International Trade and Investment

International trade and investment is the exchange of capital, goods, and services across international borders or territories. It includes the international flow of tangible and intangible commodities such as finance, insurance, transportation, distribution, information technologies as well as the international flow of key production elements such as capital, labor, technology, and so on. Furthermore, it includes a series of international agreements such as the Free Trade Agreement (FTA) for such international regulations or norms have a significant influence on labor, technology, and competition in the international economic environment. Korea's level of involvement in international trade and investment has strengthened significantly over the last five decades.

Korea's rapid growth in trading stems directly from the government-sponsored export-oriented economic development strategies that were implemented with a series of five-year plans beginning in 1962. For example, trading volumes have increased significantly from around 100 million USD in 1964 to over 1 trillion USD (export: 559.6 billion USD, import: 551.5 billion USD) in 2013. Korea is now ranked 8th in the world by trading volume. Along with the significant growth of trade, the Korean economy has become more and more dependent on international trading. There has been a rapid increase since the early 2000s, accounting for 62.5% in 2004, 85% in 2008, and 82.4% in 2013.

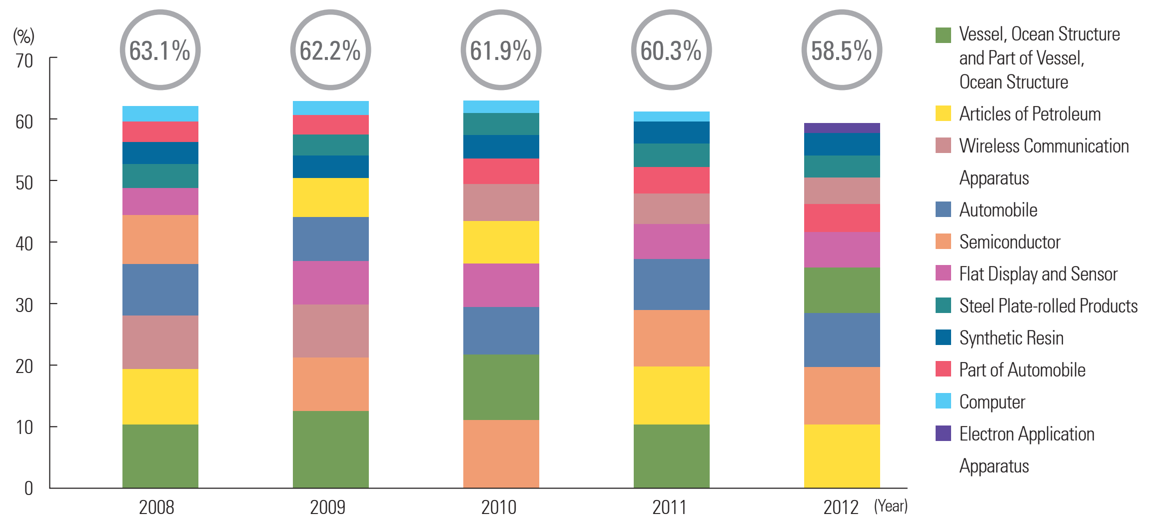
There has also been remarkable growth in exports since the early 2000s. For example, exports have increased from 150.4 billion USD in 2001 to 559.6 billion USD in 2013, making the trade balance grow from 9.3 billion USD in 2001 to $44 billion USD in 2013. The main commodities exported by Korea are vessel, ocean structure and part of vessel, ocean structure, semiconductors, automobile, and flat display and sensor between 2008 and 2012. Among those commodities, vessel, ocean structure and part of vessel, ocean structure accounts for the highest export revenue during the last 10 years. The export of semiconductors has also increased significantly since 2008. By 2010 semiconductors became the largest export commodity although their proportion in exports decreased due to the decline of semiconductor prices in world market in 2011. Automobile exports have also increased significantly since 2010 due in part to the recent FTA with the USA as well as increasing demands from other advanced economies.

Korea has experienced significant growth in imports along with the growth in exports despite a moderate downturn during the world economic crisis in 2008 and the decline in oil prices in 2009. The subsequent rise in oil prices and the importation of equipment have stimulated rising imports once again. Crude petroleum has been the most significant imported good, accounting for over 30% of total imports. Korean crude petroleum imports in 2011 surpassed 100 billion USD for the first time, accounting for 32.9% of the total imports that year.

The main export partners for Korea are China, the US, Japan, Singapore, Vietnam, and the European Union (EU). China has been the top exporting country since the early 2000s. Exports to China have increased from 3.8 billion USD (6.1% of total exports) in 1989 to 173.6 billion USD (31.2% of total exports) in 2013. Exports to Vietnam have also increased rapidly since the late 1990s due to the rapid growth of Korean foreign direct investments in Vietnam. The proportion of exports to advanced economies such as the USA, Japan, Singapore, and the EU has decreased. Along with this pattern of exports, imports have followed a similar trend to exports. Korea's major import partners are China, Japan, the USA, and Saudi Arabia. Among those countries, China has been the top importer of Korean goods since 2007.

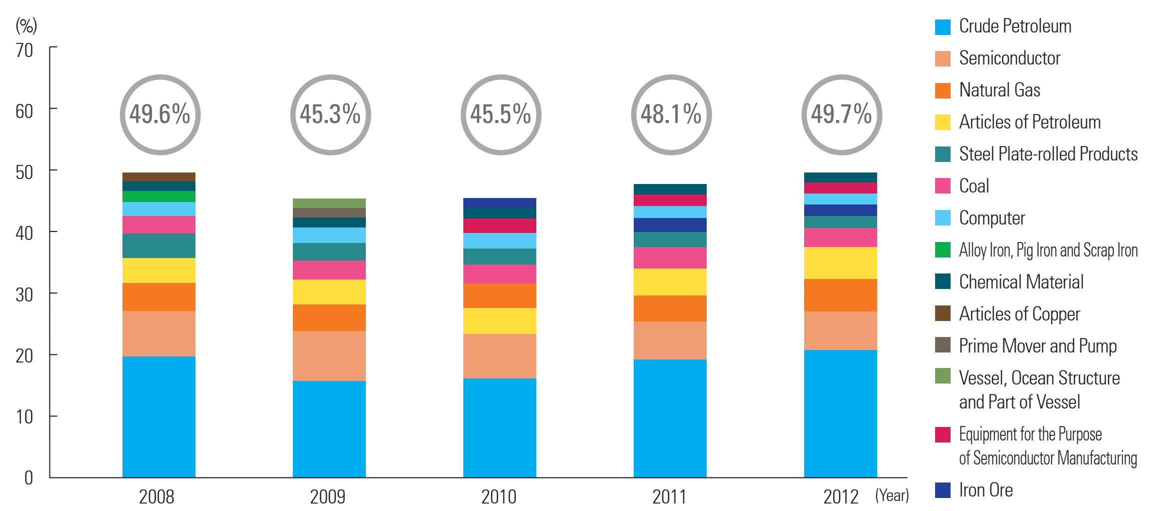
The trade balance did show deficits in the 1980s, and these continued until the mid-1990s. The average trade balance from 1980 to 2013 was 88 billion USD, with the largest surplus of 44 billion USD in 2013, and the lowest deficit of 20.6 billion USD in 1996. Since the mid-1990s, Korea has posted mostly surpluses in large part due to the dramatic growth in exports. The average trade surplus between 2001 and 2013 was 22.3 billion USD. Since 2003, the largest surpluses came from trading with China. For example, a record surplus 86.6 billion USD was posted from trading with China in 2013, accounting for 19.7% of total trade surplus of Korea. On the contrary, the trade deficit with Japan has increased from 2.8 billion USD in 1980 to 36.1 billion USD in 2010. The trade deficit with Japan has decreased since 2011 after diversifying import sources and after the 2011 earthquake in Japan.

Trends in Proportion of Main Export Commodities



Note: Based on MTI 3 unit standard (It is enacted by Korean Ministry of Trade, Industry & Energy) Korea International Trade Association (2012)

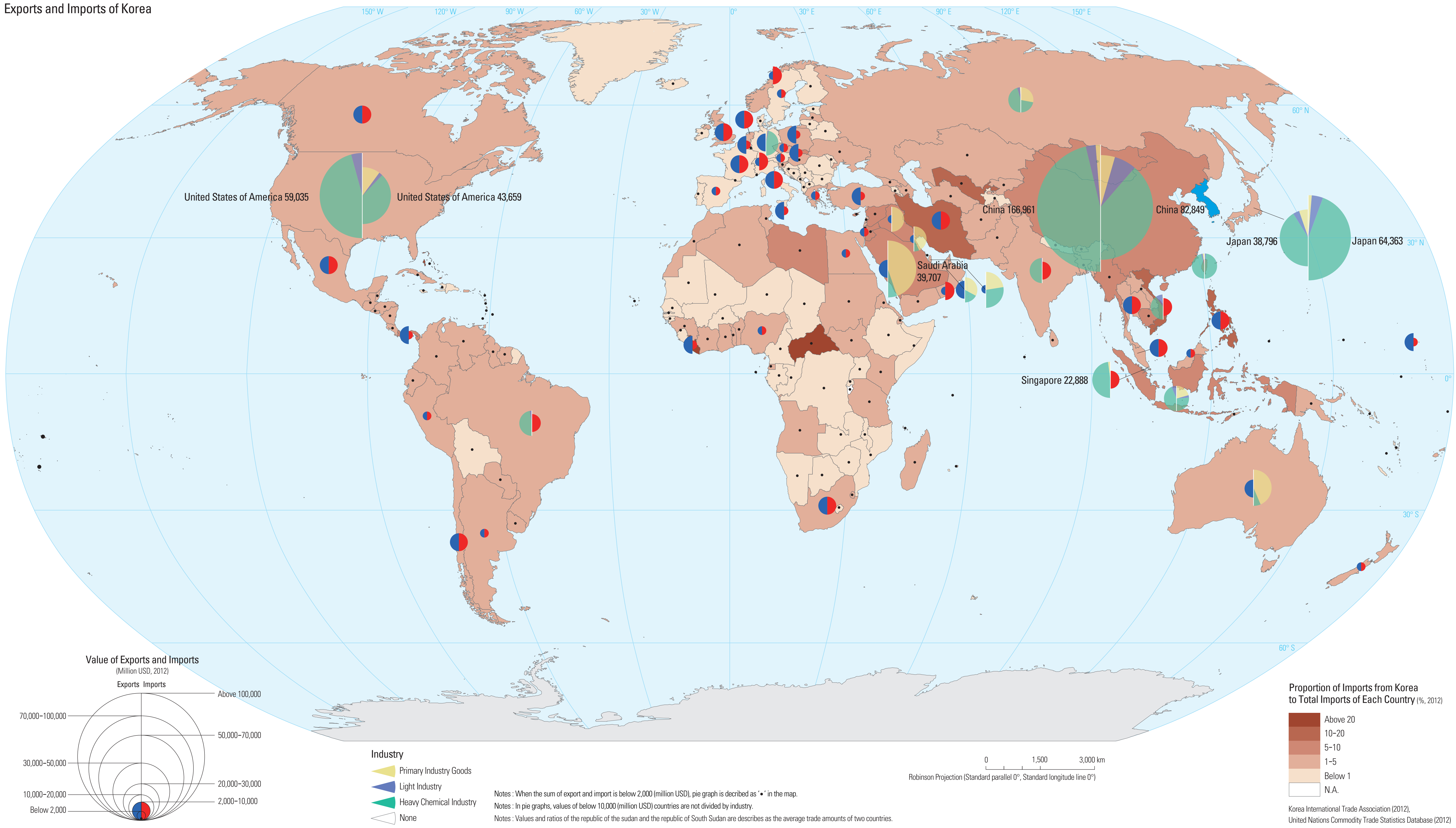
Trends in Proportion of Main Import Commodities



