

POLICY BRIEF

EXPLORING TRADE COOPERATION BETWEEN THE PACIFIC ALLIANCE AND SOUTH KOREA

대한민국과 태평양 동맹 국가들간의 경제협력

By Dr Carolina Urrego-Sandoval, *Universidad de los Andes*



The main purpose of this policy brief is to provide policy recommendations to improve and strengthen the Republic of Korea (the ROK)'s relations with Pacific Alliance member states Chile, Colombia, Mexico, and Peru.

The recommendations are the result of an original and rigorous research project that explored how the evolution and effects of trade and investment relations on in PA member states' key public and private actors views of ROK. The project and the resulting

Report analysed historical data on trade, investment, official development assistance, conducted online surveys, meetings and in-depth interviews. Consequently, the Report characterised the evolution of trade, investment, and cooperation initiatives carried out 1) bilaterally between the ROK and PA members Chile, Colombia, Mexico, and Peru. 2) Multilaterally between the ROK and the PA as a bloc. The project considered this relationship vis-à-vis the effects of the COVID-19 pandemic in the world economy and uncertain international scenario.

WHAT IS THE PACIFIC ALLIANCE?

It is a regional integration bloc established in 2011 by Chile, Colombia, Mexico, and Peru, all located on the Pacific Rim. It is intended to create an area of deep integration and promote the development and competitiveness of its members by progressively seeking the free movement of goods, services, capital, and people. They have advanced strategies to harmonise institutional frameworks, policies, and procedures. However, its main objective is to serve as a platform for economic and trade integration towards the Asia-Pacific region, where the four countries share significant economic interests.



Background

The ROK and the PA members individually have long-standing historical relations. They include iconic moments such as the Korea migration to Mexico during the beginning of the 20th century and Colombia's military support during the Korean War.

Traditionally good diplomatic relations have opened the doors for establishing, maintaining, and deepening comprehensive commitments. However, this relationship

reignited at the beginning of the 21st century by establishing Free Trade Agreements (FTAs). Notably, in 2003, Chile and the ROK concluded negotiating the first FTA between Latin American and Asian countries, which was also the first FTA signed by the ROK, constituting a milestone for inter-regional relations. Since then, the ROK has signed FTAs with Peru, which entered into force in 2011, and Colombia in 2016.

Table 1. ROK's FTAs negotiation process with PA member states

South Korea's FTAs	Chile	Colombia	Peru	Mexico
Negotiation started	1999	2009	2009	2006
Signed	2003	2013	2010	x
Entered into force	2004	2016	2011	x

Source: SICE (2020).

Even though the ROK has already developed close ties with the PA participating as an observer, both parties are negotiating its possibilities of joining the bloc as an associate member. This new status would allow the ROK to strengthen relations with Mexico, which is currently the missing

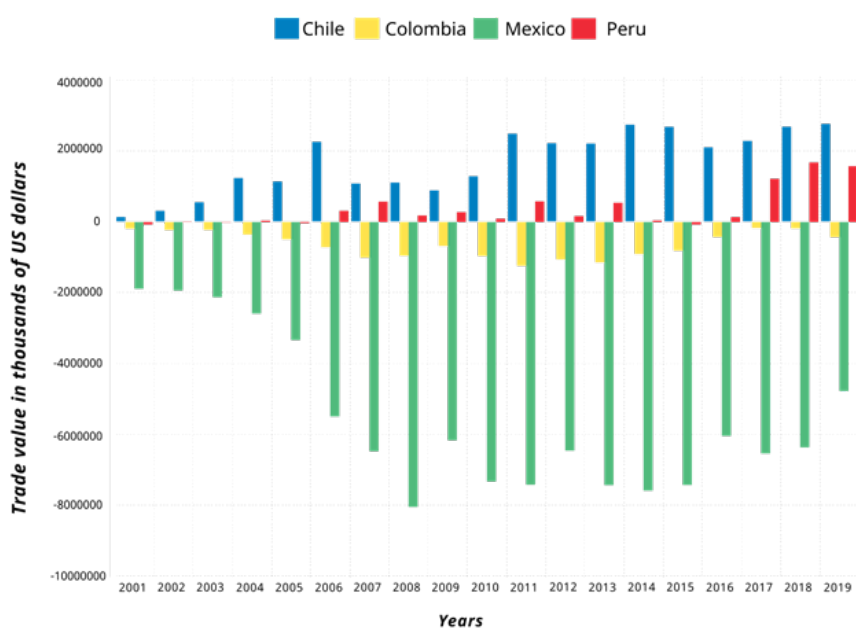
link to complete FTAs with all PA member states. Mexico and the ROK initiated negotiations in 2008, but they could not reach an agreement due to the significant reluctance of metal and automotive Mexican business sectors.

