Stepping up Cooperation

Policy Options for Latin America and Korea

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Foreword

In the last two decades, throughout Latin America and the Caribbean (LAC) policymakers and entrepreneurs have acknowledged the strategic value of ever-expanding cooperation with their Korean counterparts. Trade and investment have reached record levels, a flurry of free trade agreements have levelled the playing field for business to thrive, and a generous program of technical assistance has allowed the region to learn from the Korean growth miracle.

The Korean development story is indeed fascinating. The transformation from a relatively underdeveloped economy into a global technological leader is a tale of forward-looking education policies, public-private alliances to advance strategic investments, and steadfast commitment to nurture competitiveness in the global economy. These are precisely some of the major development gaps that LAC needs to bridge in the quest for prosperity. Even more so as the challenges of the 4th industrial revolution loom large on the horizon.

As this report suggests, the opportunities of the LAC-Korea strategic partnership are far from being exhausted. Commercial flows stand below their potential and firms have a myriad of business deals at their reach. Reviving trade and investment with a new vintage of cooperation initiatives therefore emerges as an utmost priority.

The Inter-American Development Bank has been at the forefront of cooperation between Korea and LAC. As Korea approaches the fifteenth anniversary of its accession to the Bank, a retrospective assessment of its contribution to the development of the region casts it as a clear success story. Going forward, the Bank is committed to build upon these achievements in hopes of improving lives in the region.

As LAC and Korea face a global environment characterized by growing trade tensions and the reversal of the tailwinds that sustained the trade and investment surge in the last decades, we hope that this report will contribute to the success of the 2019 Korea-LAC Business Summit and to a fruitful exchange of ideas on the policy options ahead to revive this strategic partnership.

Fabrizio Opertti
Manager
Integration and Trade Sector

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Executive Summary

After taking advantage of the unprecedented trade boom that brought the two regions closer for almost two decades, policymakers in Latin America and the Caribbean (LAC) and Asia are facing new challenges. The escalation of trade tensions among major global trading partners, the end of the commodity supercycle, and the need to swiftly adjust to the new business models brought about by the 4th industrial revolution are radically changing the global trade landscape.

Against this backdrop, the strategic relevance of the partnership between LAC and Korea is taking on new dimensions. Among LAC partners in Asia, Korea already has a dense web of trade agreements in place, has adopted an investment strategy geared towards high-end sectors, and engineered a development cooperation program suited to address the most pressing development needs in LAC. Most importantly, the Asian country is a technological leader and an invaluable source of knowledge at a juncture in which the region needs to diversify exports away from commodities and develop a robust supply of knowledge-intensive goods and services.

The goal of this report is to discuss the outlook for bilateral trade and investment flows between LAC and Korea, signal the most salient business opportunities at hand, and review progress and challenges ahead in the design of the institutional and cooperation framework needed to harness the benefits of greater integration. It tackles four fundamental questions and highlights the following conclusions:

Where do we stand? In the last two decades Korea has become one of the most dynamic partners of LAC in Asia and bilateral trade is currently above the US$ 40 billion mark. Trade has grown fourfold and Korean investment in LAC has surged, while it progressively shifted into cutting edge manufacturing sectors. As firms started to build success stories in each other's markets, governments have followed suit with the design of a well-articulated set of policies aimed at underpinning deeper integration. However, trade and

investment flows have recently lost their initial dynamism and need to be revived.

What is the potential? Lingering trade barriers point to the existence of a great untapped potential. It is estimated that in the medium-term, with a set of reforms geared towards the reduction of trade costs, LAC exports to Korea may grow by an estimated 43% while Korean exports to the region may do so by 63%. In current value, such trade expansion represents US$ 10 billion and US$ 25 billion in additional exports, respectively. New commercial flows may stem not only from the facilitation of trade among well-established partners, but also from the discovery of new markets.

Where are the business opportunities? For the private sector, LAC and Korea represent lands of mutual opportunities. A conservative measure of complementary products puts the frontier of export expansion in each other's market at US$ 45 billion and US$ 70 billion, for LAC and Korea respectively. As current flows stand well below these levels these figures suggest that business opportunities are at reach in multiple sectors.

What can governments do? Government officials have devised an effective institutional framework to support business between LAC and Korea. The already dense web of free trade agreements is growing and LAC is benefitting from a generous forward-looking Korean development cooperation program. However, increasing the coverage of trade and investment agreements to include the largest LAC countries such as Mexico, Brazil and Argentina, enhancing trade facilitation measures by harnessing the power of new technologies, expanding the reach of trade promotion activities, as well as boosting investment in infrastructure and promoting reforms in the logistics sector would give fresh momentum to this strategic alliance. Meanwhile, further deepening technical cooperation and developing business and people-to-people networks would go a long way in bringing closer the two partners.

In the second half of the 20th century the Korean growth miracle transformed a relatively underdeveloped economy into a global

technological leader. Deeper cooperation with Korea may allow LAC countries to follow a similar development path and successfully overcome the current challenges entailed by the 4th industrial revolution. The IDB stands ready to help to cut this learning curve short in hopes of improving lives in LAC.

Trade and Investment: Drivers of Deeper Integration

Economic ties between Latin America and the Caribbean (LAC) and the Republic of Korea (Korea) have experienced remarkable growth since the turn of the millennium. However, bilateral trade growth has recently faltered. Yet the comparison with other Asian competitors suggests that there is still great trade potential to unlock.[1] In order to reignite this strategic partnership, the focus on bringing down lingering trade barriers, lowering trade costs and bolstering the cooperation framework should be revived. This chapter characterizes trade and investment trends with the objective of pointing out the main opportunities ahead.

Trade

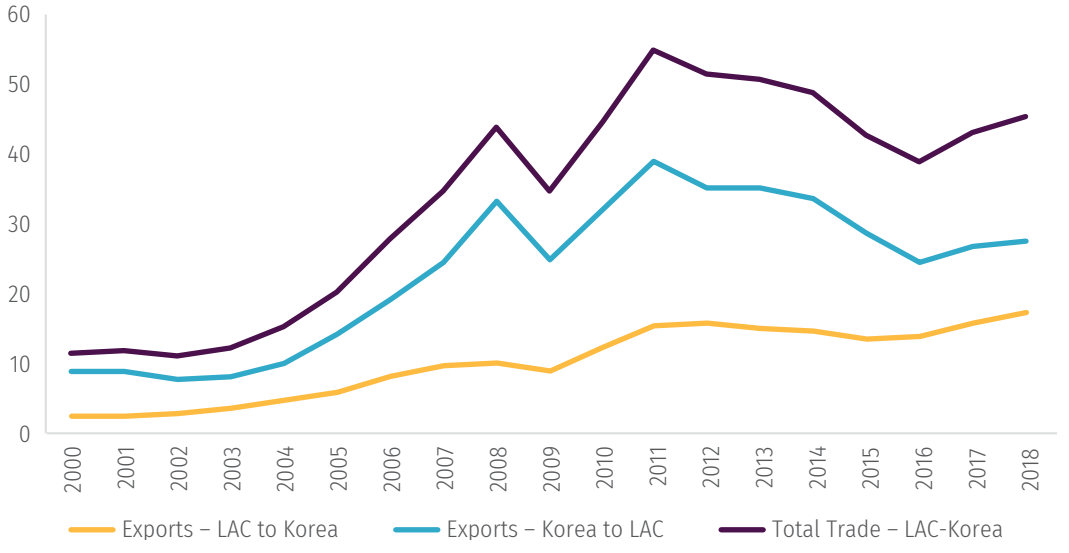
In the last two decades, trade between Korea and LAC multiplied by four, growing at a faster pace than world trade and reaching US$ 43 billion in 2018, up from US$ 11 billion in 2000 (Figure 1). Bilateral flows started to take off in 2004 and kept growing until 2011, despite a temporary fall in 2009 driven by a decline in imports of LAC from Korea during the global financial crisis. Korean exports to the region reached US$ 26.7 billion in 2018, while LAC exports amounted to US$ 16.2 billion. However, the retrenchment of trade flows witnessed in the last few years suggests the need to sustain the commercial relationship with new policy and cooperation initiatives.

During this period, Korea emerged as a strategic destination for LAC exporters to Asia, but competing markets are looming large on the horizon. LAC exports to Korea were comparable to those to the countries of the Association of Southeast Asian Nations (ASEAN) combined until 2006, year after which exports to ASEAN took off and left Korea behind, reaching US$ 25.5 billion in 2018.[2] In a similar fashion, exports from Korea to LAC were in line with those from ASEAN, but after 2012 Korean shipments to

1 For an earlier appraisal, including a comparison with other LAC partners in Asia, see Moreira, M. (2017), Korea: New Frontiers in the Asia-Latin America Relationship, IDB and Moreira, M. and A. Estevadeordal (2015), Korea and Latin America and the Caribbean: Striving for a Diverse and Dynamic Relationship, IDB.

2 The Association of Southeast Asian Nations (ASEAN) includes Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. Papua New Guinea, which is currently an observer, is not included in the statistics.

FIGURE 1: TRADE IN GOODS BETWEEN LAC AND KOREA
(US$ billions, 2000–2018)



Source: IDB Integration and Trade Sector with data from IMF Direction of Trade Statistics (DOTS).
Note: Total trade is computed as the addition of exports from LAC to Korea and exports from Korea to LAC. Values might be underestimated as LAC exports from free trade zones are not included in some countries. Data for 2018 are estimated.

LAC decreased whereas sales from ASEAN kept expanding and gained market share. These trends suggest that while LAC and Korean exporters have a strong footing in each other's market, the relationship cannot be taken for granted.

One avenue for expansion is market diversification. Trade between Korea and LAC is indeed concentrated in a few countries. In 2018, only four LAC economies explained almost 90% of total exports of the region to Korea (Chile 27%, Mexico 26%, Brazil 21%, and Peru 15%). This pattern of concentration is not new, as in 2000 five economies accounted for the same share of LAC exports (Chile 34%, Brazil 25%, Ecuador 13%, Mexico 13%, and Argentina 6%). Meanwhile exports from Korea to LAC are even more concentrated. Mexico accounts for the lion's share with 43%, followed by Brazil with 18% and Chile with 8%.

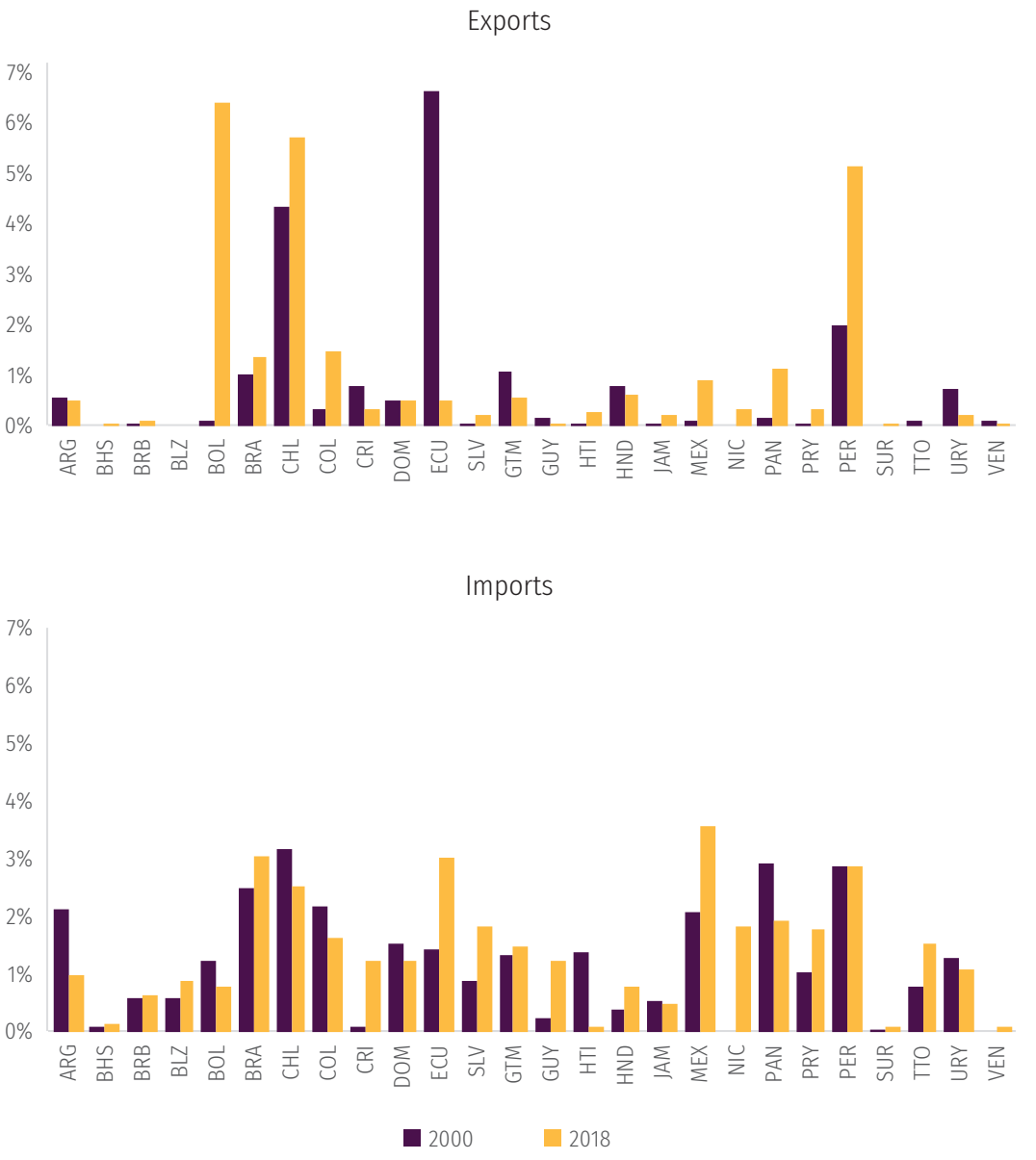
At any rate, trade with Korea as a share of total trade is rising in most LAC countries. Bolivia, Chile, and Peru stand out with exports to Korea hovering around 6% of total shipments (Figure 2, top panel). The case of Bolivia, which in 2000 only exported 0.1% of the total to the Asian partner, is remarkable. In contrast, for Ecuador the weight of Korea has fallen from close to 7% to only 0.5%, a trend also seen—albeit at a smaller scale—in Argentina, Costa Rica, Guatemala, Honduras, and Uruguay. Overall, these figures suggest that there is still room to grow, as in 2018 only six LAC countries shipped more than 1% of their export supply to Korea. On the imports side there is less heterogeneity among LAC countries, but purchases from Korea exceeded the 3% mark only in Mexico, Brazil, and Ecuador (Figure 2, bottom panel). Nevertheless, for most economies the share has been increasing over time, although at a slow pace.