Note: Based on MTI 3 unit standard (It is enacted by Korean Ministry of Trade, Industry & Energy) Korea International Trade Association (2012)

Exports and Imports

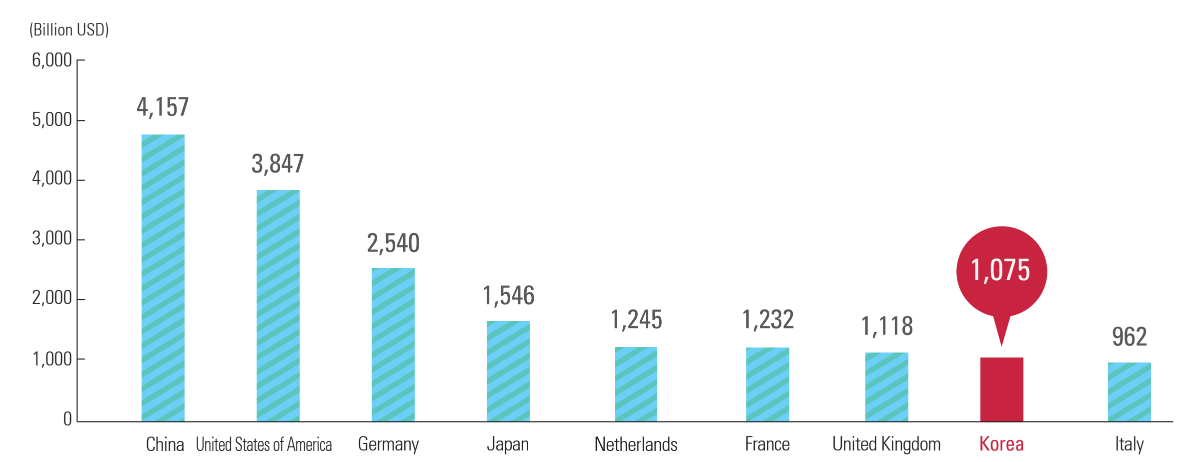
Exports and Imports of Korea



Notes : When the sum of export and import is below 2,000 (million USD), pie graph is decribed as "•" in the map.
Notes : In pie graphs, values of below 10,000 (million USD) countries are not divided by industry.
Notes : Values and ratios of the republic of the sudan and the republic of South Sudan are describes as the average trade amounts of two countries.

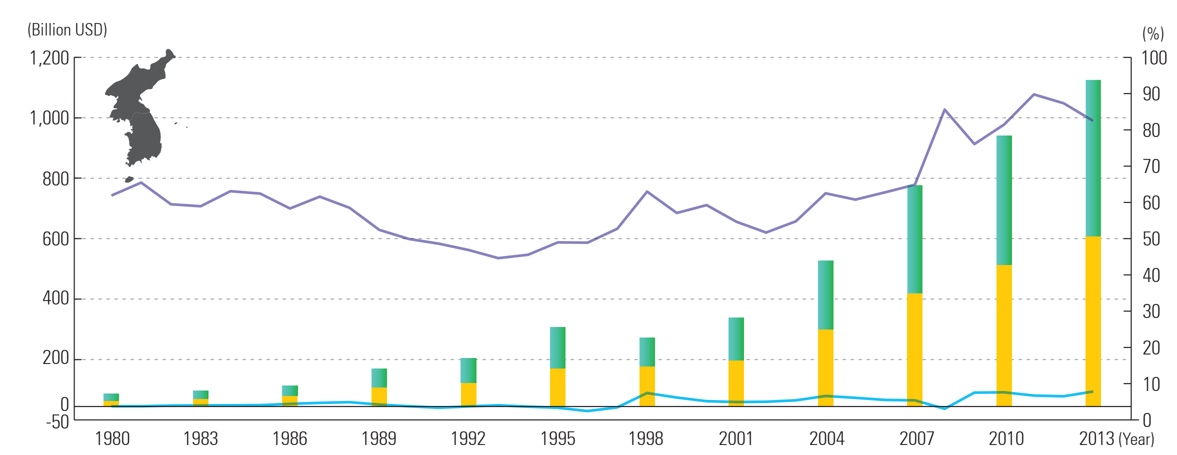
Korea International Trade Association (2012), United Nations Commodity Trade Statistics Database (2012)

Leading Countries in World Trade



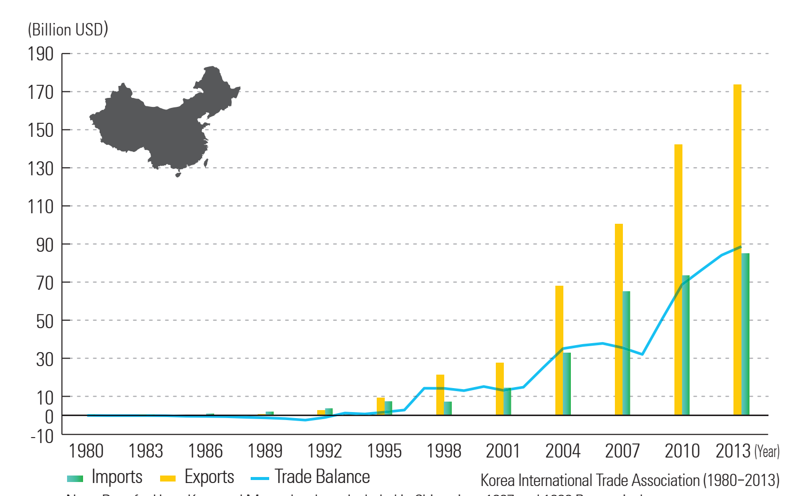
Korea International Trade Association (2013)

Trends in Exports-imports and Trade Balance and Degree of Dependence on Foreign Trade of Korea



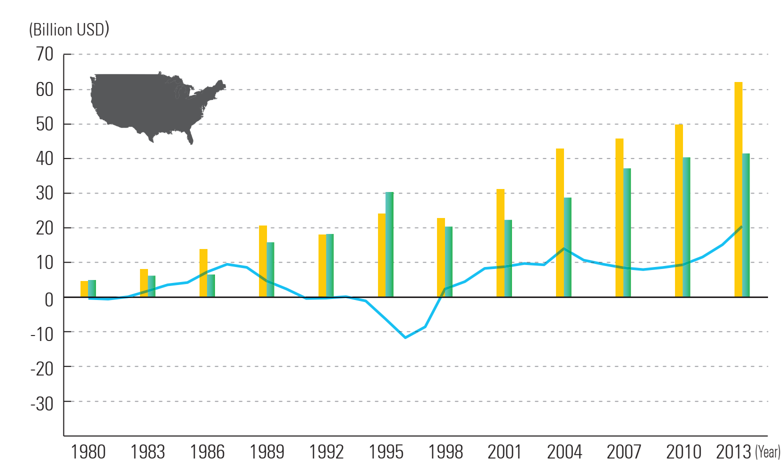
Korea International Trade Association (1980~2013)

Trends in Exports-imports and Trade Balance of China



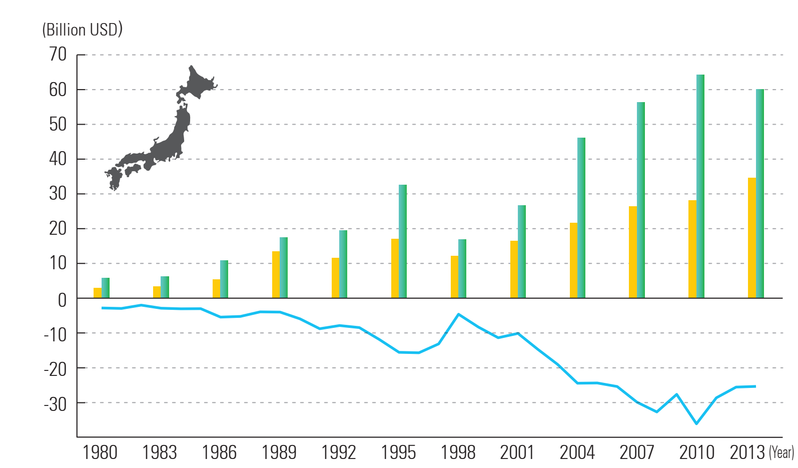
Korea International Trade Association (1980~2013)
Note: Data for Hong Kong and Macao has been Included in China since 1997 and 1999 Respectively.