Views and Perspectives

The Research Report found that the public and private sectors' overall perceptions of their relationship with the ROK are positive at the bilateral level. Official PA representatives show interest in the ROK's economic development and export-oriented culture. This element is valuable to develop future trade-related cooperation initiatives. In terms of the FTAs, public officials remain optimistic regarding future developments. Among private sector actors, the perception is positive. However, the Report found a perceived limited understanding of the Korean market among PA business sectors.

In many cases, this had led to growing concerns regarding the implementation of FTAs. Therefore, different views will emerge considering countries and sectors. These concerns lay mostly on the trade balances and the private sector perceived ability to benefit from the FTAs. Even though the trade balances alone do not reflect the bilateral relationship's complexity, they shed lights on trends and dynamics. Consequently, each PA member case needs to be considered both independently and as part of the PA bloc.

Trade balance between the ROK and the PA, 2001-2019



Source: UN Comtrade (2021).

For example, in Chile and Peru, the outcomes of the FTA are regarded positively. Particularly, in the agricultural sector, as it has significantly benefited from trade preferences and between 2004 and 2014, their exports to the ROK grew four-fold. In the case of Chile, iconic products such as wine, grapes, and pork meat have now access to the Korean market. In Peru's case, the ROK is now one of the country's main export destinations. Together, mining and agricultural goods constitute 86.4% of all exports from Peru to the ROK. Mainly, superfoods such as quinoa, chestnuts, purple corn, cacao, anchovies, tangerines, and avocados, among many others, are growing in demand in Korea. In the other direction, the ROK has also benefited from these FTAs but to a lesser extent. The ROK exports to Chile by value grew consistently from the FTA entry into force until the Global Financial Crisis of 2008. Since then, however, the ROK's exports have remained relatively flat.

There are concerns among business sectors regarding trade deficits with the ROK in Mexico and Colombia. Notably regarding bilateral trade effects in sensitive industries such as automotive, electronics, chemical products, and metals. Historically, Mexico and Colombia's trade balance has been in

deficit toward the ROK, with deepening and recovery intervals. Notably, trade deficits emerged from significant inter-industry trade disparities in terms of value. While the ROK exports to PA members are high value-added products, PA exports to the ROK are mainly commodities. Nonetheless, the decrease of ROK's exports to PA members is strongly associated with declining vehicle sales, related, in turn, to the PA members currency devaluation against the US dollar during the last few years. These concerns are relevant because Mexico does not have an FTA with the ROK, which poses a limitation to the ROK's intentions of joining the PA as an associate member. The ROK-Mexico started negotiations in the past, but they could not reach an agreement. Consequently, the absence of an updated institutional framework may undermine future cooperation. In this regard, the Report notices that a trade agreement designed to overcome the obstacle to integrating ROK into the PA cannot be imposed on sceptical sectors. Therefore, an open and inclusive negotiation is necessary to set the basis of a mutually beneficial trade relationship.