In terms of industries, LAC exports to Korea are highly concentrated in extractive products, accounting for 60% of the total in 2017.[3] Agricultural products follow with 24%, while industrial manufactures add 16% to the total. This pattern diverges from the composition of LAC exports to the world. Excluding Mexico, which distorts the regional specialization structure due to its industrial integration with the United States, agricultural and extractive products stand out with 39% each, and industrial manufactures follow with 22%. It is interesting to note that in the last two decades, while LAC exports to the world have shifted towards agricultural products, sales to Korea have not seen a relevant change in their composition, which points to the potential of trade liberalization in agricultural goods. On the other hand, the relatively high share of exports of industrial manufactures compared to other Asian LAC trade partners underscores the strategic importance of the Korean market.

In contrast, exports from Korea to LAC mainly consist of industrial manufactures (88% in 2017), followed by extractive products

3 Products are aggregated into three broad categories: agricultural products, which include primary agricultural products and their manufactures; extractive products, which include primary mineral products and their manufactures and fuels and energy; and industrial manufactures.

FIGURE 2: SHARE OF TOTAL TRADE WITH KOREA BY LAC COUNTRY
(Percentage, 2000 and 2018)



Source: IDB Integration and Trade Sector with data from IMF DOTS.
Note: The share represents the weight of trade with Korea in total trade for each LAC country.

(11%). Agricultural products only represent 1% of total sales, in line with the structure of shipments to the world. Surprisingly, in 2000 the composition of exports to LAC was even less diversified in terms of products, with 94% being industrial manufactures and 5% extractive products.

The top ten exported items from LAC to Korea add to close to 60% of all shipments (Table 1). Copper ore, exported mainly by Chile and Peru, stands at the top of the list with 13.6% of the total, while copper cathodes rank in the third place with 7.4%. Crude oil, shipped only by Mexico, is the second most exported product with 8.9%. Other mineral products, such as zinc, lead, and silver sold mainly by Peru, Bolivia, and Mexico, and iron ore shipped from Brazil, jointly account for 19.1% of total exports to Korea. Corn, sold mostly by Argentina and Brazil, and soybean oil cake shipped

TABLE 1: TOP EXPORTS OF LAC TO KOREA
(Percentage, 2017)

Product	Product Category	Share	Accumulated Share
Copper ores and concentrates	Extractive	13.6%	13.6%
Petroleum oils and oils obtained from bituminous minerals, crude	Extractive	8.9%	22.4%
Cathodes and sections of cathodes of copper	Extractive	7.4%	29.8%
Zinc ores and concentrates	Extractive	6.8%	36.6%
Lead ores and concentrates	Extractive	6.4%	43.1%
Maize (corn)	Agriculture	3.5%	46.6%
Oil-cake and other solid residues resulting from the extraction of soybean oil	Agriculture	3.2%	49.8%
Iron ores and concentrates; non-agglomerated	Extractive	3.1%	52.9%
Silver ores and concentrates	Extractive	2.7%	55.6%
Wood pulp of non-coniferous wood	Agriculture	2.6%	58.2%

Source: IDB Integration and Trade Sector with data from the Database for the Analysis of International Trade (BACI) of the Center for Prospective Studies and International Information (CEPII).
Note: Products defined at the 6-digit disaggregation level of the Harmonized System (HS) 1996. Product categories defined in footnote 3. Comprehensive data to compute exports by product category are available only until 2017.

TABLE 2: TOP EXPORTS OF KOREA TO LAC
(Percentage, 2017)

Product	Product Category	Share	Accumulated Share
Vehicles; of cylinder capacity exceeding 1000cc but not exceeding 3000cc (i)	Manufactures	9.2%	9.2%
Tankers of all kinds	Manufactures	9.0%	18.2%
Metal oxide semiconductors (MOS technology)	Manufactures	5.8%	24.0%
Parts and accessories of vehicles (ii)	Manufactures	5.6%	29.6%
Optical devices, appliances and instruments	Manufactures	3.0%	32.6%
Other vessels for the transport of goods and other vessels for the transport of both persons and goods	Manufactures	2.0%	34.6%
Petroleum oils and oils obtained from bituminous minerals, not crude	Extractive	1.6%	36.2%
Line telephony or telegraphy apparatus	Manufactures	1.5%	37.7%
Prepared unrecorded media, n.e.s.	Manufactures	1.5%	39.2%
Storage units whether or not presented with the rest of the system for data processing	Manufactures	1.4%	40.6%

Source: IDB Integration and Trade Sector with data from BACI (CEPII).
Note: Products defined at the 6-digit disaggregation level of HS 1996. Product categories defined in footnote 3. Comprehensive data to compute exports by product category are available only until 2017. (i) Includes two separate items: motor vehicles for the transport of persons of cylinder capacity exceeding 1000cc but not exceeding 1500cc, and exceeding 1500cc but not exceeding 3000cc.(ii) Includes three separate items: vehicle parts and accessories n.e.s., gear boxes, and parts and accessories of bodies other than safety seat belts.

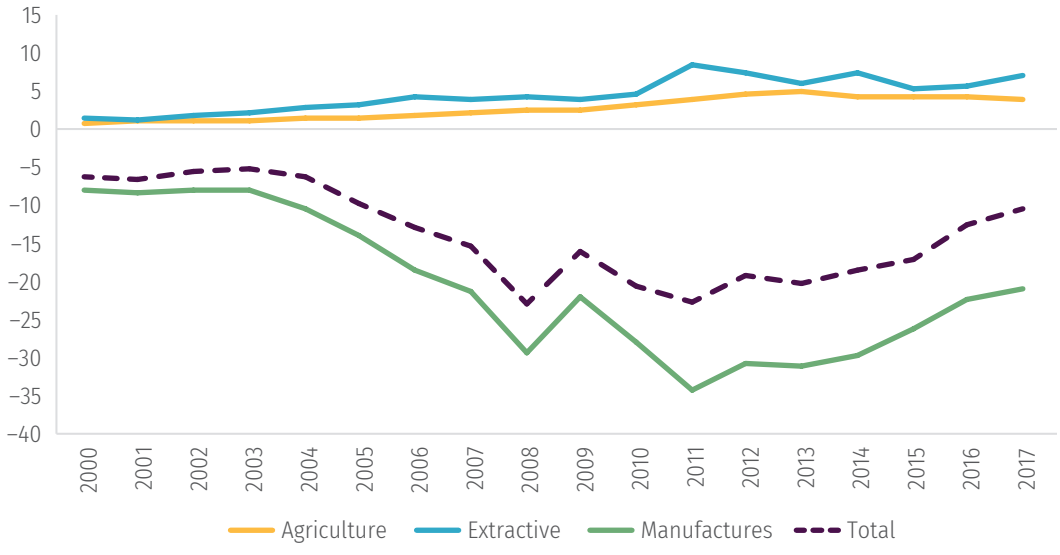
from Brazil stand out among agricultural products, with 3.5% and 3.2% of exports, respectively. Wood pulp, exported mainly from Chile, Brazil, and Uruguay, closes the list with 2.6% of total exports.

For several LAC countries exports to Korea are indeed just a matter of a handful of products. For example, 96% of Paraguay's exports correspond to soybean and corn, while that same share is reached in Bolivia with the top three items (zinc, silver, and lead ores). In Uruguay, sales of wood pulp represent 84% of exports to Korea, in Chile copper ore and cathodes add to 57%, while in Argentina corn represents 51%. This extreme pattern of concentration at the country level suggests that LAC exporters find it hard to explore opportunities for diversification in a distant country such as Korea.

Although exports from Korea to LAC are more concentrated in terms of categories, they are more diversified at the product level, with the top ten items adding to 40.6% of total exports in 2017 (Table 2). All but one belong to industrial manufactures. The top exported product is vehicles, mainly shipped to Mexico, Chile, and Peru, and adding to 9.2% of total exports. Vehicle parts and accessories, mostly sold to Mexico and Brazil, represent an additional 5.6% of total sales. Tankers rank in second place (9.0%) and are mainly shipped to Bahamas and Panama, while semiconductors follow with 5.8% (Brazil). Lastly, oil not crude is the only extractive product present in the top ten list, and it is mainly sold to Peru, Chile, and Mexico.

This pattern of trade specialization is at the root the evolution of the bilateral trade balance between the two partners. For the past two decades, LAC has maintained a trade deficit with Korea, which significantly increased to US$ 23 billion in 2011 (Figure 3). Since

FIGURE 3: TRADE BALANCE OF LAC WITH KOREA BY PRODUCT CATEGORY
(US$ billions, 2000–2017)



Source: IDB Integration and Trade Sector with data from BACI (CEPII).
Note: Product categories are defined in footnote 3. Comprehensive data to compute exports by product category are available only until 2017.

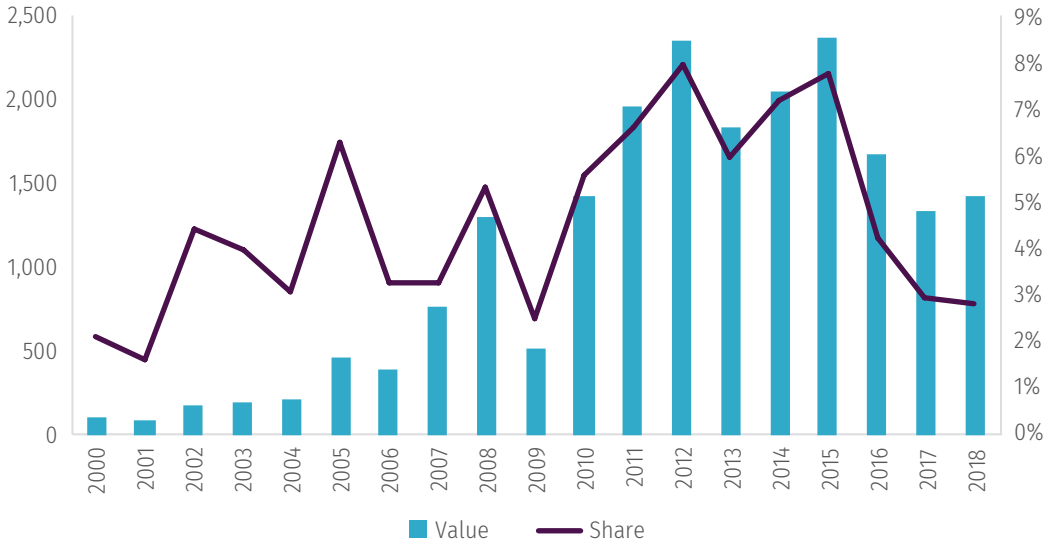
then, the deficit has narrowed to US$ 11 billion in 2018 due to the compression of LAC imports. It is striking to note that the surplus in agricultural and extractive products accrued by LAC economies did not compensate the fast growth in net imports of industrial manufactures shipped by Korea.

Investment

In parallel with the deepening of trade relations, foreign direct investment (FDI) flows also experienced an initial significant expansion and subsequently faced challenges to keep the momentum. Korean investment flows in LAC reached a peak of US$ 2.4 billion in 2015, representing 8% of total outward FDI of the Asian country. However, since then there has been a decline in investment in the region and by 2018 Korean FDI flows to LAC dropped to US$ 1.4 billion, representing only 3% of the total, a share comparable to that observed at the turn of the millennium before the trade take off (Figure 4). As pointed out earlier in the case of trade, a new vintage of cooperation initiatives holds the potential to keep the overall economic relationship on a solid footing.

Despite these challenges, the shift in the composition of FDI flows is indicative of a very dynamic and articulate strategy. In terms of sectors, manufacturing has been increasing its participation compared to extractive industries. In the 2000–2009 period, manufacturing represented 27% of total Korean FDI in LAC while quarrying was the top destination with 39%. However, in the cumulative flows of the 2015–2018 period the two sectors switched places and accounted for 43% and 25%, respectively (Figure 5, bottom panel). The shift towards manufactures helped diversify the economic relationship and contributed to the expansion of productive capacity, technology, and employment in LAC sectors such as vehicles, high-end electronics, and industrial machinery (Box 1). As a case in point, this pattern is distinctively different from that of Chinese FDI in LAC, which is still almost exclusively focused on the primary sector.