Trends in Exports-imports and Trade Balance of United State of America



Korea International Trade Association (1980~2013)

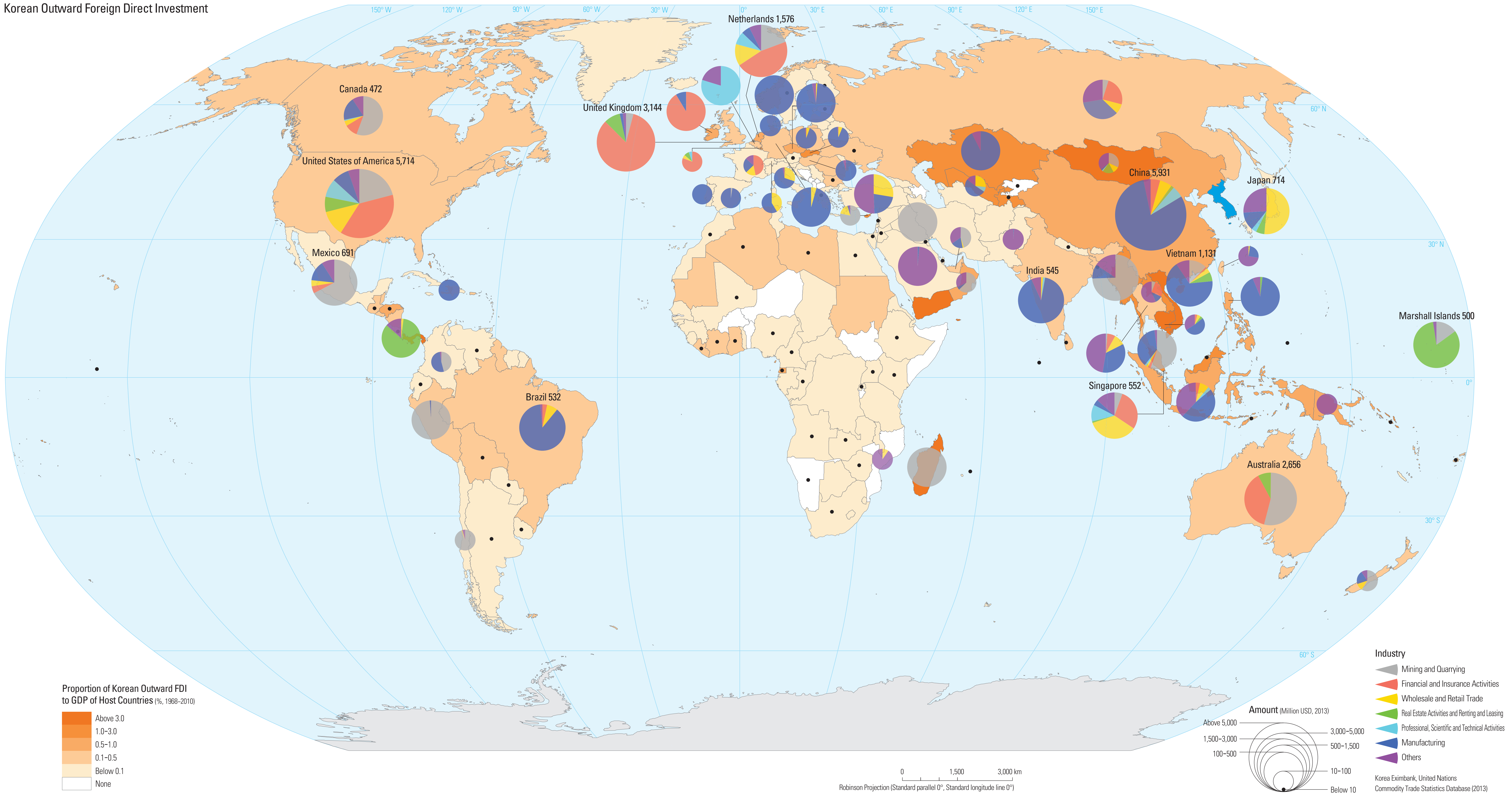
Trends in Exports-imports and Trade Balance of Japan



Korea International Trade Association (1980~2013)

Foreign Direct Investment

Korean Outward Foreign Direct Investment

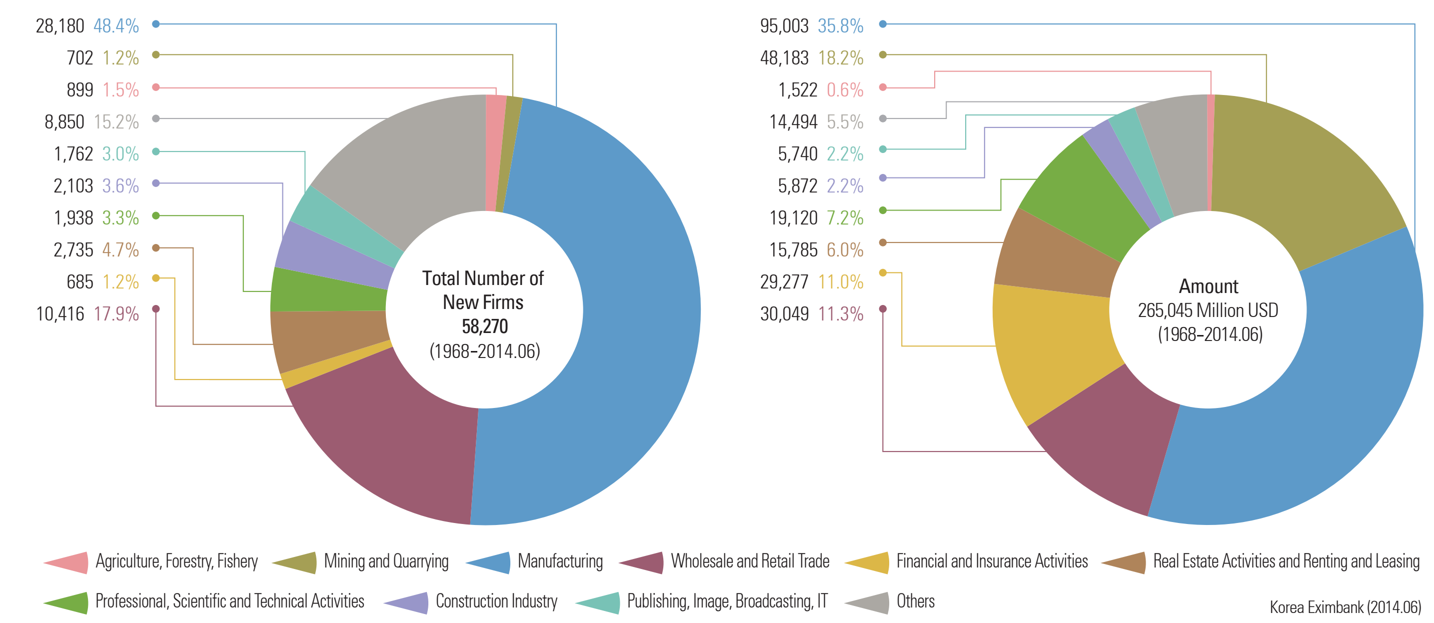


The foreign direct investment (FDI) is a critical business strategy for expanding a domestic firm's operations abroad via greenfield investments, mergers and acquisitions, and the expansion of existing foreign facilities. Outward FDI has become a part of the progression of firms because it provides better business opportunities through the firm's specific strengths and location-specific advantages in foreign countries. Korean outward FDI has undergone significant growth since the late 1980s, increasing from 1.1 billion USD in 1990 to 22.7 billion USD in 2007. The total number of new firms established by Korean FDI is 58,270 cases, and the amount of Korean FDI is 265 billion USD between 1968 and June 2014.

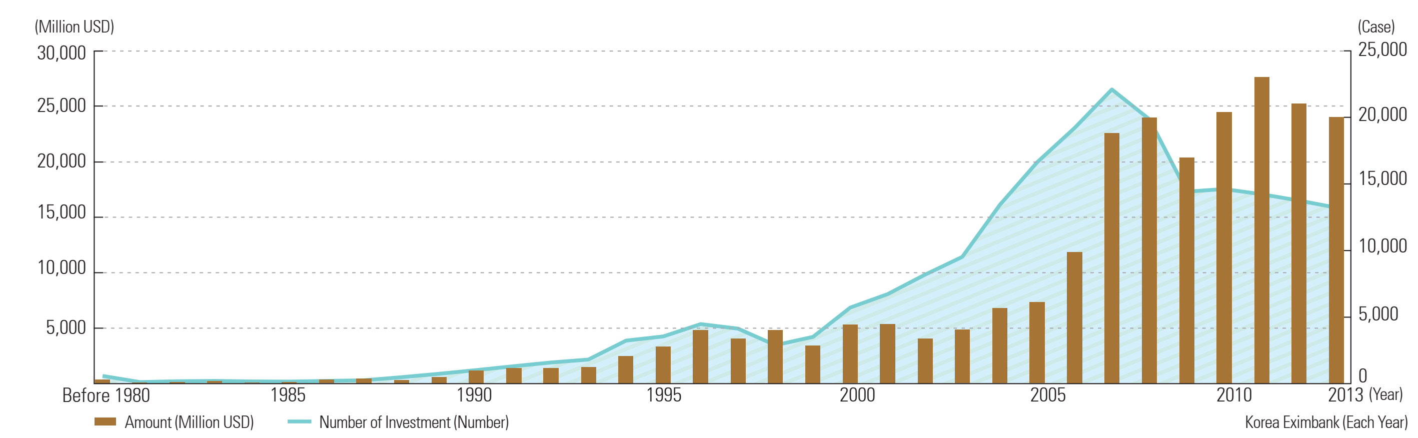
When grouped by regions Asia, North America, and Europe accounted for 45.6%, 23.9%, and 19.4% of Korean outward FDI in 2010. In particular, China and the USA accounted 27.3% and 20.5%. The UK took 6.6%, Vietnam 4.0%, Canada 3.1%, the Republic of South Africa 3.4%, and other countries took less than 3% in 2010.

Interestingly, Korean FDI in Vietnam has increased significantly since the early 2000s with the result that Vietnam has emerged as the 4th largest host economy for the Korean outward FDI. The Korean outward FDI has also significantly contributed to the GDPs of some host countries. For example, the proportion of Korean outward FDI was 15%, 8.3%, 5.7%, 5.2%, 3.3% and 2.3% for Cambodia, Madagascar, Vietnam, Panama, Mongolia and Laos, respectively. The manufacturing sector received the largest investment, accounting for 35.8% of Korean total outward FDI between 1968 and June 2014. Mining and quarrying, wholesale and retail trade, and financial and insurance activities sectors received 18.2%, 11.3% and 11.0% during this period.