At the multilateral level, the Report found that public and private sector actors exhibit significant expectations regarding

the possibility of the ROK joining the PA as an associate member. The same is true for the ROK, which will insist on its extended membership. It constitutes a strategic foreign policy move towards south, central, and north America. That way, the ROK could benefit from a significant network of existing trade agreements and the PA members' proximity to the USA market. Its complementarities would facilitate establishing an expanded list of origin to benefit from origin cumulation and regulations to promote global supply and global value chains. Advancing this process requires two conditions to be met. 1) Concluding ongoing negotiations between the PA and Australia, Canada, New Zealand, and Singapore. 2) Subscribing an FTA between the ROK and Mexico, which can be

challenging. Not only is it necessary for the ROK to become an associate to the Pacific Alliance, but it is also a way to address the concerns of different stakeholders regarding future trade relations.

Investment links between the ROK and PA members are well behind their bilateral trade relationship, particularly regarding investment from the PA to the ROK. In terms of trends, investment is evolving from traditional sectors such as mining, hydrocarbons, and energy, towards more diversified areas. They include emerging sectors such as renewable energy. Bilateral investment treaties (BITs) co-exist with FTA investment chapters, except in the case of Mexico.

Recommendations

PA member states' public and private sector actors exhibit significant interest and expectations for more cooperation with the ROK. However, some questions and concerns need to be addressed and explored beyond traditional approaches. The following recommendations address these issues across four areas: multilateral level, trade, investment, and cooperation.

Multilateral level

- Continue the negotiation for the ROK to become an associate member of the PA.
- Promote and support common positions in multilateral scenarios. Both the ROK and the PA members share interests in promoting effective and democratic global governance and creating ambitious regional integration projects.
- Advance trade, investment, and cooperation activities within the PA.

Trade

- Update ROK-PA FTA and BITs when necessary. Particularly, to integrate digital economy elements, including e-commerce, 5G, investment provisions, and sustainable development opportunities.
- Explore cooperation initiatives in PA members public procurement, particularly in infrastructure, electronic government, and e-business (considering existing FTA provisions).
- Coordinate actions between the public and private sectors to promote ROK-AP trade and investment. Thus, provide resources to specialised agencies such as KOIKA and KOTRA to developed initiatives with ProChile, ProColombia, and PromPeru.

Investment

- Explore and support investment opportunities for the ROK's companies considering tax incentives, nearshoring strategies

implemented by other PA members, and opportunities in non-traditional sectors such as cultural and media, information and telecommunication technologies, clean energy, and sustainable businesses.

- Encourage investment from the PA to the ROK through promotion strategies. We suggest encouraging SMEs entrepreneurs seeking opportunities on both sides of the Pacific. Thus, governments and specialised agencies should promote and facilitate such activities.

Cooperation

- Enhance scientific and technological cooperation between the ROK and PA members, particularly with Mexico and Colombia. There are opportunities for Korean companies to conduct Research & Development activities with local research institutes, universities, or technology centres, facilitating technology transfer processes. It would be highly regarded by PA member states business sectors, thus mitigating trade concerns.

- Advance trade-related development and trade facilitation activities within PA members. Key issues include 1) developing training opportunities to foster a better understanding of non-tariff barriers, Korean consumers' patterns and preferences (packing and traceability), and business culture in Korea and PA members. 2) Financing transportation and logistics to reduce the time and cost of trading between the ROK and the PA.
- Promote cultural and educational exchanges and learning experiences constitutes a valuable diplomatic tool to achieve a better understanding between the two regions. There are significant opportunities for the ROK to promote cultural and media products, considering the growing popularity of K-pop and K-drama among PA member countries.
- Further explore policy-oriented research focusing on diverse forms of cooperation and the evolution of trade and investment from a private sector's perspective. Despite their importance, they remain understudied.

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About the author



Dr Carolina Urrego-Sandoval is an Assistant Professor at the Department of Political Science of Universidad de los Andes. She led the research project: Exploring Trade Cooperation between the Pacific Alliance and South Korea. She has worked at the Colombian Ministry of Commerce, Industry and Tourism, the United Nations Conference on Trade and Development (UNCTAD) in Geneva, Standard Chartered Bank in Mumbai, and Head of International Relations at the University of Tolima in Colombia.

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