FIGURE 4: FOREIGN DIRECT INVESTMENT OUTFLOWS OF KOREA TO LAC
(US$ millions and percentage, 2000–2018)

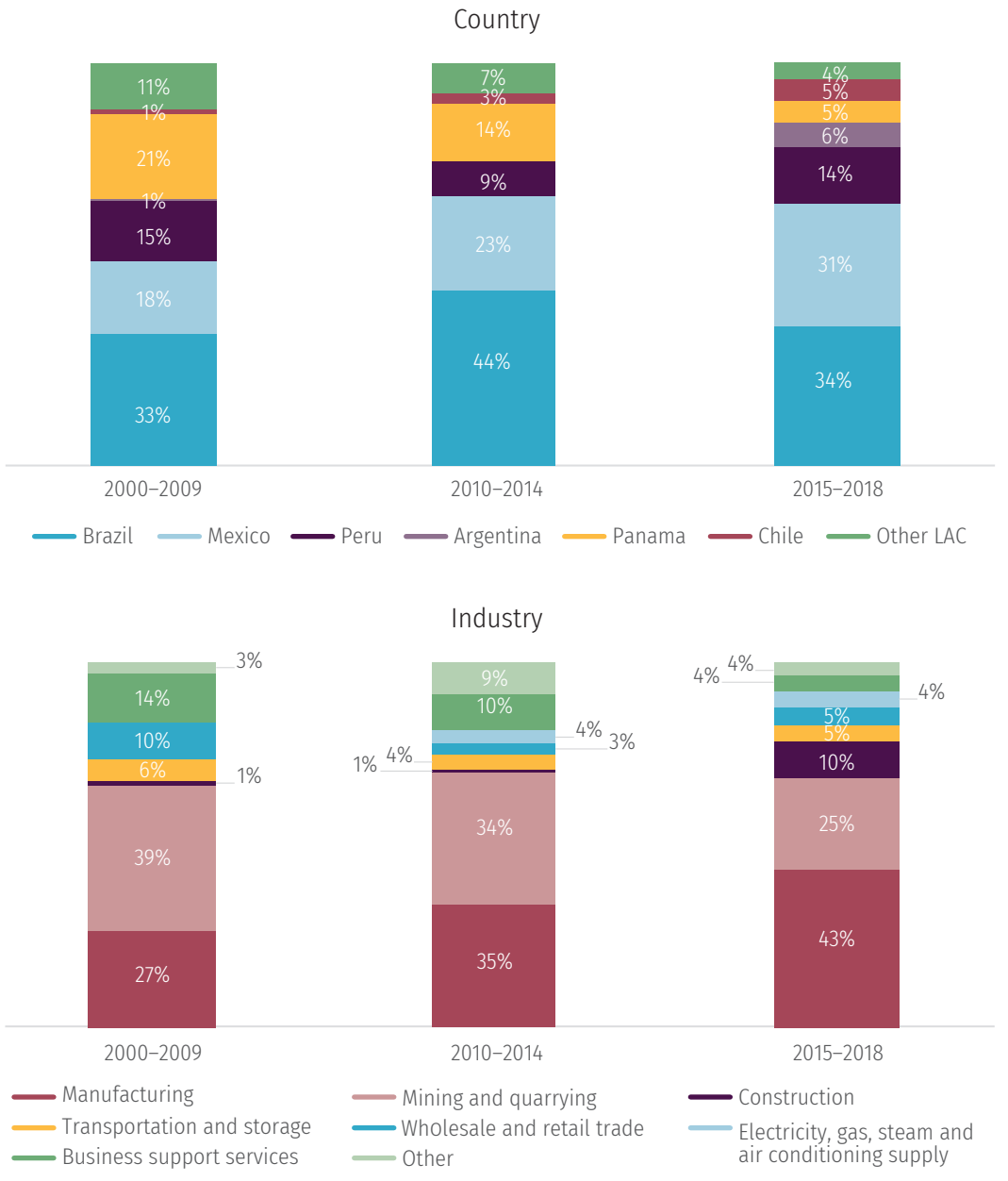


Source: IDB Integration and Trade Sector with data from the Korea Exim Bank.
Note: The share represents the proportion of FDI from Korea with LAC as its destination.

Within LAC, Brazil is the most important recipient of Korean FDI, absorbing over a third of the cumulative flows between 2015 and 2018. However, it is remarkable to note the growing participation of Mexico, which in the period 2000–2009 accounted for 18% of Korean FDI in LAC and in 2015–2018 jumped to 31%. In contrast, Panama, which is often used as an intermediate destination to finance projects in other countries of the region and elsewhere, has been losing ground and moved from a share of 21% to 5% in the same time frame (Figure 5, top panel). In combination with those referring to the sectoral composition of FDI flows, these figures suggest that in the last few years Korean multinationals have progressively focused on investment geared toward the integration of North American value chains, rather than pursuing market-seeking opportunities in LAC.

In contrast, LAC investment flows into Korea are of a much smaller magnitude, with cumulative flows between 2000 and 2018 amounting

FIGURE 5: FOREIGN DIRECT INVESTMENT OUTFLOWS FROM KOREA TO LAC BY COUNTRY AND INDUSTRY
(Percentage, 2000–2018)



Source: IDB Integration and Trade Sector with data from the Korea Exim Bank.
Note: Shares correspond to the participation of each category in the cumulative flows for the specified periods.

BOX 1: SUCCESS STORIES OF KOREAN FIRMS IN LAC

Developing value chains in the automotive sector – Kia Motors in Mexico

Kia Motors, the second largest automobile manufacturer of Korea, landed in the Mexican market in 2015. One year later and following a US$ 3 billion investment, a production plant in the north of Mexico (Nuevo León) with a productive capacity of 300,000 units per year was inaugurated. The investment included the construction of plants for its twelve most important providers, such as Mobi and Wia, producers of dashboards and motors. After scouting several locations, Mexico was chosen to increase the production capacity in the Americas since it has a free trade agreement with the United States and more than 40 other countries. Within two years of starting commercial operations, Kia's market share in the country rose to 5.5%, climbing to the seventh place and displacing Ford, well above expectations. In July 2019, the market share reached 7.4% and moved up to the fifth position. The car manufacturer exports a large share of the units produced to more than 70 countries in North, Central, and South America, Africa, and the Middle East. Kia Motors Mexico has been able to succeed thanks to a strategic plan based on brand positioning, a huge distribution network, and attractive financing plans. The company not only brings direct jobs to the region, but also spurs further investment from other companies, attracted by the opportunity of doing business with the car maker. An example is Kolon Glotech, a Korean company that in 2017 built a plant to produce fabric for car seats and interiors, as well as car mats.

Providing innovative payment solutions – Samsung Pay Now in Brazil and Mexico

Samsung has a wide presence in LAC and continues to develop strategic partnerships to offer innovative services. One of these is Samsung Pay Now, which landed in Brazil in 2016 and in Mexico in 2018. It is a payment platform that provides mobile wallets to consumers with compatible smartphones. Credit card information is stored in the app and users can pay at participating retailers by approaching their devices to the payment terminal, thanks to both Magnetic Secure Transmission (MST) and Near Field Communication (NFC) technologies. Samsung has partnered with payment providers as American Express, Visa, and Mastercard at the global level. In Brazil it has also created alliances with banks as Itaú, Banco do Brasil, Caixa, and Santander, among others. In Mexico it has closed deals with major banks as Banorte, Citibanamex, HSBC, and Santander, to name a few, as well as with banking acquirers, services and tools such as iZettle and Clip. In addition to providing secure payment solutions easy to

(continued on next page)

BOX 1: SUCCESS STORIES OF KOREAN FIRMS IN LAC *(continued)*

use and widely accepted, Samsung Pay Now also offers loyalty and membership cards, as well as discounts at selected participating stores.

Engaging with communities – SAE-A in Central America and the Caribbean

SAE-A is a Korean clothing firm founded in 1986 that grew from a small regional manufacturing company to a global and fully vertically integrated corporation producing 2.5 million articles of clothing per day. The success is rooted in its capacity to adjust to changes in dynamic markets by adopting new technologies, implementing environmentally sustainable processes, and offering a supportive work environment that allows for professional development. SAE-A has manufacturing plants in six countries, including four in Central America and the Caribbean, and annual exports amount to US$ 2.4 billion. One factory was established in Guatemala in 1998 and two years later an additional plant was built in Nicaragua. In 2011 SAE-A signed an agreement with the IDB and the governments of Haiti and the United States to build an industrial park in Northern Haiti. A year later the production plant, which currently employs more than 11,000 workers, was inaugurated. The footprint in LAC was further expanded in 2015 with the construction of a factory in Costa Rica. It is remarkable that SAE-A not only brings jobs to the areas where it operates, it also has strong corporate social responsibility and engages with the communities through the S&H Foundation, its philanthropic arm. An example of such activities in Haiti is the S&H Elementary School, which provides high-quality education to 75 students.

to US$ 1.1 billion of the US$ 280 billion corresponding to the total received by Korea (Table 3, left panel). Moreover, the largest flows originate in countries that serve as intermediate destinations for investments whose origin cannot be attributed with confidence to LAC investors. For example, Barbados appears as the largest investor in Korea with US$ 628 million, of which US$ 611 million correspond to projects undertaken in 2018 only. Likewise, Panama and The Bahamas follow in the ranking with US$ 191 million and US$ 138 million, respectively. Netting out these countries of origin, total LAC FDI to Korea is valued at just US$ 150 million. Most of these investment projects have been undertaken only very recently in a

TABLE 3: FOREIGN DIRECT INVESTMENT INFLOWS IN KOREA FROM LAC BY COUNTRY AND INDUSTRY
(US$ millions and percentage, 2000–2018)

Country	Amount	Share
Barbados	627.9	56.8%
Panama	190.6	17.2%
Bahamas	137.7	12.4%
Mexico	46.4	4.2%
Brazil	38.3	3.5%
Uruguay	26.1	2.4%
Belize	22.4	2.0%
Chile	8.4	0.8%
Argentina	1.9	0.2%
Venezuela	1.6	0.1%
Peru	1.4	0.1%
Other LAC	3.8	0.3%
Total	1,106.4	100.0%

Industry	Amount	Share
Machinery for transportation	713.2	64.5%
Medical industry	85.1	7.7%
Electricity and electronics	73.8	6.7%
Metallurgic industry	41.9	3.8%
Wholesale and retail trade	40.1	3.6%
Financial and insurance services	31.6	2.9%
Cultural and entertainment services	31.1	2.8%
Information and communications	25.1	2.3%
Public services	20.3	1.8%
Hospitality (restaurants and hotel accomodations)	16.7	1.5%
Transportation and storage services	12.7	1.2%
Other industries	14.8	1.3%
Total	1,106.4	100.0%

Source: IDB Integration and Trade Sector with data from the Ministry of Trade, Industry and Energy of Korea.

wide set of industries, signaling the growing interest of LAC investors to establish presence in the Korean market. Brazilian and Mexican *multilatinas* have been the most active in seeking opportunities in Korea, but success stories can be found throughout the region (Box 2).

In sum, the trend of trade and investment flows between Korea and LAC over the past two decades reveals that although this strategic relation is on an ascending path, in the last few years the initial dynamism has reached a plateau and the partnership is in search of new drivers. As businesses in LAC and Korea have only realized a fraction of the potential gains from trade, policymakers have an opportunity to reignite the economic relationship. In order to do so, trade costs, analyzed in the next section, need to be reduced with the implementation of adequate policies.

BOX 2: SUCCESS SOTORIES OF LAC FIRMS IN KOREA

Shortening the distance between producers and consumers – Amativo from Colombia

Amativo, a Colombian company that exports exotic varieties of coffee, opened an office in Korea right from the start of operations with the help of ProColombia, the export and investment promotion agency. The company was attracted by the high price of coffee in Korea and the upper trend of the beverage in consumers' taste. Amativo was able to offer competitive prices since it had direct contact with coffee growers and did not have to incur in intermediary costs given the presence in the destination market. The free trade agreement between Colombia and Korea also allowed the company to face a 0% tariff on coffee shipments. Another key ingredient of success is the cooperation with small farms to increase the quality and price of coffee, thereby generating a positive social impact in the community. Moreover, Amativo engages clients with trips to local farms so that they can see how products are grown and processed and learn about the Colombian culture. Thanks to the traceability of coffee beans, the Colombian company was able to start working with Angel-in-us, a coffee shop that is part of the conglomerate Lotte with more than 800 establishments in Korea. Amativo has recently opened an office in Shanghai, China, and currently exports to destinations as varied as Spain, the United Stated, or Malaysia.

Adapting to local markets – Agrosuper from Chile

The Chilean company Agrosuper, a leader in pork and poultry industries, has been exporting to Korea since 2002. Chile has the advantage of being surrounded by sea, mountains, and a desert, which isolates the ecosystem providing sanitary protection. Therefore, the animals are less susceptible to diseases and do not need as many medicaments as in other regions of the world. The recipe for success has consisted in adapting products to meet the demand of local markets and creating brand recognition. To do so, the company worked with Korean partners to understand the needs of the consumers and started offering meat cuts in line with local taste. Through marketing campaigns, the company positioned Chilean pork as a high-quality yet affordable product. Agrosuper currently exports to more than 60 countries over 40% of its production. Offices have already been opened in Mexico, United States, Italy, China, and Japan and plans are underway to open a new one in Korea.

(continued on next page)

BOX 2: SUCCESS SOTORIES OF LAC FIRMS IN KOREA *(continued)*

Manufacturing cutting-edge auto parts – Katcon from Mexico

Katcon, established in 1993, is a Mexican manufacturer of catalytic converters, diesel after-treatment devices, and exhaust modules and systems. The company has evolved from manufacturing one single product with basic assembly processes to building production plants and R&D centers around the globe. Success is driven by the focus on creating high-quality products and controlling costs through a slim organizational structure and lean manufacturing. Moreover, the firm heavily invests in innovation in four R&D centers (Luxembourg, United States, Mexico, and China) to improve and create new products. As an example, the company has an advanced materials business unit to design and manufacture lightweight components for the automotive and aerospace industry. Likewise, the productive capacity is ample, with production plants in all continents. In 2012, Katcon entered into a joint venture to install a manufacturing plant in Daegu, Korea, which started operations two years later. The decision was made since the Asian country is a powerhouse in the automotive industry, with leading car makers as Hyundai and Kia.

II

Trade Costs: An Unfinished Business

In the last two decades trade and investment between LAC and Korea have expanded at a fast pace thanks to the forward-looking vision of a generation of policymakers that strived to build an enabling business environment. Despite remarkable progress, it remains an unfinished business. In order to deepen economic ties and continue to reap mutually beneficial trade gains, there is a need to further reduce the trade costs that are still holding back commercial expansion.