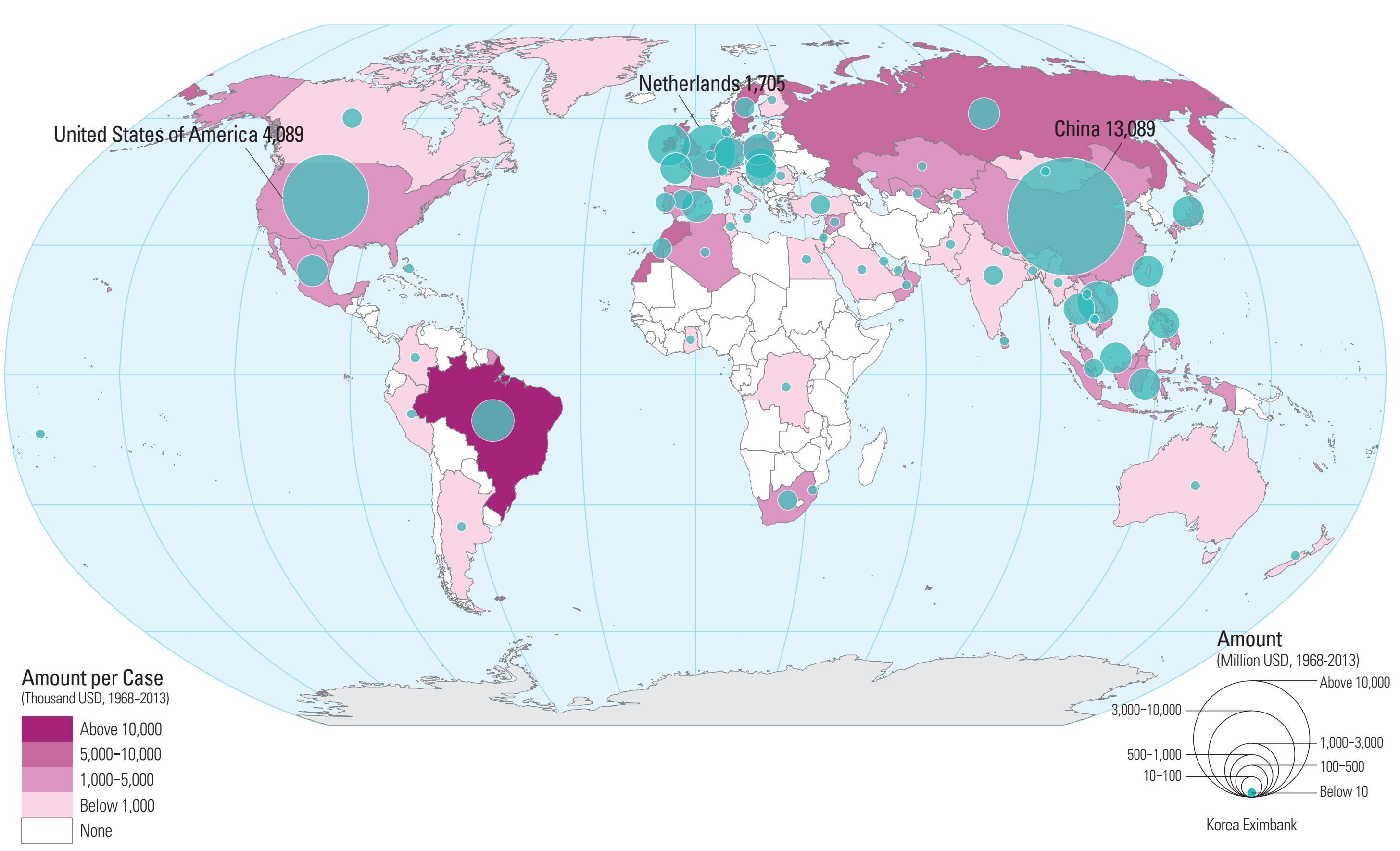
Korean Outward FDI by Industry



Trends in Korean Outward FDI

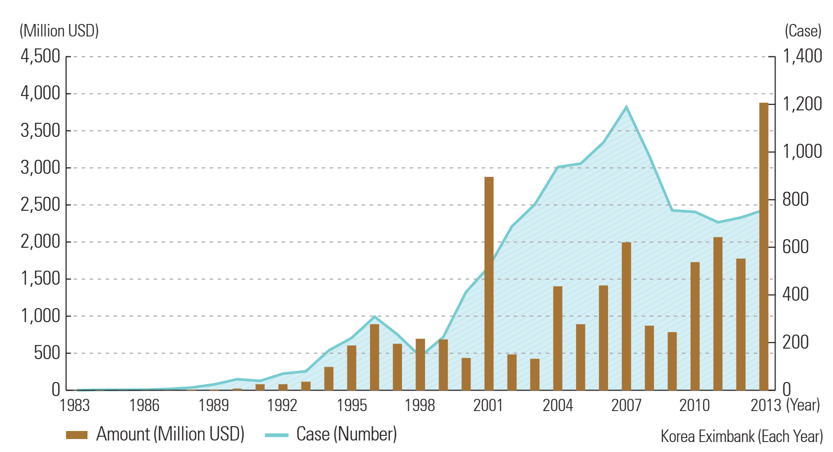


Korean Outward FDI of Electronic Components, Computer, Radio, Television and Communication Equipment and Apparatuses



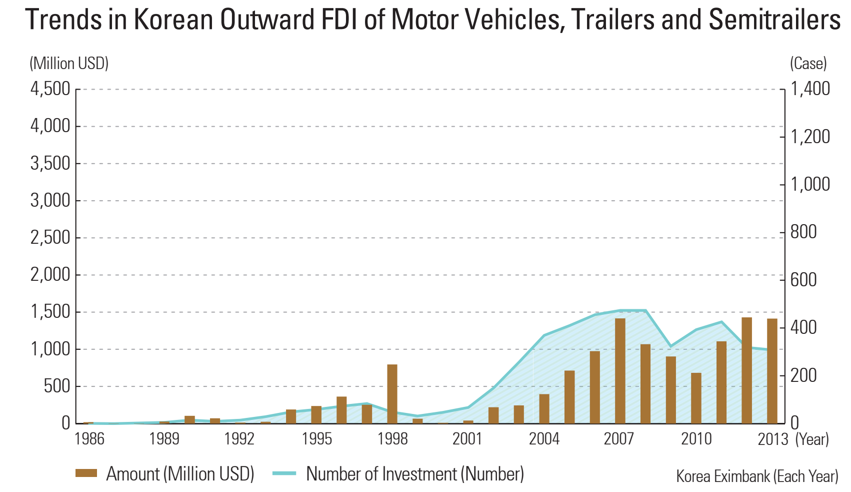
Korean outward foreign direct investment (FDI) to manufacturing sector has been mainly dominated by two categories: the manufacture of electronic components, computer, radio, television and communication equipment, and the manufacture of motor vehicles, trailers and semitrailers, which accounted for 27.4% and 13.9% of cumulative manufacturing FDI as of June, 2014. Investment in the manufacture of electronic components, computers, radio, television, and communication equipment and related technologies amounted to 26 billion USD in 73 countries in 2013. It has grown significantly since the mid-1990s. For example, it increased from 80 million USD in 1990 to 3.9 billion USD in 2013. Geographically, investments in these areas are concentrated in China (including Hongkong) and the USA, and account for 52.5% and 15.8% of the total Korean outward FDI respectively in 2013. The Netherlands, Vietnam, Ireland and Japan represent 6.0%, 3.1%, 2.6%, and 2.0% of investments respectively in 2013.

Trends in Korea Outward FDI of Electronic Components, Computer, Radio, Television and Communication Equipment and Apparatuses

