result from **positive spillovers** from the presence of foreign firms:*

- 1) **trigger transfers of technology;***
- 2) **facilitate the restructuring of firms;***
- 3) **promote international trade;***
- 4) **strengthen competition; and***
- 5) **support human capital formation.***

Case Study: Samsung's Investment in Vietnam

Samsung Electronics has been aggressive to invest in Vietnam.

→ So far it invested \$10.1 billion, and it has a plan to invest \$3.0 billion in Vietnam.

	Size of FDI	Job Creation
<i>SEVT (Samsung Electronics Vietnam Thai Nguyen): Factory to produce IT parts, including cellular phones</i>	<i>US\$ 2.0 billion</i>	<i>23,000</i>
<i>Factory #1 at Bac Ninh</i>	<i>US\$ 2.5 billion</i>	<i>43,000</i>
<i>Factory #2 at Thai Nguyen</i>	<i>US\$ 3.2 billion + 3.0 billion (plan)</i>	<i>31,000</i>
<i>Factory to produce TV at Ho Chi Minh</i>	<i>US\$ 1.4 billion</i>	<i>Open in 2016</i>
<i>Factory to produce displays at Bac Ninh</i>	<i>US\$ 1.0 billion</i>	<i>Open in 2015</i>
<i>Total</i>	<i>US\$ 10.1 billion + 3.0 billion (plan)</i>	<i>97,000 + alpha</i>

Case Study: Samsung's Investment in Vietnam

Vietnamese government policy to support Samsung

→ Tax incentives for high-tech companies

→ Factory #1 at Bac Ninh: Land was provided free of charge to build factories

→ Factory #1 at Bac Ninh: After production, tax will be exempt for 4 years and later on the tax rate will be 10%, much lower than the normal tax rate 25%, for 15 years.

→ Factory #2 at Thai Nguyen: 50% of land use fee will be supported by the government.

→ Factory #2 at Thai Nguyen: The corporate tax will be deducted by 50% for three years.

Case Study: Samsung's Investment in Vietnam

Economic Impacts

→ In 2013, Samsung Electronics Vietnam produced US\$ 25.5 billion of IT-related commodities, having 15% share to total GDP in Vietnam.

→ Factory #1 produced US\$ 23.9 billion of cellular phones, having 18% share of total exports in Vietnam.

→ Cellular phones produced in Vietnam have 20% share to total cellular phones of Samsung Electronics.