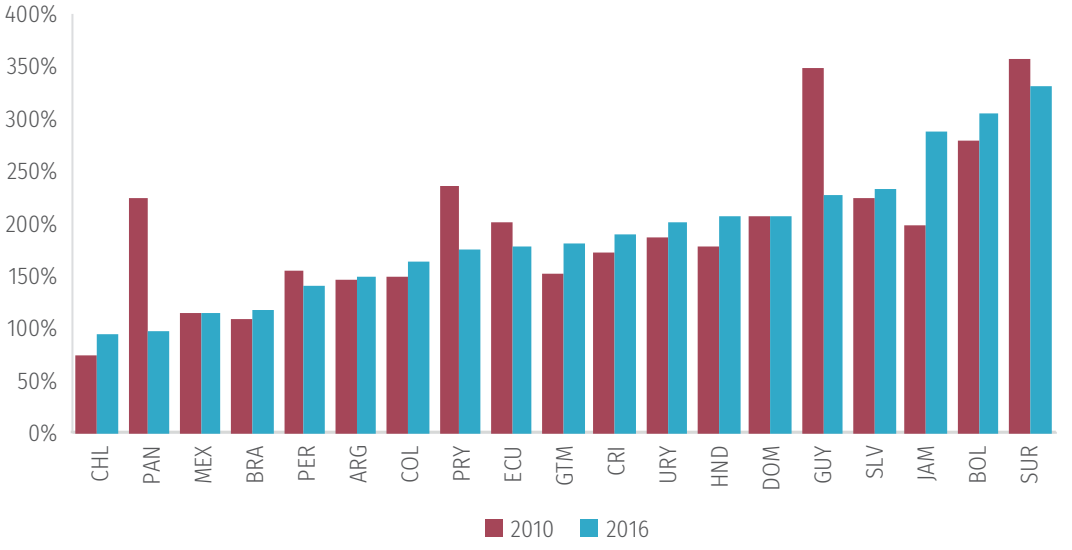
Overall Trade Costs

Trade costs are driven by tariffs, non-tariff barriers (NTBs), and inefficiencies along transport and logistics routes. Fortunately, policymakers have tools at their disposal to reduce the impact of all the elements of trade costs. For example, expanding the already wide network of free trade agreements (FTA) would help lower tariffs and lift NTBs, investing in infrastructure would reduce transportation costs, while trade facilitation may bring down logistics costs.

The average bilateral total trade costs between LAC and Korea were equivalent to 189% in 2016.[4] Since 2000, these costs have been steadily decreasing, even at a faster pace than for the overall LAC-Asia relation (an annual rate of -1.2% and -0.5%, respectively). However, at the country level there is wide heterogeneity, which could be explained by differences in the type of transport employed (sea or air), the composition of the export basket and the ensuing weight-to-value ratios, or the incidence of diverse trade barriers. The trade relations facing the lowest costs are those between Korea and Chile, Panama, and Mexico, at 95%, 98%, and 114%, respectively (Figure 6). Panama stands out as it slashed costs by more than half in just six years. In contrast, trade costs between

4 As comprehensive primary data on bilateral LAC-Korea trade costs are not available, this section relies on econometric estimates. Bilateral total trade costs expressed in *ad valorem* terms refer to the trade cost with respect to the value of the traded good. Total trade costs between Korea and LAC as a region reflect the average costs among country pairs. Estimations were performed by the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) and the World Bank based on a gravity model. For details see Arvis, J. *et al.* (2013), Trade Costs in the Developing World: 1995–2010, The World Bank.

FIGURE 6: BILATAREAL TOTAL TRADE COSTS BETWEEN KOREA AND SELECTED COUNTRIES IN LAC
(Percentage, 2010 and 2016)



Source: IDB Integration and Trade Sector with data from UN ESCAP-World Bank Trade Cost Database.
Note: Total trade cost is ad valorem. Only LAC countries with data for both years are included.

Korea and Jamaica, Bolivia, and Suriname are still prohibitive, at 287%, 305%, and 331% respectively. Indeed, for the first two LAC countries costs are even higher than in 2010.

Trade Policy Barriers

Tariff costs are the most visible component of total trade costs. Trade-weighted tariffs reflect the restrictiveness on the partner's export supply. According to this measure, duties faced by LAC in Korea are on average 26.7%, while those faced by Korea in LAC are much lower, 5.9%. However, there is wide heterogeneity across sectors and bilateral relations (Figure 7).

Duties imposed by Korea on LAC exports widely differ across sectors. Agricultural trade is held back by hefty tariffs (87.5%

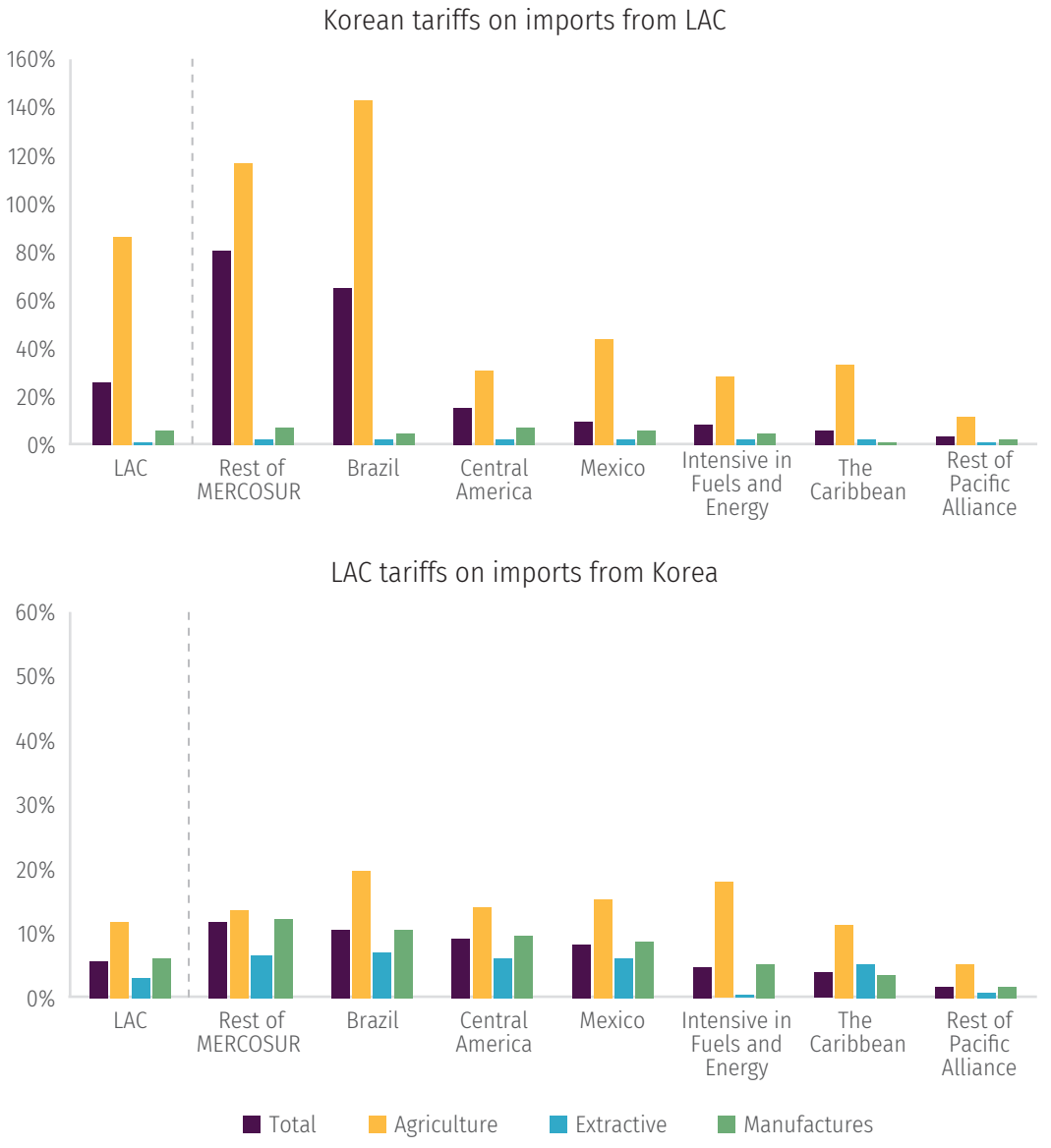
on average), whereas industrial manufactures and extractive products face much lower duties (6.2% and 1.9%, respectively). The impact on LAC countries thus varies depending on the trade specialization pattern. Brazil and the Rest of MERCOSUR, which includes Argentina, Paraguay and Uruguay, face the largest average tariffs (66% and 88%, respectively) since they are specialized in agricultural products such as soybean and its derivates, corn, cane sugar, or meat.[5] The remaining country groups are subject to much lower tariff averages. For example, the Rest of the Pacific Alliance comprising Chile, Colombia, and Peru faces duties of only 4.3% on average, as they mainly export extractive products, particularly minerals.

In contrast, LAC imposes on Korea much less restrictive tariffs, with an average of 5.9%. They are also higher for agricultural products than for industrial manufactures and extractive products, but the gap is significantly smaller (12.1%, 3.0%, and 6.2%, respectively). At the country group level, the highest tariffs are those imposed by Brazil (11.9%) and Central America (10.6%), whereas the lowest are those in The Caribbean (1.9%).

Trade flows can also be deterred by trade regulations. While sometimes these legitimately attend safety concerns, NTBs such as sanitary and phytosanitary measures, technical barriers to trade, or tariff-rate quotas entail costs for exporters and may act as a trade barrier. For example, Korea imposes a great deal of tariff-rate quotas, where exporters pay a higher tariff after a certain quantity, or quota, has been reached. The out-of-quota rates are particularly steep for agricultural goods like animal products, grains or fruits. To name a few examples, rice flour faces an in-quota rate of 5%, but after 408,700 tons have been exported, the rate jumps to a prohibitive 513%. A similar rate applies to malting barley, whose

5 For presentation purposes, indicators are reported separately for Brazil and Mexico, and the remaining economies in the region are grouped as follows: Central America (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama); Rest of MERCOSUR (Argentina, Paraguay, and Uruguay); Rest of the Pacific Alliance (Colombia, Chile, and Peru); Intensive in Fuels and Energy (Bolivia, Ecuador, and Venezuela); and the Caribbean (Bahamas, Barbados, Belize, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago).

FIGURE 7: BILATERAL TARIFF COSTS BETWEEN LAC AND KOREA
(Trade-weighted percentage, 2016)



Source: IDB Integration and Trade Sector with data from CESIfo Group and World Bank.
Note: Country groups are defined in footnote 5. Tariffs are reported as trade-weighted averages across products and countries. Bilateral tariffs at the 6-digit level are aggregated taking into account: i) for each exporter, its export structure to the world, ii) for each group of exporters, the weight of each country into the group exports to the world; and iii) for each group of importers, the share of imports from the world of each country of the group over the total of imposing countries.

tariff rises from 30% to 513% after 30,000 tons, or to pure-bred breeding animals, with rates moving from 0% to 89.1% after 1,067 heads. Likewise, LAC countries unduly restrict trade flows not only with sanitary and technical standards, but also with instruments such as tariff-rate-quotas, non-automatic licensing, or contingent protection measures in agriculture and manufacturing sectors.

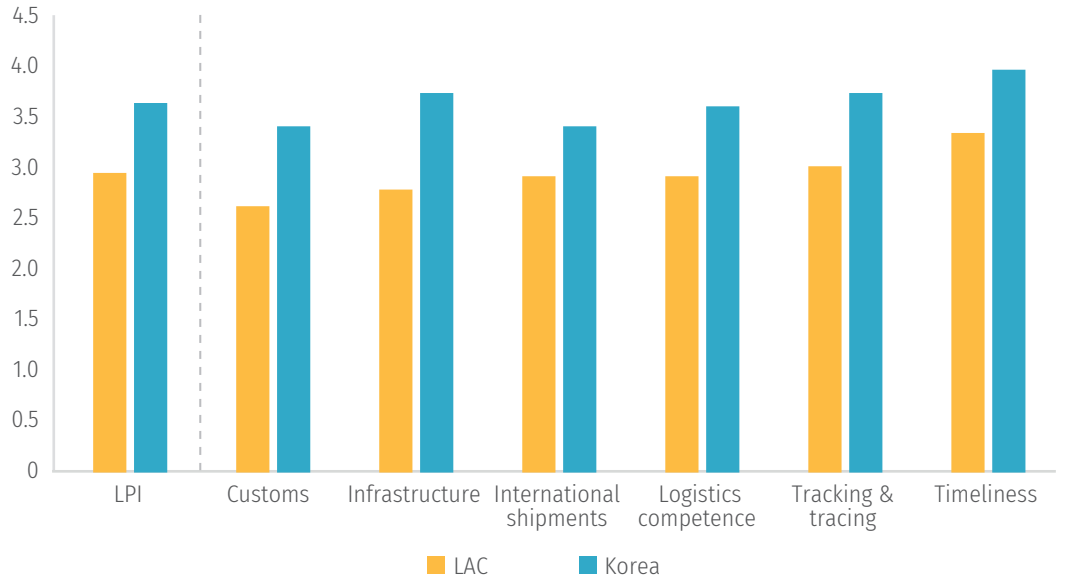
Logistics Costs

In addition to trade policy barriers, transport and logistics costs are important elements of total trade costs. Unfortunately, direct measures to quantify the impact of these factors on total trade costs are not available, but the Logistics Performance Index (LPI) sheds some light on how different countries fare in terms of logistics.[6]

Korea performs significantly better than LAC in terms of all components of the LPI. LAC aggregate index is 81% of that of the Asian country (Figure 8). The areas where the relative performance is the lowest are infrastructure and the efficiency of customs, whereas the narrowest gaps are in access to competitive international shipments and timeliness. High-quality trade and transport infrastructure is crucial to speed up the movement of goods, as poor road connectivity and uncompetitive ports translate into higher costs. Meanwhile, complex bureaucratic processes in customs can lead to containers being grounded for several days, increasing storage costs and causing delays. Investment in infrastructure and trade facilitation reforms, such as the implementation of trade single windows, are thus emerging as a priority for LAC. However, Korea has also scope for improvement to bring its logistics performance closer to the frontier set by the European Union and the United States.

6 The index combines six indicators, grouped into inputs and outputs of the supply chain. The first category includes three areas related to policy regulations, which are the efficiency of customs, the quality of infrastructure related to trade and transport, and the quality of logistics services. The second focuses on service delivery performance and consists of the ease of access to competitively priced international shipments, the ability to track and trace shipments, and the frequency with which shipments reach consignees within the expected delivery time. For more details see Arvis J., *et al.* (2018), Connecting to Compete: Trade Logistics in the Global Economy, The World Bank.

FIGURE 8: TRADE LOGISTICS PERFORMANCE INDEX IN LAC AND KOREA
(Rank, aggregated for 2012–2018)



Source: IDB Integration and Trade Sector with data from the World Bank.