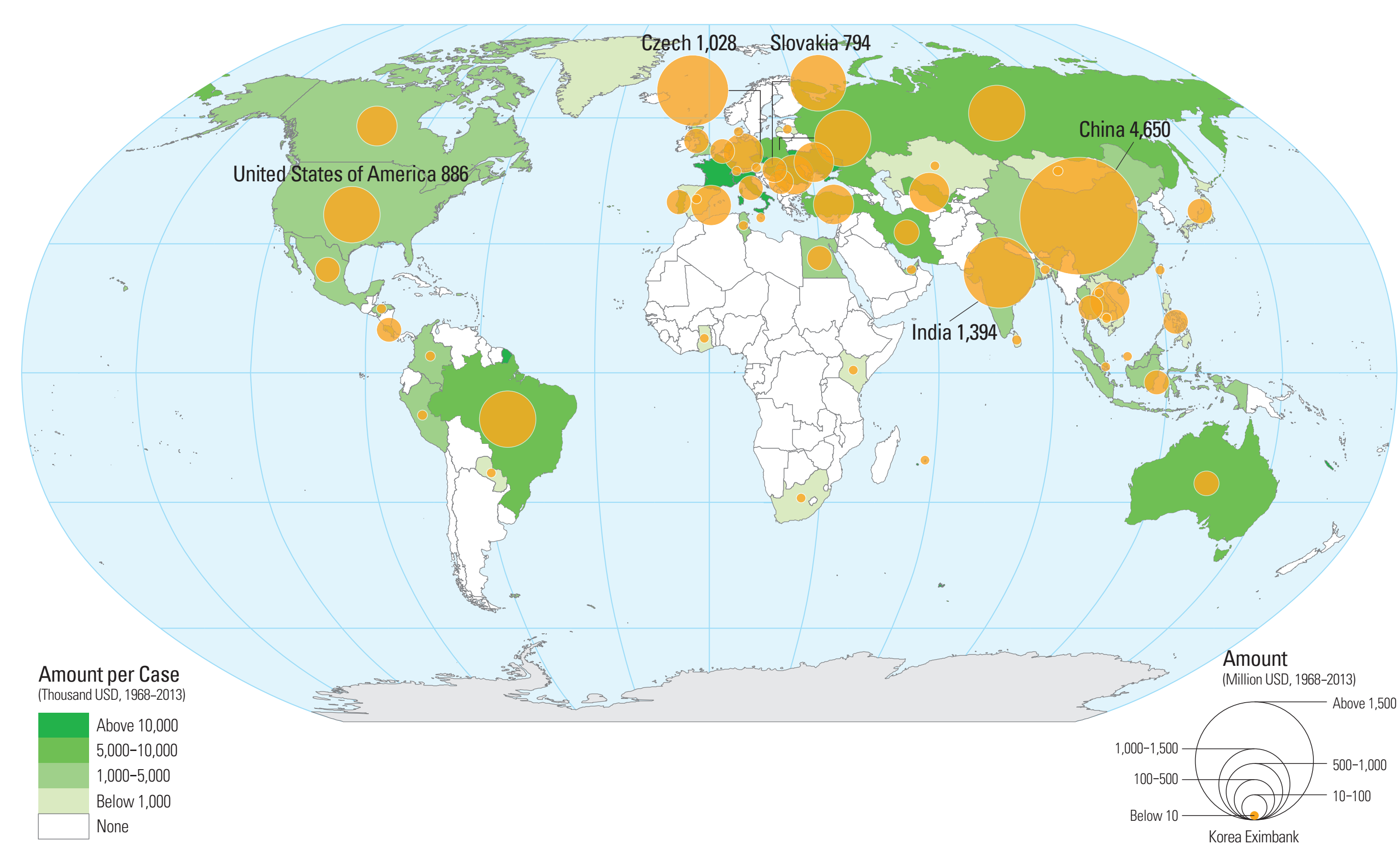


Investment in the manufacture of motor vehicles, trailers, and semitrailers amounted to 13.7 billion USD in 57 countries in 2013. There are fluctuations in the total amounts. For example, investment in this category increased from 100 million USD in 1990 to 800 million USD in 1998, but it decreased to 40 million USD in 2001. By 2013 it increased again to 1.4 billion USD in 2013. Geographically, this kind of investment is concentrated in China (including Hongkong) which accounts for 37.0% of total Korean manufacturing FDI in the world in 2013. India, the Czech Republic, the USA, Slovakia, and Brazil follow with 11.5%, 7.8%, 6.8%, 6.0%, and 5.4% respectively in 2013.

Trends in Korean Outward FDI of Motor Vehicles, Trailers and Semitrailers

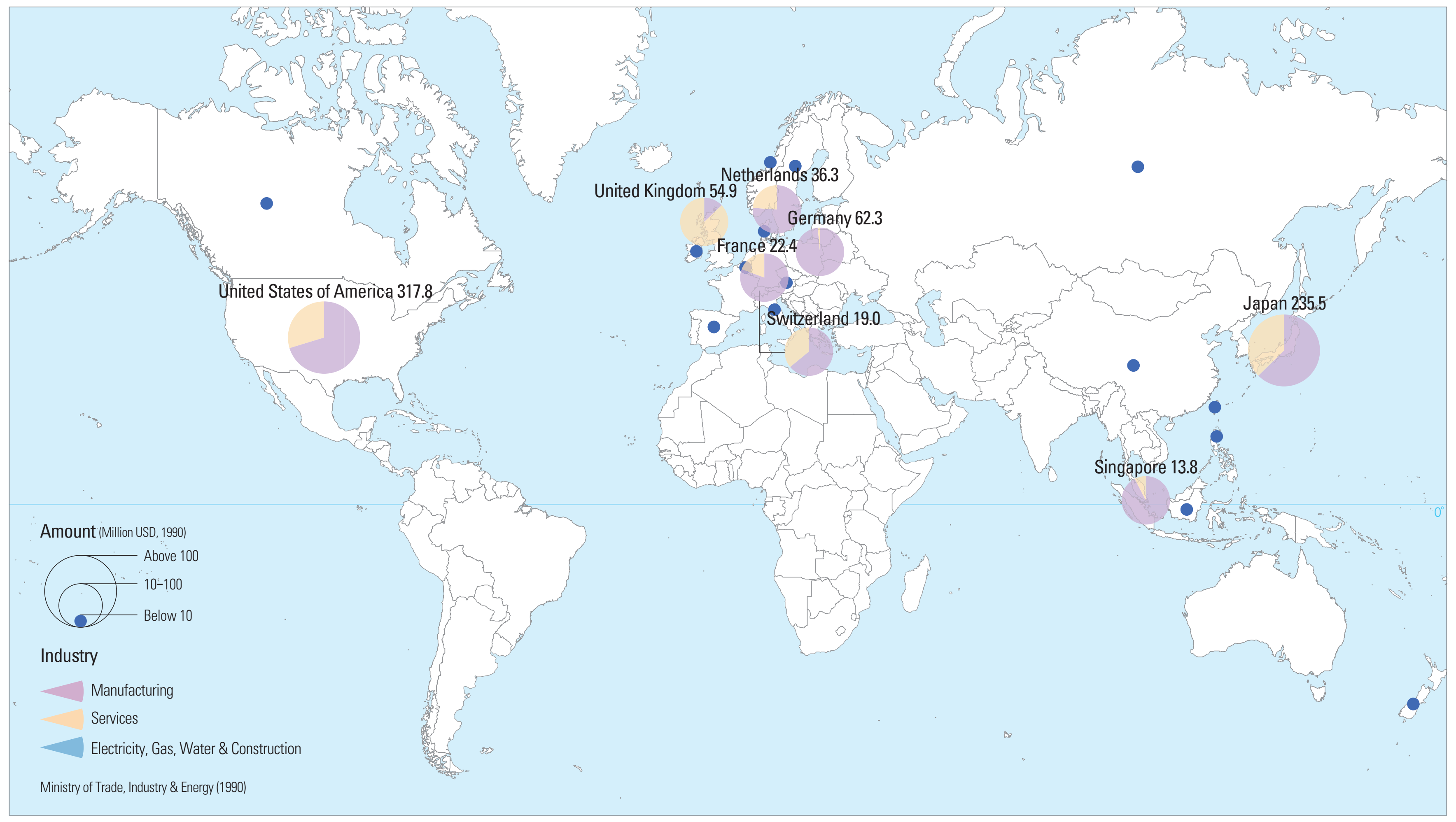


Korean Outward FDI of Motor Vehicles, Trailers and Semitrailers



Inward Foreign Direct Investment in Korea

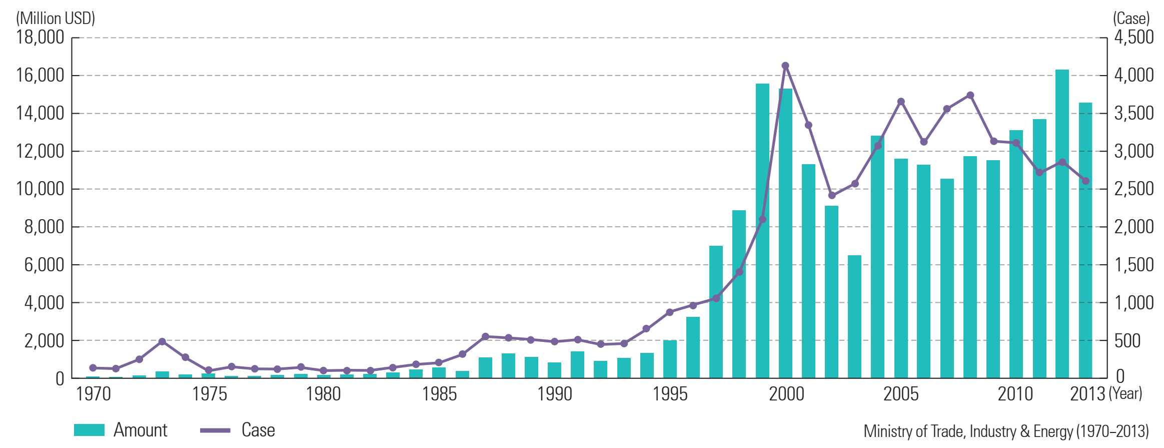
Korean Inward Foreign Direct Investment by Industry (1990)



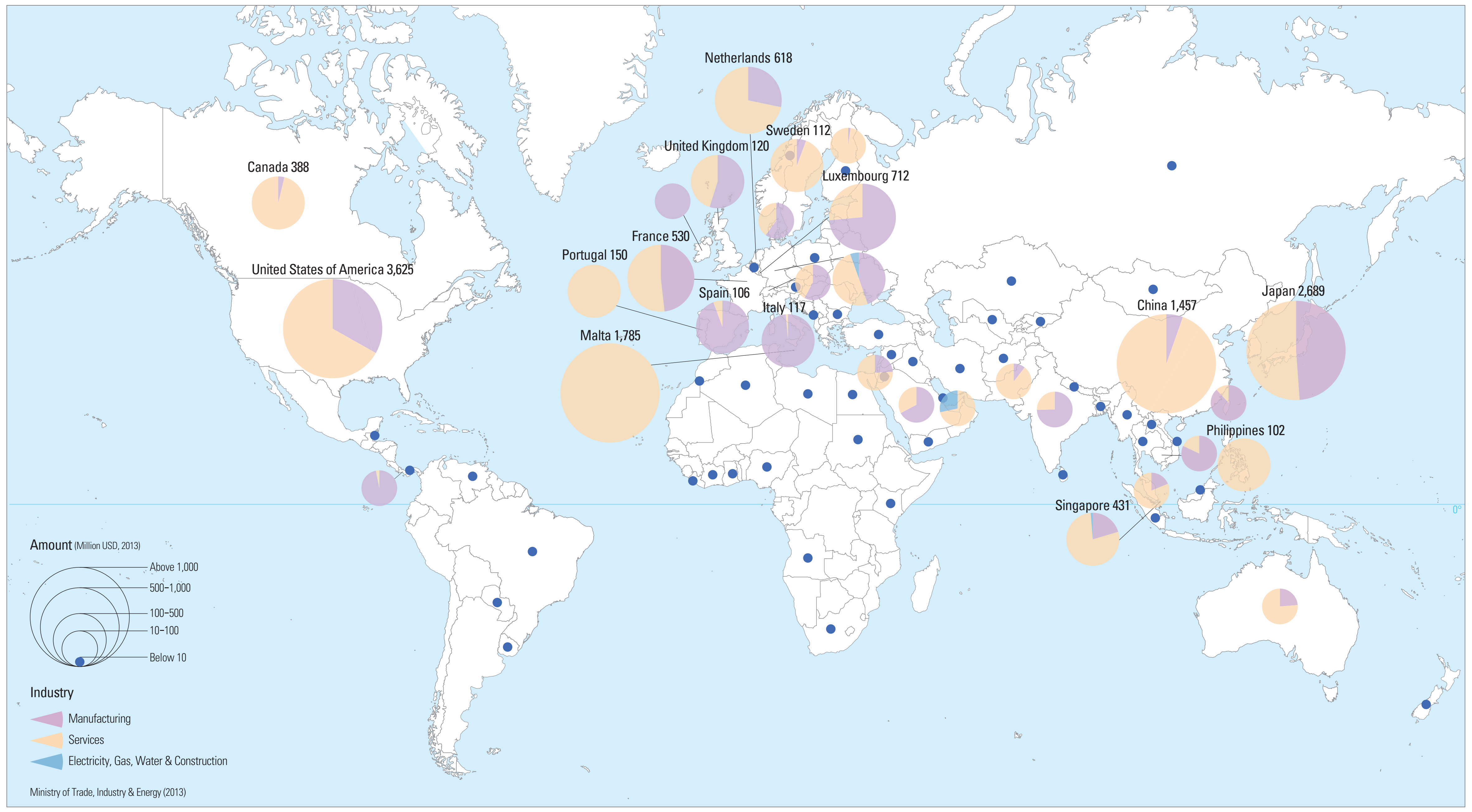
The foundation of inward foreign direct investment (FDI) in Korea was established early in the 1980s. It has become effective after various governmental stimulation policies were introduced in the late 1990s. The Korean Congress passed the Foreign Investment Promotion Act in 1998 that improved upon the former Foreign Investment and Foreign Capital Inducement Act. According to the new act, the inward foreign direct investment system became more favorable to investors, and the Korean government was then able to provide multiple incentives to foreign investors. Furthermore, the revision of the Foreign Investment Promotion Act in 2010 allowed local governments in Korea to invite foreign direct investments. As a result, the inward FDI has increased dramatically from 0.8 billion USD (based on investment report amounts) in 1990 to 14.55 billion USD in 2013. The number of countries investing in Korea has increased from 26 countries in 1990 to 78 countries in 2013. According to Ministry of Trade, Industry, and Energy the ranking of Korea on the "doing business" index developed by World Bank improved from the 23rd in 2008 to the 8th in 2012, and the ranking of the trust index of FDI developed by AT Kearney was also improved from the 24th in 2007 to the 19th in 2011.

Geographically, the inward FDI in Korea was dominated by the USA and Japan in 1990, but it was diversified due to the recent growth of investments from China and European countries. For example, the proportion of investments from the USA and Japan decreased significantly from 39.8% and 29.5% respectively in 1990 to 25.9% and 12.8% in 2013. Concurrently, the inward FDI from Europe and China increased to 30.8% and 10.4% respectively. The focus of the inward FDI in Korea has also shifted from manufacturing to the service industry. In the 1990s the inward FDI focus on the service industry was not popular except from some countries such as the UK, Canada, and Denmark; however, the 2013 statistics now show that the majority of the inward FDI was in the service industry.

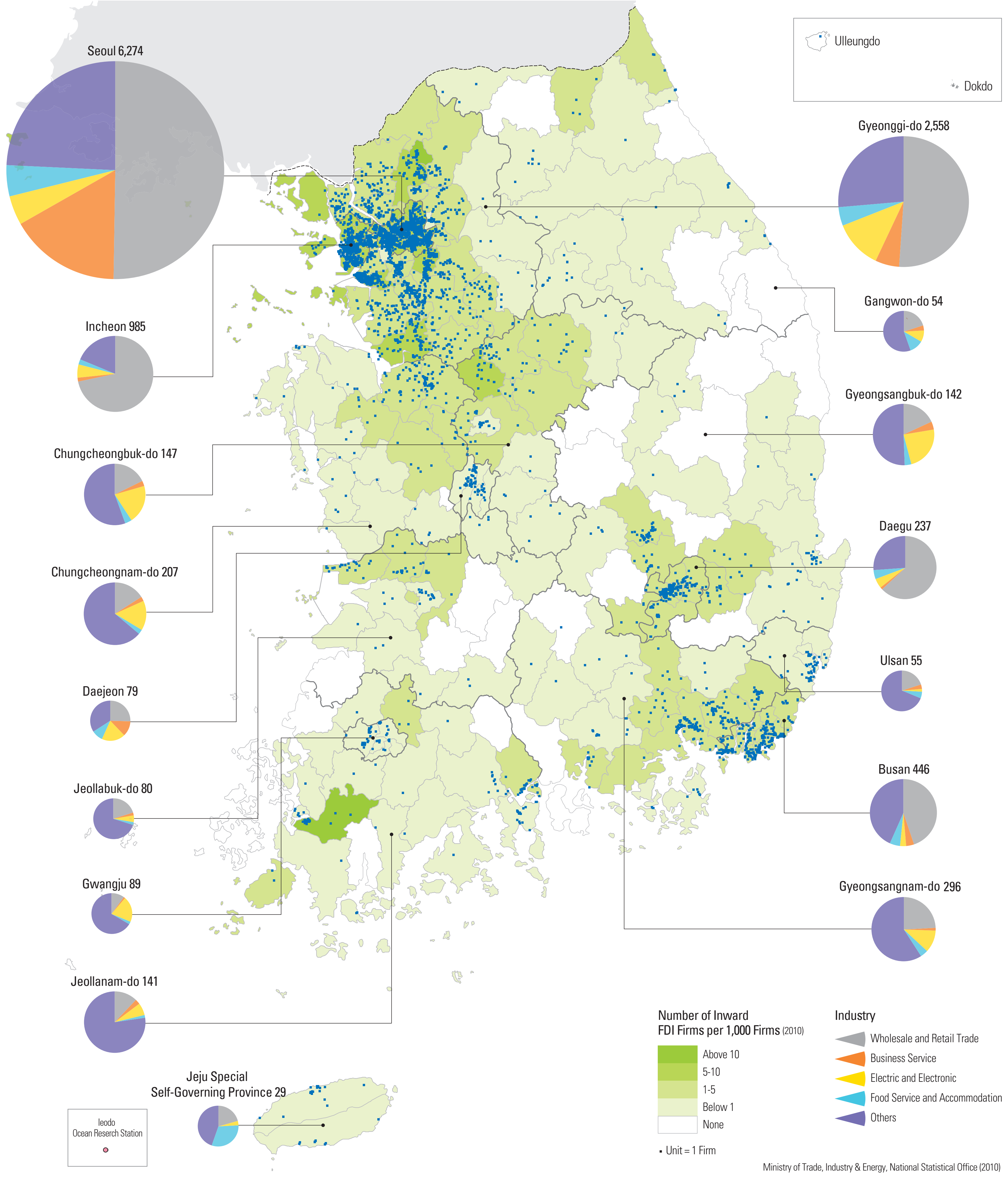
Trends in Korean Inward Foreign Direct Investment



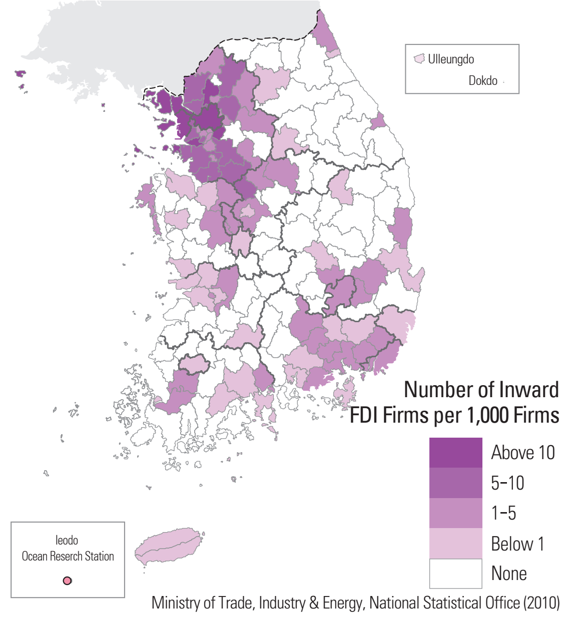
Korean Inward Foreign Direct Investment by Industry (2013)



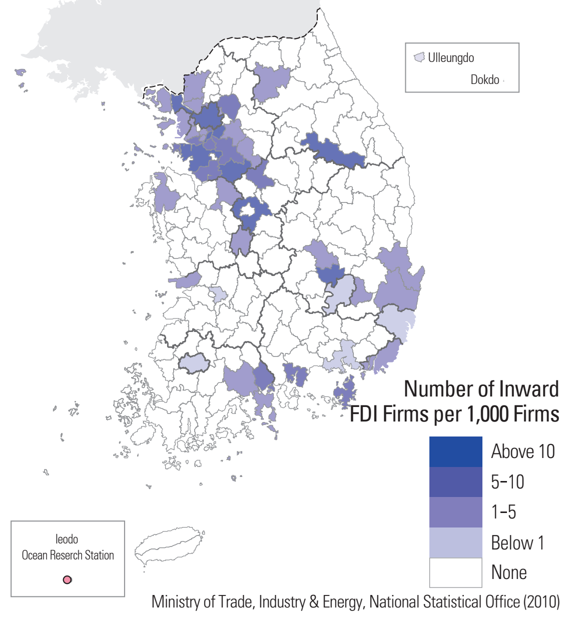
Distribution of Inward Foreign Direct Investment Firms in Korea



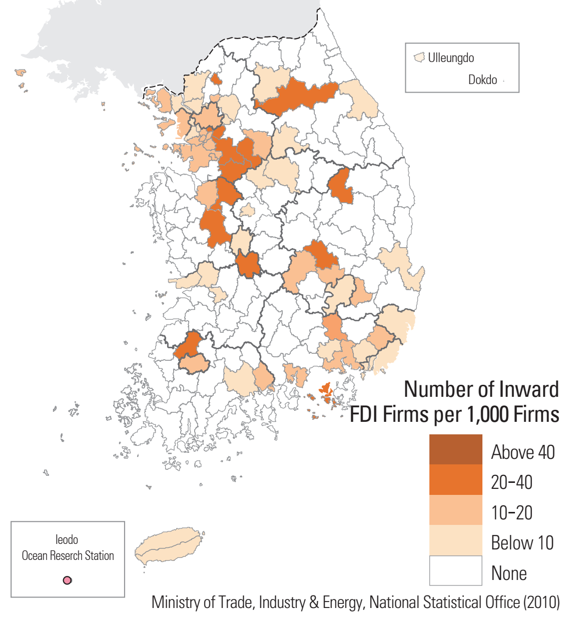
Distribution of Wholesale and Retail Trade Inward Foreign Direct Investment Firms in Korea