At the country level, there is wide variance in the logistics performance. Korea ranks above all LAC countries, at position 23 out of 167 countries. Chile and Panama are the best performers of the region, ranking 40 and 41, respectively. Mexico also fares well in terms of logistics since it stands in the top third of the world distribution, and countries like Brazil, Argentina, Ecuador, Colombia, or Peru rank at the top half. In contrast, countries intensive in fuels and energy such as Venezuela and Bolivia perform poorly, as they are placed at positions 135 and 136, respectively. Lastly, Haiti is at the bottom of the list, ranked 166. All this heterogeneity shows that, within the region, there is ample room for improvement.

In sum, despite considerable policy action undertaken in the last two decades, high trade costs still represent a significant obstacle

to the development of a prosperous trade relation between LAC and Korea. A key question to tackle is how a decrease in such costs would impact trade flows. The next section presents an estimation of the trade potential to be unlocked with a combination of policy instruments at disposal of government officials. It also outlines some market opportunities that the private sector may pursue to break new ground in the bilateral trade relationship.

III

Trade Potential: A Flurry of Business Opportunities

Slashing trade costs has the potential of expanding and diversifying bilateral commerce. In order to quantify such potential, a computable general equilibrium model simulation undertaken for this report allows to assess the impact on bilateral exports of three complementary drivers of trade cost reduction:[7] i) preferential tariff liberalization assumes the complete elimination of lower bilateral tariffs and non-linear reductions of tariff peaks in the most sensitive products; ii) the reduction of transport costs assumes a drop in the bilateral cost of shipping goods across the ocean; and iii) the contraction of logistics costs assumes a reduction of trade frictions due to inefficiencies in trade logistics and other regulatory red tape.[8]

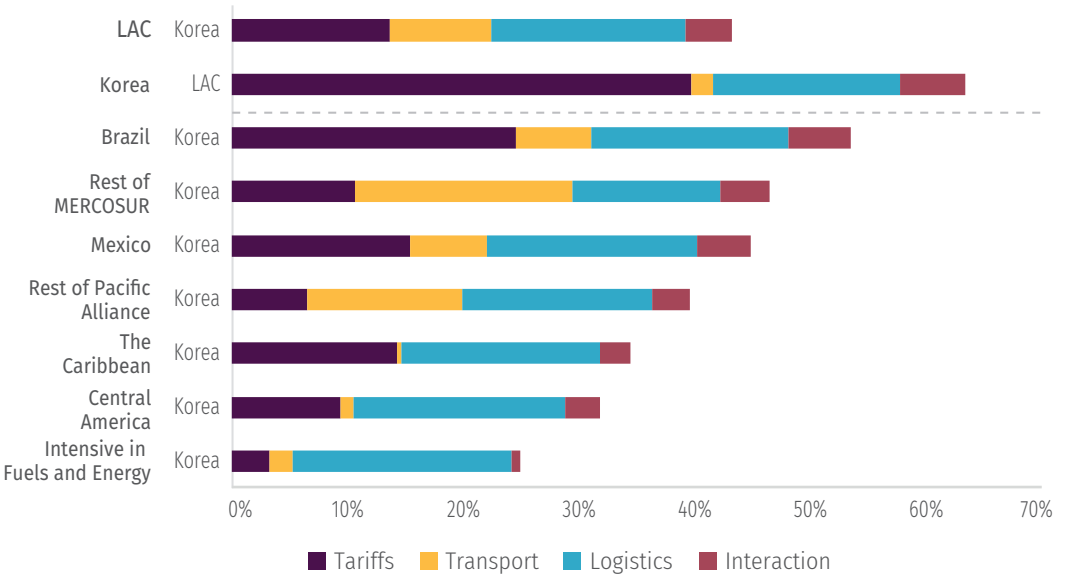
Export Potential

The simulated reduction of trade costs may significantly boost bilateral trade. LAC exports to Korea may grow by an estimated 43%, while Korean exports to the region may do so by 63% (Figure 9). In current value, such trade expansion represents US$ 10.3 billion and US$ 25.2 billion, respectively. LAC exports to Korea may increase from a minimum of 25% in the case of the countries intensive in fuels and energy, to a maximum of 53% in Brazil. The largest export gains may be seen in Brazil (US$ 3.7 billion) and Chile (US$ 2.8 billion). On the other hand, the range of Korean export growth varies between 89% in the Rest of MERCOSUR, and 43% in the Rest of the Pacific Alliance. The largest gains in value are to be accrued

7 Technical details and references are available upon request. The model does not capture all sources of trade gains, such as those arising from the removal of NTBs, of barriers to trade in services or from greater competition, innovation and productivity. As such, it should be considered as a lower bound to potential trade gains and is more illustrative of the variations of gains across different categories of trade costs than of their absolute value.

8 Technically, the reduction of trade costs is modeled with a static computable general equilibrium model that considers three simultaneous shocks. Trade liberalization assumes a complete phase-out of all tariffs below 50%, a 50% reduction of tariffs between 50% and 100%, and a 25% reduction of tariffs higher than 100%. The reduction of transport costs is modeled as a 15% reduction in the transport margin, reflecting a contraction in the cost of transport services required to ship a unit of a given good from the exporting to the importing country. The reduction of logistics costs is modeled as a 33% drop of the iceberg-type costs incurred by traders. Iceberg costs are modeled as a non-revenue generating wedge. For instance, if trade costs are equal to 15% in a given bilateral trade route, that means that if 100 units leave the origin, only 85 units will reach the destination. As these costs are set at 15% of the value of trade in the baseline, the simulations assume a reduction of 5 percentage points.

FIGURE 9: IMPACT OF THE REDUCTION OF TRADE COSTS ON BILATERAL EXPORTS
(Change from base in percentage)



Source: IDB Integration and Trade Sector own computable general equilibrium model estimates.

in Brazil (US$ 9.3 billion) and Mexico (US$ 5.7 billion). Notably, the simulations reveal that trade liberalization may bring gains to both regions, as it accounts for a significant share of the estimated gains. However, trade facilitation reforms to reduce logistics costs, and investment in infrastructure in the case of LAC, are necessary complementary policies to seize these gains from trade.

The bilateral trade expansion may be driven by different sectors in each country (Table 4). The mining, other manufactures and agri-food sectors emerge as the main potential winners across LAC. In mining, the countries of the Rest of the Pacific Alliance and Brazil lead the region with an expansion in exports of US$ 1.8 billion and US$ 971 million, respectively. In the sector of other manufactures, the same two players reap most of the trade gains, with exports estimated to grow US$ 780 million and US$ 388 million, respectively. As expected, given the current pattern of trade

TABLE 4: IMPACT ON BILATERAL SECTORAL EXPORTS
(Change from base in US$ millions and percentage)

	Mexico		Central America		Rest of Pacific Alliance		Brazil		Rest of MERCOSUR		Intensive in Fuels and Energy		The Caribbean		LAC		Korea	
	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Agriculture	37.2	273	36.5	28	193.9	68	689.0	98	93.4	117	1.4	59	36.8	90	1,088.3	87	0.8	27
Mining	327.7	43	12.9	21	1,850.7	52	971.5	37	405.7	71	190.9	24	192.2	37	3,951.6	44	0.4	45
Food	201.6	188	69.5	39	260.8	57	1,351.2	161	220.2	36	16.3	77	52.5	150	2,172.0	96	41.2	67
Textiles	1.7	82	7.6	83	7.3	81	3.3	118	2.3	30	0.6	69	1.9	78	24.7	73	797.3	83
Apparel	3.1	101	9.1	98	6.3	95	4.9	100	2.0	62	1.5	94	9.2	91	36.2	93	70.2	194
Petrochemicals	37.2	43	5.8	35	30.0	22	57.4	38	4.9	40	2.9	27	53.6	37	191.9	34	2,373.8	41
Vehicles	104.6	63	211.2	56	0.4	46	45.0	28	0.7	57	0.8	59	16.7	38	379.3	51	14,379.5	94
Machinery	230.6	51	66.1	35	1.7	32	32.9	44	2.1	60	1.5	56	72.2	56	407.0	48	5,928.4	45
Oth. Manufactures	154.7	26	64.1	30	780.3	25	388.0	31	13.3	41	17.0	30	35.5	37	1,452.9	27	1,515.5	52
Trade	3.5	14	6.8	14	8.2	13	14.1	15	7.4	15	1.1	14	11.4	14	52.6	14	10.0	9
Transport	24.7	13	58.1	15	39.1	12	61.1	14	22.2	14	8.1	13	40.8	16	254.1	14	23.9	6
Services	29.2	14	25.7	14	17.8	14	89.8	15	30.2	15	4.1	14	40.2	15	237.1	15	85.9	8
Total	1,155.7	45	573.3	32	3,196.5	39	3,708.2	53	804.4	46	246.4	25	563.1	34	10,247.6	43	25,227.0	63

Source: IDB Integration and Trade Sector own computable general equilibrium model estimates.

protection, agriculture and food exports to Korea would receive a major boost and grow by US$ 6.8 billion, driven by Brazil but also by the countries of the Rest of MERCOSUR and of the Rest of the Pacific Alliance.

However, these figures reflect both the asymmetry in the relative size of LAC countries and the sectoral concentration of current export flows to Korea. The analysis of the trade impact in relative terms reveals other significant trade opportunities ahead. For example, in the agriculture and food industries a small exporter to Korea such as Mexico may see shipments grow by 273% and 188%, respectively. Likewise, some LAC traders could see their exports of textiles and apparel to Korea double, albeit starting from very low volumes. Finally, it is worth noting that in heavy manufacturing, such as vehicles and machinery, a trade expansion in the order of 50% would generate aggregated gains valued at US$ 2.4 billion.

Korea emerges as the country with the most significant overall boost to bilateral trade. The largest gains are expected in vehicles (US$ 14.4 billion) and machinery (US$ 5.9 billion), which already account for the largest share of exports to LAC. However, in relative terms, the expansion in apparel (194%) dwarfs the effect in any other industry. Meanwhile, significant trade growth may also occur in petrochemicals (+41% or US$ 2.4 billion), other manufactures (+52% or US$ 1.5 billion), or textiles (+83% or US$ 797 million).

In terms of market destination, the bulk of the trade expansion of Korea in LAC will be driven by Brazil and Mexico, which explain 31% and 25% of the trade gains, respectively. The Rest of the Pacific Alliance (14%), Central America (12%) and the Caribbean (11%) also contribute significantly to the expansion. In contrast, the countries of the Rest of MERCOSUR (5%) and those intensive in fuels and energy (3%) contribute less to trade growth.

Finally, although the focus of the analysis is placed on merchandise trade, it is worth noting that bilateral trade in services sectors would also grow, albeit slowly, in all country groups. While the impact is

slightly larger in LAC (15%) than in Korea (8%), in absolute terms LAC exports to Korea may grow by about US$ 1.8 billion and those from Korea to LAC by US$ 1.1 billion.

Business Opportunities

Although the scenarios presented above inform policymakers on the effects of different policy initiatives aimed at bolstering bilateral trade relations, their aggregation prevents the identification of specific markets that may be relevant for the private sector. An assessment of trade complementarity among LAC countries and Korea allows to zero in on the most immediate business opportunities. Moreover, the complementarity analysis can reveal trade opportunities when current bilateral trade flows do not yet exist or are underdeveloped, which are not adequately captured by the simulations reported above.

Trade complementarity measures the degree to which the sectoral export structure of one country matches the sectoral import pattern of a trading partner. Complementary products are those that are exported by one country to the world and concurrently imported by the partner from the world, but are not necessarily traded between these two countries. The number of products and the value of imports of the partner for which there is trade complementarity can reveal opportunities for LAC and Korea. In order to determine the most salient business opportunities, several conditions are applied in sequence.[9]

The least restrictive condition allows to focus on products imported and exported by the two regions in significant amounts to and from

9 The complementarity measure is calculated at the product level (six digits of the Harmonized System 1996 for the year 2017). The analysis is restricted to products with revealed comparative advantage, that is, an item is considered with potential for LAC (Korea) if its current weight in the exported basket to the world is higher than that same weight in the Korean (LAC) basket. The conditions applied in sequence are the following: i) total products: only products that the importer imports (from somewhere in the world) and that the exporter exports (to somewhere in the world) in any positive amount; ii) *significant* products: only products that represent at least 0.01% of total imports/exports; iii) *dynamic* products: only products growing in the importing and exporting country (between 2012 and 2017) at a pace faster than the average; and iv) *attractive* products: only products where the share of the exporter in the destination market is lower than 5%, which implies that there is room to grow the market share.

any country of the world. This subset of *significant* complementary products consists of 377 and 425 items with potential for LAC and Korea, respectively (Table 5). The value of the whole import market of the partner for these products amounts to US$ 203 billion and US$ 337 billion, respectively.

The next condition restricts the set of items to those where the import market of the partner grew above average between 2012 and 2017. This group of *dynamic* complementary products includes 222 items for LAC and 182 for Korea, with markets valued at US$ 55 billion and US$ 119 billion, respectively.

Given that the demand of the partner might be set in the short run, exporters need to compete for market share to expand trade flows. The *attractive* complementary products group therefore includes a condition that restricts items to those where the current market share is low, implying that there might be opportunities to quickly increase participation. This subset includes 179 and 121 items with markets of US$ 45 billion and US$ 70 billion for LAC and Korea, respectively. It is remarkable to notice that current exports are well below this conservative measure of the potential frontier,

TABLE 5: COMPLEMENTARY PRODUCTS IN TRADE BETWEEN LAC AND KOREA
(Number of products and US$ billions, 2017)

	Opportunities for LAC		Opportunities for Korea	
	Imports of Korea		Imports of LAC	
	Number of Products	Value (US$ billions)	Number of Products	Value (US$ billions)
Actual Bilateral Trade	1,962	16.3	3,005	27.0
Total Complementary Products	2,379	240.3	2,254	411.0
Significant Complementary Products	377	203.1	425	337.4
Dynamic Complementary Products	222	55.3	182	118.6
Attractive Complementary Products	179	44.9	121	70.3

Source: IDB Integration and Trade Sector with data from BACI (CEPII).
Note: The definition of complementarity and details regarding the analysis and conditions applied are found in footnote 9.

representing 36% and 38% for LAC and Korea, respectively.