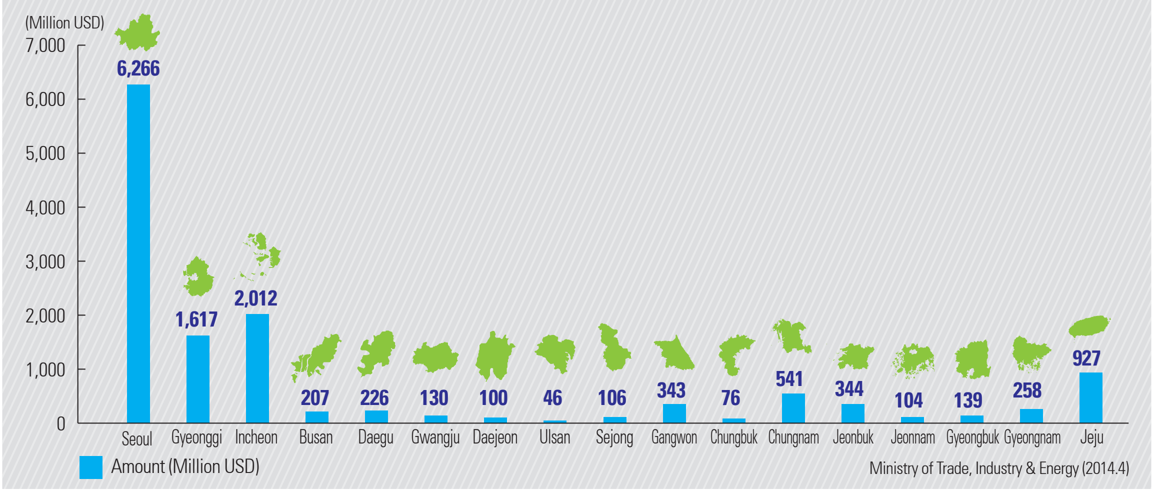
Distribution of Business Service Inward Foreign Direct Investment Firms in Korea



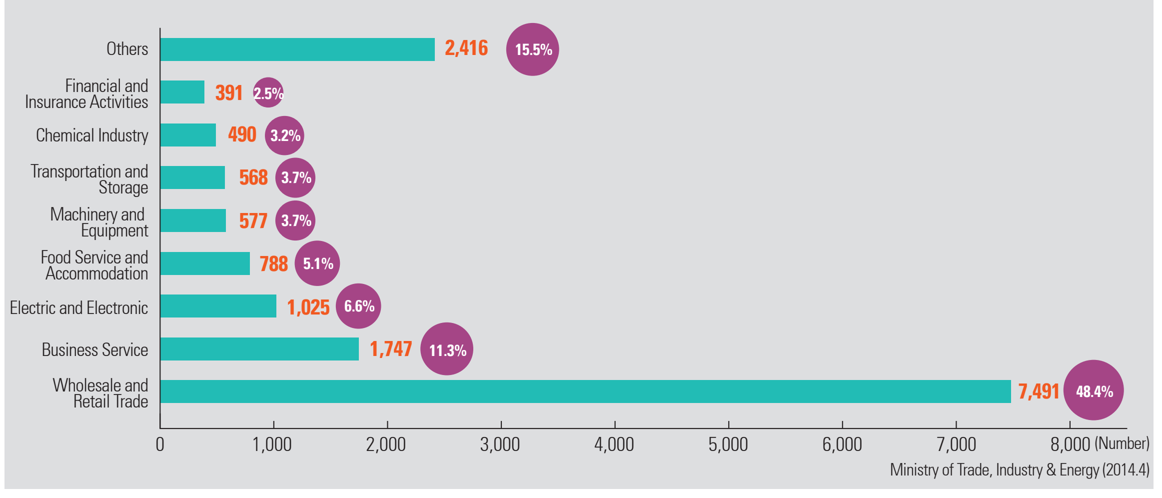
Distribution of Electric and Electronic Inward Foreign Direct Investment Firms in Korea



Inward Foreign Direct Investment by Region (2013)



Inward Foreign Direct Investment by Sector (2013)

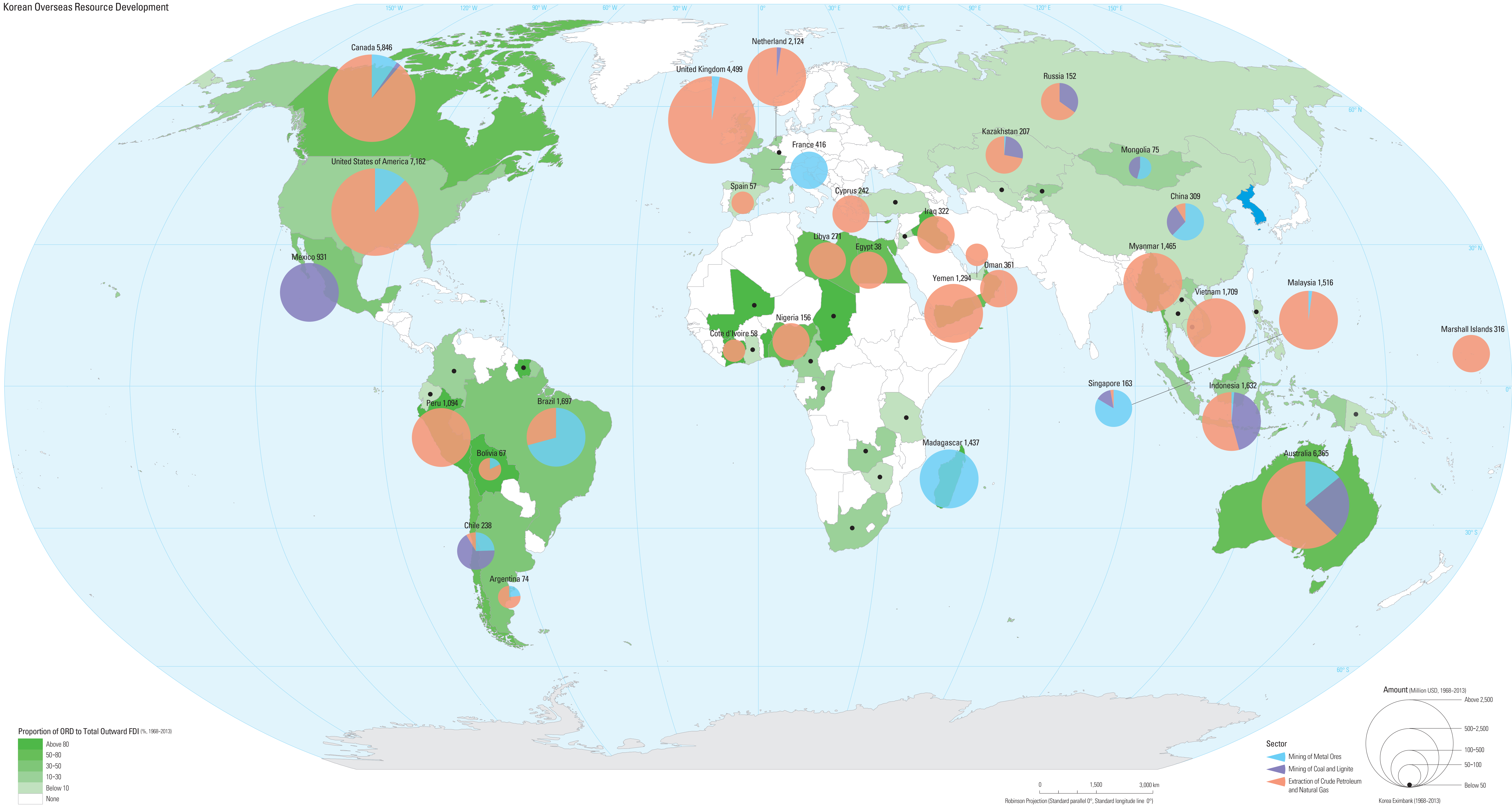


The amount of inward FDI in Korea accounts for 14.55 billion USD in 2013. Most of inward FDI was concentrated on the metropolitan areas, accounting for 68% of the total inward FDI. For example, Seoul, Incheon, and Gyeonggi Province received 43.1% (6,266 million USD), 13.8% (2,012 million USD) and 11.1% (1,617 million USD), respectively. Apart from the metropolitan area, the Jeju Special Self-Governing Province (6.4%, 927 million USD) was the most attractive area to foreign investors.

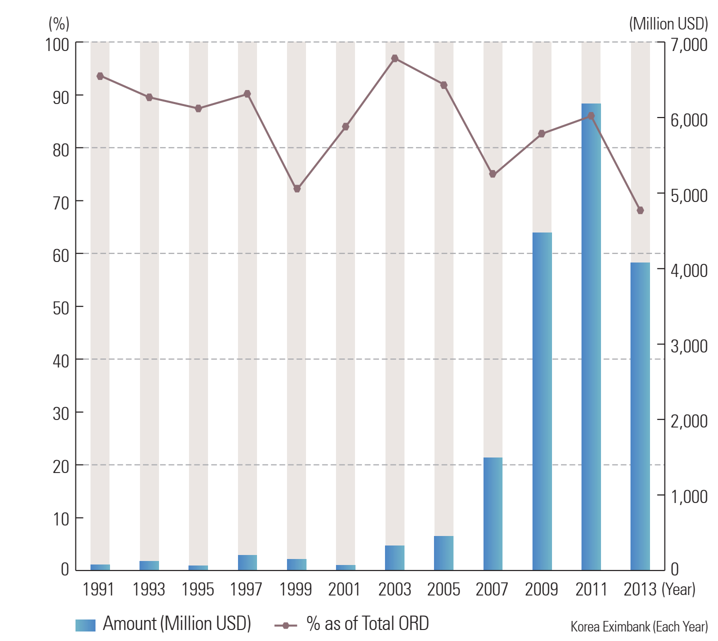
According to the status of foreign investment firms issued by MTIE (2013), there are 15,493 foreign firms in Korea. The main investment sectors are wholesale and retail trade followed by business services, accounting for 48.4% (7,491 firms) and 11.3% (1,747 firms), respectively. The electric and electronic industries, food service and accommodation, machinery and equipment, and transportation and storage sectors received 6.6%, 5.1%, 3.7%, and 3.7% of total inward FDI in Korea in 2013.