The list of the top twenty *attractive* complementary products provides a few examples of concrete trade opportunities from a business perspective. Among the products with potential for LAC in the Korean market, vehicles stand out as total imports of

TABLE 6: TOP 20 ATTRACTIVE PRODUCTS FOR LAC
(US$ billions and percentage, 2017)

HS Code	Description	Value of LAC Exports to the World	Value of Korean Imports from the World	LAC Share of Korean Imports
870323	Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1500cc but not exceeding 3000cc	32.1	3.6	0.7%
854430	Insulated electric conductors; ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships	8.9	1.8	0.2%
848180	Taps, cocks, valves and similar appliances; for pipes, boiler shells, tanks, vats or the like, including thermostatically controlled valves	2.6	1.5	0.8%
870333	Vehicles; compression-ignition internal combustion piston engine diesel or semi-diesel), cylinder capacity exceeding 2500cc	0.8	1.3	0.0%
847150	Digital processing units whether or not presented with the rest of the system which may contain storage units, input units or output units	18.5	1.2	0.8%
760200	Aluminium; waste and scrap	0.6	1.1	4.5%
710813	Metals; gold, semi-manufactured	3.2	1.0	0.0%
20230	Meat; of bovine animals, boneless cuts, frozen	7.0	0.9	1.5%
903289	Regulating or controlling instruments and apparatus; automatic, other than hydraulic or pneumatic	1.5	0.9	2.9%

(continued on next page)

TABLE 6: TOP 20 ATTRACTIVE PRODUCTS FOR LAC
(US$ billions and percentage, 2017) *(continued)*

HS Code	Description	Value of LAC Exports to the World	Value of Korean Imports from the World	LAC Share of Korean Imports
950390	Toys; n.e.s. in heading no. 9503	0.9	0.8	0.4%
680293	Granite; articles thereof, (other than simply cut or sawn, with a flat or even surface)	0.6	0.7	0.2%
20130	Meat; of bovine animals, boneless cuts, fresh or chilled	3.2	0.6	0.0%
20220	Meat; of bovine animals, cuts with bone in (excluding carcasses and half-carcasses), frozen	0.2	0.6	0.5%
854441	Insulated electric conductors; for a voltage not exceeding 80 volts, fitted with connectors	1.7	0.6	0.9%
840820	Engines; compression-ignition internal combustion piston engines diesel or semi-diesel engines), of a kind used for the propulsion of vehicles of chapter 87	1.9	0.6	0.0%
870423	Vehicles; compression-ignition internal combustion piston engine diesel or semi-diesel), for transport of goods, (of a g.v.w. exceeding 20 tonnes), nes in item no 8704.1	1.6	0.5	0.0%
640299	Footwear; n.e.s. in heading no. 6402, (other than just covering the ankle), with outer soles and uppers of rubber or plastics	0.4	0.5	0.9%
200590	Vegetable preparations; vegetables and mixtures of vegetables n.e.s. in heading no. 2005, prepared or preserved otherwise than by vinegar or acetic acid, not frozen	0.3	0.5	0.0%
640419	Footwear; (other than sportswear), with outer soles of rubber or plastics and uppers of textile materials	0.2	0.5	0.3%
841191	Turbines; parts of turbo-jets and turbo-propellers	0.6	0.5	0.2%

Source: IDB Integration and Trade Sector with data from BACI (CEPII).
Note: Products defined at the 6-digit disaggregation level of HS 1996. *Attractive* products, as defined in footnote 9, are ranked by the value of imports, that is, the current size of the market.

Korea amount to US$ 3.6 billion and LAC only taps 0.7% of that value (Table 6). The region exports to the world US$ 32.1 billion, implying that there is productive capacity. Digital processing units also represents an opportunity, since Korea imports US$ 1.2 billion and LAC only commands a 0.8% share, while it exports to the world US$ 18.5 billion. However, these results point to industries integrated in specific value chains and whose exports to Korea may not be viable. In contrast, other markets where there is barely any bilateral trade can be of interest. For example, Korea imports US$ 1 billion of gold but doesn't buy it from LAC, whose exports to the world amount to US$ 3.2 billion. Likewise, there are opportunities in bovine meat, both boneless and with bones, mainly traded by Brazil, Uruguay, and Argentina. The Asian counterpart imports $0.9 billion and US$ 0.6 billion, respectively, and the participation of LAC is of 1.5% and 0.5%.

In the group of *attractive* products for Korea in LAC, articles of plastic represent the largest market. LAC imports US$ 6.1 billion from the world but the share of Korea is of only 2.7% (Table 7). The Asian country already exports to the world US$ 1.5 billion and may be able to expand its sales to LAC. The case of machines and mechanical appliances is even clearer, since Korea already ships to the world US$ 8.4 billion and controls a share of only 4.4% of the LAC market, valued at US$ 3.2 billion. Other opportunities lie in different types of electrical devices. For example, photosensitive instruments only capture 3.6% of the LAC market, while the share of electrical circuits switchers is of 2.8%. In both cases LAC imports are large, US$ 3.7 billion and US$ 2.4 billion, and Korea has already established a solid footing in world markets, which leaves room for an expansion in LAC.

While capturing the totality of the markets mentioned above is certainly not realistic, these figures still suggest that businesses in both regions have only started to scratch the surface of the internationalization opportunities at hand. The examples illustrate the untapped trade potential between Korea and the countries of LAC and suggest that a deeper institutional framework is a key

TABLE 7: TOP 20 ATTRACTIVE PRODUCTS FOR KOREA
(US$ billions and percentage, 2017)

HS Code	Description	Value of Korean Exports to the World	Value of LAC Imports from the World	Korean Share of LAC Imports
392690	Plastics; other articles n.e.s. in chapter 39	1.5	6.1	2.7%
853690	Electrical apparatus; n.e.s. in heading no. 8536, for switching or protecting electrical circuits, for a voltage not exceeding 1000 volts	1.2	3.7	2.8%
300290	Toxins, cultures of micro-organisms (excluding yeasts) and similar products	3.5	3.6	2.2%
847989	Machines and mechanical appliances; n.e.s. in item no. 8479.8, having individual functions	8.4	3.2	4.4%
854140	Electrical apparatus; photosensitive, including photovoltaic cells, whether or not assembled in modules or made up into panels, light emitting diodes	4.3	2.4	3.6%
390110	Ethylene polymers; in primary forms, polyethylene having a specific gravity of less than 0.94	1.1	2.1	1.1%
760612	Aluminium; plates, sheets and strip, thickness exceeding 0.2mm, alloys, rectangular (including square)	1.2	1.9	1.5%
390210	Propylene, other olefin polymers; polypropylene in primary forms	2.2	1.8	3.9%
903180	Instruments, appliances and machines; for measuring or checking e.s. in chapter 90	1.4	1.6	4.5%
760120	Aluminium; unwrought, alloys	0.3	1.4	0.4%
848190	Taps, cocks, valves and similar appliances; parts thereof	0.5	1.4	2.4%
392010	Plastics; plates, sheets, film, foil and strip, of polymers of ethylene, non-cellular and not reinforced, laminated, supported or similarly combined with other materials	0.4	1.2	1.4%
390190	Ethylene polymers; in primary forms, n.e.s. in heading no. 3901	0.5	1.2	0.7%

(continued on next page)

TABLE 7: TOP 20 ATTRACTIVE PRODUCTS FOR KOREA
(US$ billions and percentage, 2017) *(continued)*

HS Code	Description	Value of Korean Exports to the World	Value of LAC Imports from the World	Korean Share of LAC Imports
401699	Rubber; vulcanised (other than hard rubber), articles n.e.s. in heading no. 4016, of non-cellular rubber	0.4	1.1	4.9%
330499	Cosmetic and toilet preparations; n.e.s. in heading no. 3304, for the care of the skin (excluding medicaments, including sunscreen or sun tan preparations)	3.6	1.0	1.0%
848210	Ball bearings	0.4	1.0	4.3%
381512	Catalysts, supported; reaction initiators, reaction accelerators and catalytic preparations, with precious metal or precious metal compounds as the active substance, n.e.s. or included	0.1	1.0	0.2%
281512	Sodium hydroxide (caustic soda); in aqueous solution (soda lye or liquid soda)	0.2	0.9	0.0%
842230	Machinery; for filling, closing, sealing, capsuling or labelling bottles, cans, bags or other containers, machinery for aerating beverages	0.1	0.9	0.3%
847710	Machinery; injection moulding, for rubber or plastics	0.3	0.8	4.7%

Source: IDB Integration and Trade Sector with data from BACI (CEPII).
Note: Products defined at the 6-digit disaggregation level of HS 1996. *Attractive* products, as defined in footnote 9, are ranked by the value of imports, that is, the current size of the market.

ingredient to bring distant countries such as Korea and those of LAC closer. Although policymakers have made great strides towards the design of an efficient regulatory infrastructure needed for bilateral trade and investment to flourish, a new vintage of cooperation initiatives to decrease all components of trade costs is key to give fresh momentum to the economic relationship, as discussed in the next section.

IV

Cooperation: The Foundation of Shared Prosperity

The LAC-Korea trade and foreign direct investment take off witnessed in the last two decades was to a large extent due to the design of a modern effective institutional and regulatory framework. Owing to the emergence of Korea as a development global player, economic relations also benefitted from cooperation initiatives associated with technical assistance, such as knowledge sharing, capacity building and policy consultations. Several of these initiatives are being carried out in partnership with the Inter-American Development Bank. A new vintage of policy and cooperation endeavors would lay the groundwork for the future of the relationship and may help the flagging trade and investment flows to recover their initial dynamism and realize their potential.

Trade and Investment Architecture

On the trade side, Korea has the most extensive network of FTAs with LAC countries of any Asian economy. Agreements have been signed with eight countries altogether.[10] The first and pioneering FTA was inked with Chile in February 2003 and entered into force in April 2004. By 2013, Chilean exporters faced no tariffs on 96% of tariff lines. Nevertheless, several agricultural products were initially excluded, as were some Korean manufactures. With a view to deepening the trade agreement as well as to include new areas, among other services and investment, the two countries held the first round of negotiations in November 2018.

The FTA with Peru entered into force in August 2011, paving the way for an expansion in trade flows and notably benefiting Peruvian exports of fisheries and agricultural products. Tariffs on all goods are to be eliminated by 2021, except for certain sensitive products such as rice and beef. The agreement is more comprehensive than the one originally signed with Chile, and includes trade in services, investment, and rules of origin.

10 SICE, Foreign Trade Information System, Organization of American States.

The FTA with Colombia was signed in February 2013 and entered into force in July 2016. It represents the first trade agreement the country signed with the Asia-Pacific region, and will provide a boost to Colombian exports, in agricultural products, as there are no exclusions, as well as in processed food and manufactured products, as practically all tariffs are to be eliminated after a 10-year period. The agreement will deepen economic relations beyond trade in goods as it covers investment, trade in services, electronic commerce, and telecommunications.

After three years of negotiations, in February 2018 Costa Rica, El Salvador, Honduras, Nicaragua, and Panama signed the Central America-Korea agreement to promote trade, investment, and cooperation. In March 2019, Costa Rica was the first country to ratify the agreement, which stipulates that 80% of its exports will have immediate free access to the Korean market (including coffee, sugar, and medical devices), 16% will be subject to gradual liberalization (particularly bananas, pineapple, and fruit juices), while 4% will be excluded. On the Korean side, 77% of manufacturing products will have immediate free access, whereas for 21% tariffs will be gradually eliminated. It is worth noting that the agreement stipulates, for the first time, the exclusion of certain Korean manufacturing products from the process of tariff phase-out (such as certain types of tires, iron, steel, and plastic products). The agreement also covers the areas of electronic commerce, customs procedures, and trade facilitation, among others.

Following initial negotiations towards an agreement with Ecuador in 2016, it was announced in 2017 that the negotiations would restart, but to date this has not yet occurred. Regarding the largest economies in the region, Korea has reinitiated talks with MERCOSUR, first started back in 2005, and in September 2018 the first round of negotiations took place, closely followed by a second one in April 2019. On the other hand, talks with Mexico have still not taken off, after the first round took place in 2007.

Overall, the process of trade negotiations between Korea and LAC countries has resulted in numerous agreements, with a

broadening coverage of new disciplines, and has laid ground for rapidly increasing trade flows. Besides expanding its network of trade agreements, Korea is also taking an active role in the region's integration process. It has developed close ties with the Pacific Alliance (PA) in particular, in which it has a status of observer. At the July 2019 PA summit in Lima, it has been agreed that talks with Korea on its associate membership in the Alliance are to start in September 2019.[11] In particular, as associate membership in the PA implies having a bilateral FTA with its four members, the initiative will provide incentives to set negotiations with Mexico on a new course.

Beyond trade, FDI flows can contribute to a recipient country's economic development by stimulating growth, employment, transfer of technology, and human capital development, among others. Bilateral investment treaties (BIT) provide protection of cross-border investments and contribute to their promotion. Altogether, Korea has BITs in force with 14 LAC countries.[12] Another three have been signed, but have not entered into force, notably that with Brazil inked in September 1995. Agreements have not been reached with Colombia, Peru, Ecuador, Venezuela, and most of the Caribbean countries.

Development Cooperation

A noteworthy pillar of economic relations between LAC countries and Korea is development cooperation. In this regard, the historical experience of Korea has been unique. In the 1950s, Korea was a recipient of official development assistance (ODA). While still being a beneficiary in the 1960s, it became at the same time a donor, and by the 1990s it moved from being a recipient to a donor country. This significant shift has been reflected in the

11 Business Korea, July 8, 2019. The other countries in talks for associated membership are Australia, New Zealand, Singapore, and Canada.
12 SICE, Foreign Trade Information System, Organization of American States.

institutional and operational set up,[13] with the establishment of the Economic Development Cooperation Fund (EDCF) and the Korean International Cooperation Agency (KOICA) as executing agencies for ODA.[14] The specificity of Korea's experience is manifest in a broader approach to cooperation, going beyond development finance and also focusing on initiatives that enable sharing knowledge, building capacity, and exchanging policy best practices. This approach has been particularly fruitful in the cooperation with LAC countries.

In terms of development financing, Korea provided US$ 2,201 million in overall ODA in 2017.[15] Of this amount, US$ 1,615 million represented net bilateral disbursements and US$ 586 million net ODA channeled through multilateral organizations. LAC received US$ 168 million of bilateral net ODA in 2017, representing 7.6% of the total disbursed by Korea that year. Both the value and share of LAC in total ODA disbursements from Korea are on the rise since 2011 (Figure 10).[16]

At the bilateral level, the Korean government has formulated Country Partnership Strategies (CPS), selecting priority partner countries with a view to maximizing synergies and improving development cooperation effectiveness. The CPS include assistance volume, priority areas, mid-term allocation plans, and implementation strategies, based on Korea's ODA strategy and the recipient countries' national plans and priority areas. Out of a total of 134 partner countries, 24 have been selected as priority partners, including four in LAC (Bolivia, Colombia, Paraguay, and

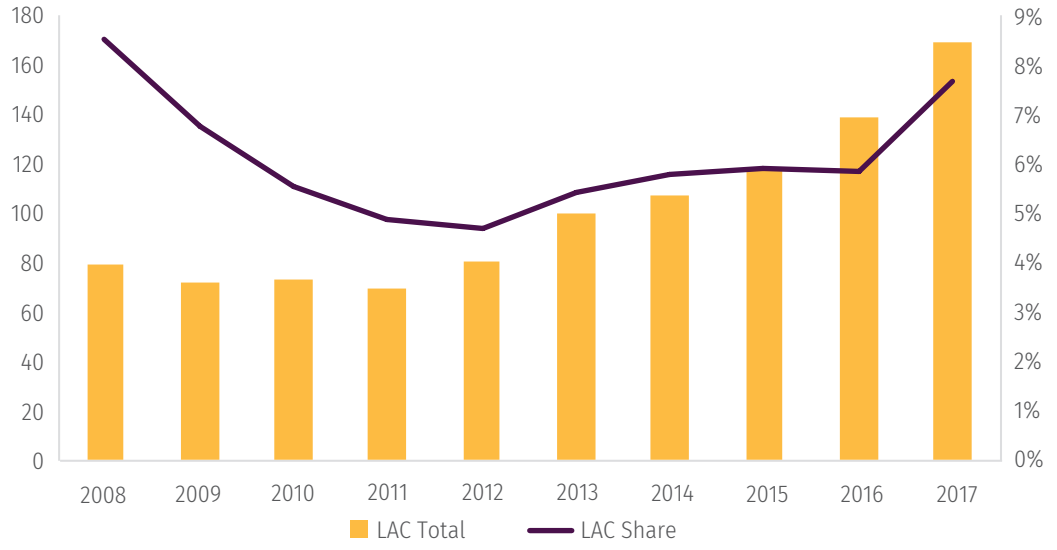
13 As reported in the Korea Official Development Assistance website, Korea's institutional framework for official development assistance consists of the Committee for International Development Cooperation (CIDC) which acts as the coordinating body, the Ministry of Economy and Finance (formerly Ministry of Strategy and Finance), and the Ministry of Foreign Affairs, which supervise concessional loans and grants, respectively, and prepare the *Mid-term Strategy* and *Annual Implementation Plan* that are approved by the CIDC. Other ministries, local governments, and public institutions also play a role in the delivery of Korea's ODA, especially for grant aid and technical cooperation.

14 The EDCF provides concessional loans for socio-economic infrastructure (it is administered and operated by the Korea Export-Import Bank), while KOICA is responsible for grant aid and technical cooperation for developing countries.

15 By comparison, in 2011 total net ODA disbursements amounted to US$ 1,420 million. Organisation for Economic Co-operation and Development (OECD).

16 In 2011, LAC countries received US$ 68.4 million, equivalent to 4.8% of total Korean bilateral net flows to developing countries.

FIGURE 10: NET OFFICIAL DEVELOPMENT ASSISTANCE DISBURSMENTS OF KOREA TO LAC
(US$ millions and percentage, 2008–2017)



Source: IDB Integration and Trade Sector with data from OECD Stats.

Peru).[17] In 2017, disbursements amounted to US$ 18.7 million for Bolivia, US$ 13.0 million for Peru, US$ 12.4 for Paraguay and US$ 9.0 million for Colombia, for a total equivalent to 31.6% of net disbursements to the region.

Partnership with the Inter-American Development Bank

The Inter-American Development Bank (IDB) has been front and center in the Korean strategy towards the region. Since joining the IDB in 2005, Korea has contributed financial resources to the

17 The following priority cooperation areas have been identified for each country. Bolivia: Improvement in disease control and response; comprehensive rural development; integration of transportation system; infrastructure and capacity building for new and renewable energy. Colombia: regional development (including increasing agricultural productivity); transportation (including encouraging sustainable public transport models); industrial development (including SMEs); post-conflict (including strengthening the reintegration process). Paraguay: water management and health; transport (including interregional logistics); rural and urban development; information and communications technology (including digital inequality). Peru: public health; governance and public administration (including e-government); climate change and environment; transport.

Bank as well as knowledge and innovative ideas and approaches to address development challenges. The government of Korea, through the Ministry of Economy and Finance, has established four trust funds that provide grants for projects in the region (Table 8). As of December 2018, altogether 498 projects have been approved in nine major areas[18] for a total amount of US$ 147.5 million.[19]

TABLE 8: KOREAN TRUST FUNDS AT THE INTER-AMERICAN DEVELOPMENT BANK

Fund	Description	Year of Establishment	Lifetime Contribution (US$ millions)	Lifetime Approvals (US$ millions)	Projects
Knowledge Partnership Korea Fund for Technology and Innovation (KPK)	Finances projects and studies in science and technology, education, and IT infrastructure	2005	62.6	55.9	129
Korea Poverty Reduction Fund (KPR)	Supports projects for poverty reduction and social development, including disaster prevention and relief services	2005	54	43.5	120
Korea Private Sector Development and Innovation Fund (KPS)	Finances technical assistance programs that promotes private sector and SME development	2005	40	22.9	193
Public Capacity Building Korea Fund for Economic Development (KPC)	Facilitates efficient allocation and use of public sector resources to generate higher public value at the national and the sub-national government level	2012	40	25.2	51

Source: Korea Trust Funds at the Inter-American Development Bank Group, 2019.
Note: The table reports technical cooperation only as of December 2018.

18 Science and technology, energy, transport, urban development and housing, public sector reform, trade, health and social investment, education, and SME development.
19 For a comprehensive review, see Korea Trust Funds at the Inter-American Development Bank Group, 2019.

For example, an important area financed by the trust funds is science, technology and innovation, which has been at the heart of the Korean development miracle. Altogether 63 projects have been financed for a total amount of US$ 25 million, benefiting from Korea's achievements in advanced technology and harnessing them for assistance to LAC countries. In particular, countries like Nicaragua and Bolivia have received support for developing new technologies and building telecommunications infrastructure. Looking ahead, another opportunity for bringing advanced technologies to the region is the recently signed Memorandum of Understanding (MOU) with the Korea Customs Service for customs modernization, which foresees the deployment of industrial internet, big data analytics, automation, and blockchain technologies.

Small and medium-sized enterprises (SMEs) are a priority for the Korean trust funds and they received 18% of the resources (US$ 27 million). Channeled through IDB Invest, the private sector arm of the IDB Group, a total of 207 operations were financed and almost 5,000 LAC companies across the region benefited. The projects also helped foster stronger ties between Korean and LAC companies. An example includes support to Bolivian small-scale sesame producers to be more competitive in the global market by improving the quality of production with the use of new technologies, and supporting institutional strengthening of the Bolivian Chamber of Sesame Exporters (CABEXSE) for obtaining ISO certification. Currently, about 80% of the sesame produced is exported to 21 countries, mostly to Japan, Germany, United States, and Peru.

In the area of trade and investment, Korea has financed several successful trade promotion and facilitation efforts to support the countries in the region to strengthen their capacities and expand access to foreign markets (Box 3). A total of 19 projects have been carried out with financial support of US$ 10 million. A specific example of a recent activity in investment attraction is in Haiti, where Korean companies are important investors and main exporters in

BOX 3: SUCCESS STORIES OF COOPERATION IN TRADE AND INVESTMENT

Enhancing high-level dialogue with business forums

Korea made a substantial contribution to strengthen existing business opportunities and boost emerging partnerships in various sectors by supporting the organization of business forums, where high-level policy makers, government officials, and entrepreneurs share ideas and insights on how to seize opportunities between Korea and LAC countries. The IDB has been organizing *Korea-LAC Business Summits* with the support from the Korea Trust Fund to enhance partnerships in trade and investment since 2011. As an example, the 2017 event attracted more than 700 participants from 29 countries. It included a business forum where policy makers and top executives engaged in a high-level dialogue on topics such as the 4th industrial revolution, the digital economy, e-commerce, public-private partnerships, and smart infrastructure. Entrepreneurs from Korea and LAC also had the opportunity to participate in one-on-one business meetings. These matchmaking arrangements resulted in the signing of five MOUs for future cooperation and the conclusion of business contracts for more than US$ 80 million. The *Investment Opportunities Exhibition* encouraged LAC firms to showcase business opportunities to Korean investors. In total, 162 projects on energy, water and sanitation, transport, and ICT were submitted and 423 meetings with Korean companies were held. Overall, the summit not only provided a unique networking opportunity, but also helped to address remaining barriers to trade and investment.

Advancing integration through an online business platform

LAC SMEs are challenged in maximizing the benefits of the internet. Information may not originate from trustworthy sources and SMEs often do not have the resources needed to validate it. To overcome this challenge, Korea granted resources to develop the training modules for SMEs of the *ConnectAmericas* online network, which provide reliable information on tariffs and non-tariff barriers to trade and interactive tools to improve access to international markets. *ConnectAmericas* is the first social network for businesses in the Americas, dedicated to promoting foreign trade and international investment. It was created in 2013 by the IDB with the support of private partners such as Google, DHL, and Sealand. Facebook and Mastercard joined the partnership in 2017. The service is completely free and offers access to a community where SMEs can establish contacts with potential clients, suppliers, and investors from around the world. It provides useful information about international commerce procedures

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BOX 3: SUCCESS STORIES OF COOPERATION IN TRADE AND INVESTMENT
(continued)

and regulations and opportunities available in IDB member countries. As of 2019, more than 330,000 users have registered from 215 countries and territories, generating business deals in excess of US$ 800 million.

Reducing trade costs by supporting trade facilitation

Korea financed a program to support the Andean region to improve trade facilitation systems, strengthen their capacity to attract and retain FDI in high-value export sectors, and generate investments which will lead to the creation of employment and wealth. The project supported the identification of the main bottlenecks faced by LAC countries in the international trading system in order to improve export and import processes. It also financed workshops to transfer Korean know-how in investment attraction, trade facilitation, and logistics to LAC countries. In addition, two 10-week long online courses on Port Community System and Administration were developed for port authority officials to deepen their knowledge on current trends in port operations and best practices of Korea. The project also included a capacity building program in Busan, Korea, organized by the Korea Maritime and Ocean University. Through the project, Bolivia was able to identify new attractive export products such as quinoa, chestnuts, chia seeds and other products highly valued on international markets. The project also supported the drafting of a legal framework to implement an electronic single window in Bolivia and the modification of some regulations in Colombia and Peru to comply with international standards.

Source: Korea Trust Funds at the Inter-American Development Bank Group, 2019.

the textile industry. A survey has been conducted to analyze the investment environment in the country, in order to address their grievances as foreign investors. In the ensuing report, prepared with KOTRA, specific recommendations have been made to implement an efficient investment aftercare system in the country.

In 2015, Korea stepped up its cooperation with the IDB with the establishment of the Korea Infrastructure Development Co-Financing Facility for Latin America and the Caribbean (KIF) for co-financing sovereign guaranteed concessional loans for

infrastructure investment.[20] At signing, the fund was provisioned with US$ 100 million, and in 2017 the second phase of the facility was agreed for an additional US$ 300 million. Since 2015, five loan projects have been approved by the KIF for a total amount of US$ 150 million (Table 9).

A fundamental aspect of Korea's development cooperation is knowledge, which resulted in several successful partnerships with the IDB (Box 4). A key highlight is the Knowledge Sharing Program

TABLE 9: IDB PROJECTS SUPPORTED BY THE KIF FACILITY
(US$ millions)

Project Number	Title	Country	Approval Year	Total Cost (US$ millions)	Amount (US$ millions)	Status
NI-L1090	Broadband Program	Nicaragua	2015	50	25	Disbursing
EC-L1160	Investment Program to Support Energy Matrix Transition	Ecuador	2016	143	25	Disbursing
NI-L1094	Geothermal Exploration and Transmission Improvement Program	Nicaragua	2016	76	25	Disbursing
BO-L1191	Program for Expansion and Improvement for Sustainable and Resilient Water Supply to Cities	Bolivia	2017	75	25	Prepare for Bidding
CO-L1233	Program for the Development of Connectivity and the Digital Economy	Colombia	2018	350	50	Approved

S*ource:* Inter-American Development Bank.
Note: CO-L1233 is a policy-based loan (PBL). Total Cost includes IDB funding only and excludes counterpart funding if any.

20 The KIF is funded with the EDCF, entrusted by the Ministry of Economy and Finance, and managed and operated by the Korea Export-Import Bank. In 2017, cumulative global commitments of the EDCF were US$ 14.6 billion, covering 395 projects in 54 countries. Of this amount, US$ 890 million were committed for 31 projects in 7 countries in LAC. EDCF: Economic Development Cooperation Fund Annual Report 2017.

BOX 4: EXAMPLES OF KOREA-IDB PARTNERSHIPS IN KNOWDLEGE

The Korea-LAC Scholarship Program was established by the IDB and two premier Korean universities, the Korea Development Institute School of Public Policy and Management and Sungkyunkwan University. Through this effort, more than two dozen public officials from 22 eligible countries received full academic scholarships to study a Master's program in public policy or public management conducted in English at these universities, with the ultimate goal of providing civil servants with the skills necessary to design, implement, and evaluate successful public policies.