Overseas Resource Development

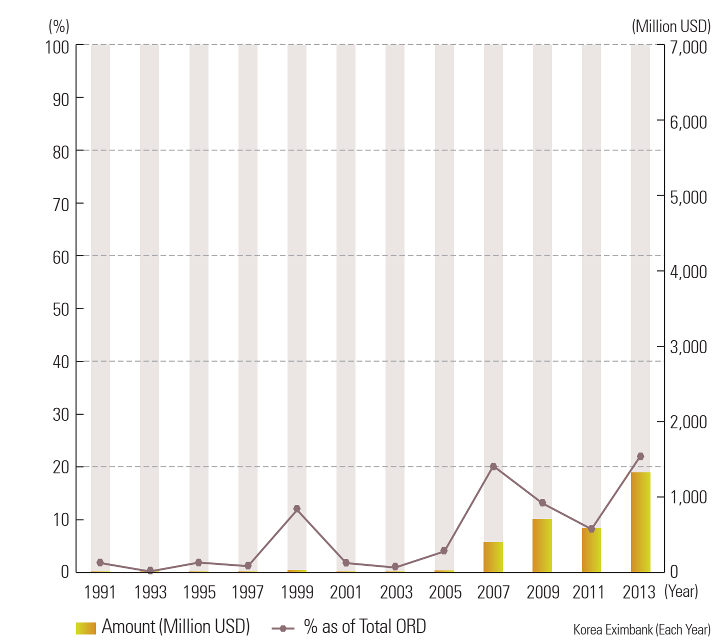
Korean Overseas Resource Development



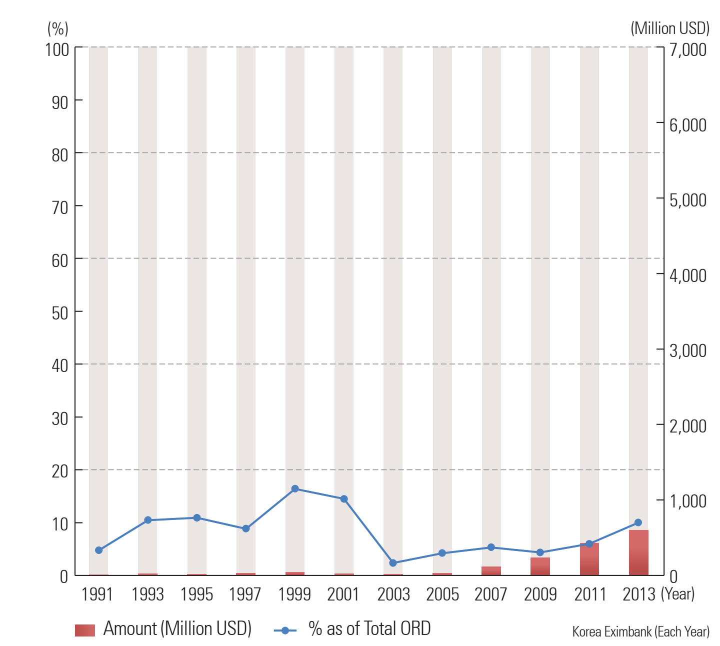
Trends in Korean Extraction of Crude Petroleum and Natural Gas ORD



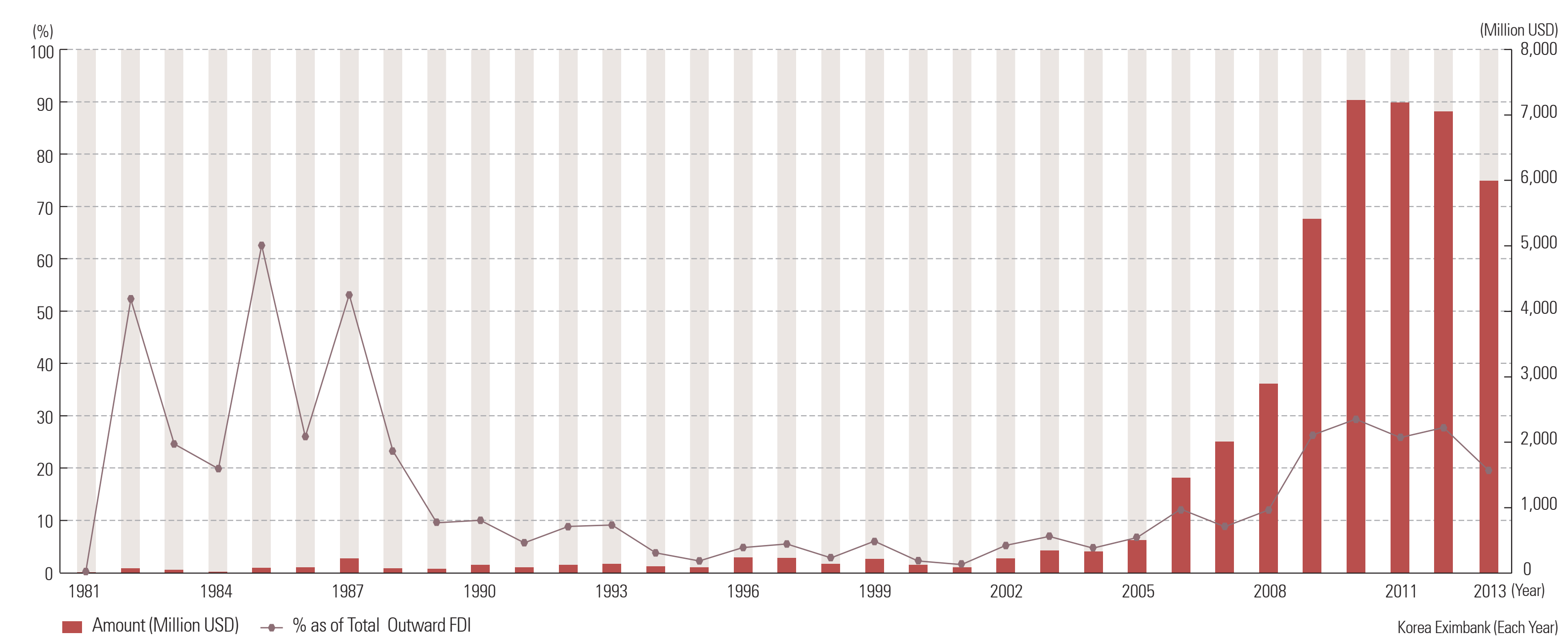
Trends in Korean Mining of Metal Ores ORD



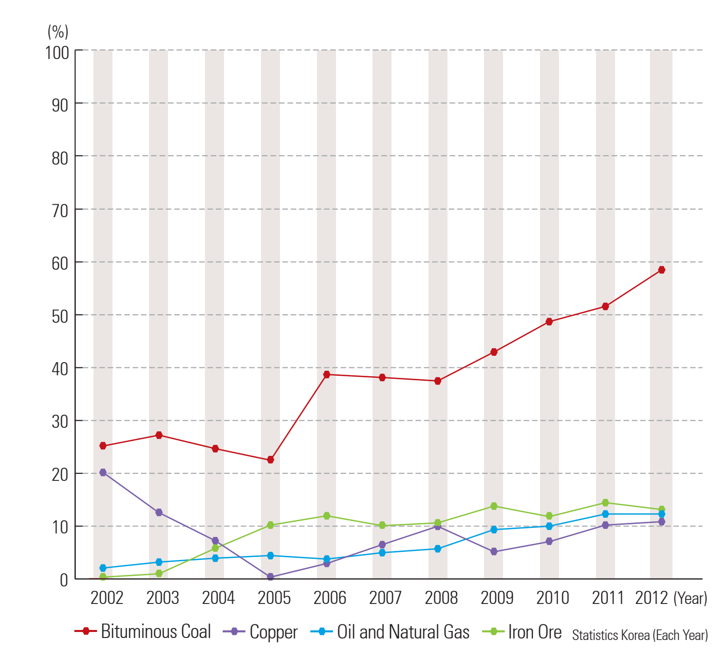
Trends in Korean Mining of Coal and Lignite ORD



Trends in Korean Overseas Resource Development



Trends in Korean Self-sufficiency Rate of Major Mineral Resources



Korea depends on imports. The energy sector in particular is heavily dependent on imports, which account for 96% of total energy consumed domestically. Increasing oil prices and expanding resource nationalism have created resource market instability. In order to mitigate the threats to the Korean economy from such instability, Korea has sought out various overseas resource development (ORD) opportunities. ORD also alleviates external shocks caused by the deterioration of the international supply-demand balance.

The Korean government has promoted ORD since 1977 and has increasingly remarkable achievements in recent years. Korean ORD has increased significantly since 2005. In 2006, Korea invested over 1 billion USD on ORD. In 2013 ORD investment rose to 6 billion USD, 50 times more than what was spent in 1990. The proportion of ORD among the total outward FDI has also increased significantly since 2007. Specifically, it has increased from 8.8% in 2007 to 27.8% in 2012. The high proportions of ORD (over 50%) in the early and mid-1980s are attributed to the relatively small investments in the manufacturing and service sectors.

The extraction of crude petroleum and natural gas sector has traditionally been the major target of the Korean ORD. Recent trends, however, show a decreasing proportion of those targets, while some increases appear in mineral resources sectors such as coal, nonferrous metals, and iron ore. More specifically, Korean ORD in the extraction of crude petroleum and natural gas has shown great growth for the last 20 years, but its proportion has dropped due to the diversification of Korean ORD since 2007. For example, the proportion of Korean ORD in the extraction of crude petroleum and natural gas has decreased from 96.9% in 2003 to 68.1% in 2013, while the proportion of metal ores mining and coal and lignite mining has increased from 0.9% and 2.2% in 2003 to 22.1% and 9.8% respectively in 2013.

As Korean ORD has experienced rapid growth, the self-sufficiency rate of mineral resources has also increased significantly. For example, the self-sufficiency rate of crude petroleum and natural gas has increased from 2.8% in 2002 to 13.8% in 2012. In particular, self-sufficiency rate of bituminous coal has increased dramatically from 24.2% in 2002 to 57.7% in 2012. The self-sufficiency rate of iron ore has also grown from 0.8% in 2002 to 14.5% in 2012.