A collaboration between the IDB, IDB Invest, and the Korea Exchange resulted in the cutting-edge Sustainable Capital Markets Training implemented in the summer of 2019 as a high-level program for leaders in sustainability and capital markets in LAC. A diverse group of participants from stock exchanges and companies in the region attended lectures and shared experiences on ESG investment, evaluation and indices development, promoting sustainability and corporate transparency. Korean institutions recognized as leaders in innovation and sustainability, such as Samsung Electronics and Lotte Group, offered participants on-site visits.

In the urban sustainability space, the Korea Research Institute for Human Settlements worked with the emerging and sustainable cities team of the IDB on the topic of smart city management in Brazil and Jamaica. One focus of the collaboration was sharing Korea's extensive knowledge regarding Integrated Operating Control Centers, cornerstones of smart city management that are currently deployed in Anyang, Songdo, and several other Korean cities.

Another Korea-IDB partnership is the TechCorps initiative, which is working to build human and institutional capacity in LAC in areas of knowledge where Korea has competitive advantage, especially information and communications technology (ICT). Specifically, the collaboration provides 20–25 mid-level public officials with full scholarships to pursue a Master's degree in public management or public policy with an ICT-related focus in Korea. It also seeks to stimulate innovation in LAC countries by deploying 20–30 Korean young professionals with ICT expertise to support ICT-related projects in LAC countries and/or develop ICT-based solutions tailored to the business needs of LAC countries.

(KSP).[21] The program draws on Korea's own development experience and accumulated knowledge over the past decades, as it achieved a remarkable transformation from an impoverished country to an advanced, knowledge-based economy and donor country. The KSP offers support to developing countries by providing practical policy alternatives through an integrated approach that combines research, consultation, and institutional capacity building.

By the end of 2018, LAC countries were beneficiaries of altogether 261 KSP projects, accounting for 22% of the total (1,167), and second only to Asia. The number of KSP projects in the region has grown substantially after 2011, following the launch of joint consulting projects with international organizations.

The IDB became a KSP program partner in 2011 and altogether 40 joint consulting projects have been carried out up to the end of 2018, for a total amount of US$ 9.8 million (Table 10). The major sectors of cooperation have been urban development (20.6% of total), science and technology (20%), and transport (13.9%). A salient example of cooperation between Korea and the IDB is support to broadband development in the region. This pioneering line of work, totaling over US$ 35 million, benefited from various modalities of Korean cooperation. Starting with knowledge development through the KSP initiative at the national level, continuing with the establishment of the Center for Advanced Studies in Broadband Internet for Development (CEABAD) for training public officials in the region, and leading to a US$ 25 million concessional loan to improve Nicaragua's broadband infrastructure through the KIF. All these activities are having a noticeable impact on introducing digital technologies in the region.

21 The KSP was launched by the Ministry of Economy and Finance in 2004, with three coordinating/executing agencies: the Korea Development Institute (KDI), the Export-Import Bank of Korea, and the Korea Trade-Investment Promotion Agency (KOTRA). The program consists of three types of cooperation. One is bilateral KSP, through policy consultations, consisting of: (i) policy consultations to devise practical policy recommendation; (ii) practitioners' capacity building workshops, and (iii) dispatch of policy advisors for in-depth and practical policy consultations. The second type of cooperation is multilateral KSP—operational since 2011—through joint consulting with international organizations (IOs), combining Korea's development experience with regional IOs expertise, and consisting mainly of policy consultations. The third type of cooperation are case studies on Korea's development experience with the goal of sharing Korea's unique policies, implementation and outcomes, institution-building process and public projects that contributed to economic development.

TABLE 10: SELECTED KNOWLEDGE SHARING PROGRAMS BETWEEN KOREA AND LAC

Year	International Organization	Partner Country	Project Name
2011	IDB	Brazil, Uruguay, El Salvador	Design and Implementation of the Emerging and Sustainable Cities Platform
	IDB	Haiti	Preparation of the Land and Tenure Security Program
	IDB	Jamaica	Design and Development of National Identification System
2012	IDB	Brazil	Nurturing Micro and Small Business in Low-Income Communities in the Northeast
	IDB	Brazil, Uruguay	Feasibility Study on Building IOCCs in Two Cities
	IDB	Colombia	Change Management in the Colombian National Police: Consulting to Improve the Security Information System
	IDB	Peru	Roadmap for the Implementation of the Broadband Platform for LAC
2013	CAF	Panama	Technical and Vocational Education and Training (TVET)
	IDB	Nicaragua	National Policies for Fostering Broadband-Applied Services for Inclusive Economic and Social Development
	IDB	Ecuador	Smart Grid Studies
	IDB	Jamaica	Smart Design for the Integrated Operating Control Center for City Management in Montego Bay
	IDB	Chile	New Advances in the Identity Management System: A Quantum Leap from G2C to G4C
	IDB	Colombia	Support for Public Private Partnership Infrastructure
2014	CAF	Peru	Support for Improving the Quality and Relevance of TVET
	IDB	Mexico	Support for Integrated Labor System
	IDB	Haiti, Dominican Republic	Support for Road Safety
	IDB	Ecuador	Action Plan for Effective Spectrum Allocation for the Mobile Broadband
	IDB	Regional Project	Promotion of SMEs in LAC through Connect Americas
	IDB	Paraguay	Creating Rural Innovative Strategy for Sustainable Rural Development

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TABLE 10: SELECTED KNOWLEDGE SHARING PROGRAMS BETWEEN KOREA AND LAC
(continued)

Year	International Organization	Partner Country	Project Name
2015	CAF	Colombia	Improving the Quality and Productivity of TVET
	IDB	Nicaragua	Support for Asset Management Framework for the Pavement and Bridge Management System
	IDB	Dominican Republic	Smart Grid Project for the Expansion of Electricity Distribution Infrastructure
	IDB	Barbados	Consultancy for the Development of a Route Optimization Study in Solid Waste Collection
	IDB	Colombia	Smart City Technical Project Design and Implementation Plan for Valledupar and Villavicencio
	IDB	Colombia, Paraguay	Support for Customer Protection in Digital Financial Services
	WB	Peru	Systematic Use of Information to Improve Health Systems Governance: Phase II
2016	IDB	Guatemala	Supporting Digital Broadcasting Switchover
	IDB	Argentina	Program for the Development of a Single Window for Foreign Trade
	IDB	El Salvador	Improvement of Public Investment Management
	IDB	Honduras	Renewable Energy and Energy Storage Deployment on Islas de la Bahia
	IDB	Jamaica	Establishing IT-Based Performance Monitoring and Evaluation System of State-Owned Enterprises (SOEs)
	IDB	Colombia	Technology Transfer for Water and Wastewater Treatment Industry
	IDB	Colombia	Establishment of Integrated Operations and Control Center in Villavicencio
	IDB	Paraguay	Strengthening and Scaling-up Capacities of National Innovation System
	WB	Colombia	Supporting Healthcare Quality Governance and Financial Management for Phase III of Universal Health Coverage

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TABLE 10: SELECTED KNOWLEDGE SHARING PROGRAMS BETWEEN KOREA AND LAC
(continued)

Year	International Organization	Partner Country	Project Name
2017	IDB	Argentina	Smart City Technical Project Design for Great La Plata and Greater Mendoza
	IDB	El Salvador	Support for Development of Information Sharing & Analysis Center (ISAC) for the Broadband Infrastructure Protection
	IDB	Honduras	Supporting Customs Improvement
	IDB	Paraguay	Support for Establishment and Feasibility Study for Integrated National Road Traffic Information Center, Central State
	IDB	Paraguay	Introduction on Minwon 24 for Improved Service Delivery
	WB	Peru	Support for Health Information Management System for Transparency and Accountability: Phase II
2018	IDB	Dominican Republic	Support to Rural Broadband through Public-Private Partnerships
	IDB	Bolivia	Improvement of EPSAS' Management Efficiency and Water Resources Management System
	IDB	Argentina	Feasibility Study for Establishing a Data Center in the Buenos Aires City Government
	IDB	Ecuador	Road Safety Information System and Investigation Tools
	IDB	Peru	Preliminary Feasibility Study on the Flood Prevention Projects
2019	IDB	Dominican Republic	Road Asset Management System
	IDB	Colombia	Cloud Computing and Big Data Management
	IDB	Costa Rica	Supporting Policy Design for Public Procurement for SMEs and Innovation
	IDB	Honduras	Support for Improvement of Electric Power Quality and Efficiency

Source: The Korea Export-Import Bank.
Note: CAF: Andean Development Corporation – Development Bank of Latin America; IDB: Inter-American Development Bank; WB: World Bank.

Additional modalities to channel Korean cooperation with the help of the IDB are being developed. Together with IDB Invest, a US$ 300 million co-financing fund to invest in the private sector in LAC has been envisioned. It would create possibilities for loan and equity investments in the region for Korean insurance and pension funds, among others.

Furthermore, several new initiatives for broadening and deepening cooperation and economic relations with Korea are under way in collaboration with the IDB. These include the support to the internationalization of startups in LAC and Korea, with the objective of creating business opportunities for SMEs and facilitating joint ventures; the harnessing of new technologies in trade facilitation, such as the creation of smart ports and modernization of LAC customs; as well as the promotion of economic relations and integration initiatives between Korea and the Pacific Alliance.

In sum, this dynamic web of trade and investment agreements coupled with a far-reaching cooperation program helped policymakers of the two regions engage on a diverse range of policy initiatives, which translated into tangible dividends for businesses. At the current juncture, when bilateral trade and investment flows need new drivers, the value of Korean cooperation with LAC is therefore greater than ever.

V

Policy Options: Keeping up the Momentum of the Partnership

In the last two decades, Korea has become one of the most dynamic partners of LAC in Asia. While bilateral trade has grown four-fold, Korean foreign direct investment in LAC surged and shifted towards high-end manufacturing sectors, contributing to growth, employment and technological progress in the region. Economic ties have been underpinned by the most extensive web of trade and investment agreements available to LAC countries in Asia and by a far-reaching program of development cooperation and technical assistance. However, after this impressive take off the initial momentum started to flag, and governments and businesses currently face the challenge of reviving this highly strategic partnership.

Trade costs between the two economies are still high and reducing them can unlock a considerable trade potential. Distance is certainly an inevitable barrier, but trade costs are also driven by restrictive trade policies and poor logistics connectivity. Trade and investment treaties between LAC and Korea still do not cover trade relations with the largest economies of the region and non-tariff barriers limit trade flows, preventing businesses to build on their competitive capabilities. Moreover, under-investment in trade-related infrastructure compounded by inefficiencies along the logistics chains put exporters at disadvantage with competitors in each other's markets.

In order to ensure that this productive economic relationship continues to generate opportunities, a number of strategic activities may set the stage for deeper engagement of government officials, businesses and people.

Completing trade agreements – Completing the web of trade agreements would help to reduce lingering tariffs and do away with the most pernicious non-tariff barriers. The focus should be placed on speeding up the negotiation of comprehensive free trade agreements between Korea and the largest LAC countries. A wider set of trade rules governing market access would allow LAC exporters to diversify sales in the Korean market that is bound to

grow due to the emergence of a vibrant middle class. Meanwhile, expanding the web of trade agreements with LAC partners would help Korea to consolidate its competitive head start, at a juncture when LAC countries are stepping up negotiations with leading advanced economies.

Deepening trade facilitation – Deepening trade facilitation would not only contribute to slashing the cost of doing business across borders, it could also harness new technologies in which Korea is a global leader. Actions ranging from the expansion of mutual recognition agreements for Authorized Economic Operators, to the interoperability of Trade Single Windows, and to the promotion of bilateral cooperation to facilitate compliance with trade rules, would allow LAC and Korean traders to operate under global best practices.

Promoting trade and investment – Trade and investment promotion activities may help private sector representatives of both economies to lock-in business deals and set the strategic partnership on a new course. Through capacity-building and information sharing, promotion institutions reveal market opportunities and ultimately facilitate contacts among businesses and consumers from distant cultures. In order to increase mutual awareness, a new vintage of business forums and matchmaking initiatives could help generate viable business propositions among interested parties.

Investing in trade-related infrastructure – As shown by the estimates of the LAC-Korea trade potential, trade liberalization would go a long way in revamping trade flows but overcoming poor trade infrastructure and uncompetitive logistics is a necessary complementary policy. For LAC this is indeed an utmost priority and cooperation with Korea may be extremely valuable, particularly as the region needs to mobilize in the private sector resources that exceed the funding capacity of governments. The joint identification of investment opportunities, as well as the exchange of knowledge in the design of an effective institutional and financial architecture to develop large investment projects, would help the region in overcoming one of its most pressing development needs.

Deepening technical cooperation – LAC would also benefit from enhanced cooperation with Korea in a number of domains, starting from science technology and innovation in which Korea is on the cutting edge of global trends. While LAC has set the foundations for a leap into the 4th industrial revolution, widespread technological progress is still an elusive goal. Learning from Korea how to steer the transition from a relatively underdeveloped economy to global technological leadership would help LAC countries to face the most daunting challenge of our time. The spin-off of deeper cooperation in this area would be a game changer for LAC's trade stance, for example by boosting its capacity to integrate high-end global value chains, venturing into new markets with e-commerce, or developing a vibrant knowledge-intensive services export sector.

Bringing people together – Facilitating contacts among people is crucial to sustain deeper integration. Liberal visa regimes, particularly for professionals and tourists, would go a long way in easing business and increasing cultural exchanges. Likewise, encouraging communication and cooperation between high-level authorities and public officials would greatly contribute to deeper mutual understanding and to swiftly address pending issues. Finally, taking advantage of new technologies, for example through the expansion in Korea of ConnectAmericas, the first online network for businesses in the Americas, would provide a cost-effective digital bridge between Koreans and Latin Americans.

Giving fresh momentum to the bilateral trade and investment relationship is a priority as LAC and Korea confront a challenging global environment, characterized by mounting global trade tensions and the reversal of the tailwinds that sustained the trade surge between LAC and Asia since the turn of the millennium. Solidifying the alliance between the IDB and its Korean development counterparts thus emerges as a valuable strategic option. As the success of the partnership has shown in the last fifteen years, joining forces to foster ties between LAC and Korea will contribute to improving lives in Latin America and the Caribbean.


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Inter-American
Development Bank