



# KCCI - Country Wrap: South Korea (APRIL '17)



## Republic of Korea – a brief overview

Republic of Korea (South Korea) is considered to be one of the wealthiest nations in Asia owing to its rapid growth and development in the industries like electronic fields, ship building and automotive production making it high tech industrialized economy. The country was set up as a democratic government in the southern half of the Korean Peninsula, after World War II.

## Economy of Republic of Korea

South Korea has experienced improved GDP growth over the period of 45 years where it averaged around 6.89% during the period of 1971 to 2016 with record growth of 18% in 1973. In 2004, South Korea joined the trillion dollar club of world economies, and currently is among the world's 20 largest economies. The government promoted the import of raw materials and technology at the expense of consumer goods, and encouraged savings and investment over consumption. However the South Korean economy has been facing the problems of household debt restricting domestic consumption and the aging population. Still, the economy is strong enough to acquire new business models, sound fiscal conditions and technological innovation.

## Republic of Korea 's major trading commodities and partners

The major commodities that are imported by South Korea include machinery, electronics and electronic equipment, oil, steel, transport equipment, organic chemicals and plastics. The major importing partners of Republic of Korea are China (16.5%), Japan (13%), U.S (8.5%), Saudi Arabia (7.1%) and Australia (5%). The major commodities that are exported by Republic of Korea are semiconductors, wireless telecommunications equipment, motor vehicles, computers, steel, ships and petrochemicals. The country export these goods to its export partners China (24.4%), U.S. (10.1%) and Japan (7.1%).

## Economic Relations between Pakistan and Republic of Korea

The bilateral relations between Pakistan and South Korea have been greatly strengthened across a wide range of areas including socio-economic projects and people to people exchanges at various levels. The recent high profile visits to South Korea from Pakistan and numerous visits of Korean investors and corporate delegations to Pakistan have given fresh impetus to the expanding ties.

South Korea has significant Pakistani diaspora community in Asia, numbering 11,375 according to 2015 South Korean Immigration Service. It also remains a popular education destination for many Pakistanis. Apart from hundreds of self-funded Pakistani students studying in South Korean universities, Pakistan Higher Education Commission has also been sending hundreds of Pakistani students to study for MS and PhD degrees in South Korea.

## Trade between Pakistan and Republic of Korea

Pakistan's richness in natural resources and Korea's richness in capital and technology makes the two countries natural partners for trade and investment. Bilateral trade between the two countries is around \$ 1Bn. During Fiscal Year 2016, Pakistan's total exports to South Korea stood at \$ 243.82Mn as against 336.42Mn in the same period of last year showing decline of 27%. During period under review, Pakistan's imports from South Korea remained \$ 622.79Mn as against imports of \$ 672.68Mn; plummeted by 7%. Pakistan has also offered South Korea to establish a dedicated Special Economic Zone for Korean investors in Pakistan.

## Pakistan - South Korean Trade and Cooperation Agreements

Pakistani and South Korean authorities have decided to kick off Free Trade Agreement (FTA) in order to enhance bilateral trade and promote cooperation in a number of areas. These areas include manufacturing, finance, transport, education, and culture. In this perspective, studies have already been completed on both the sides, based on initial draft would be exchange and discussions would be made regarding the finalization of tariff lines in the first quarter of upcoming year.

Both the countries signed two Memorandum of Understandings (MOU) on trade, industry and energy. A "Joint Business Forum" was also organized by KOTRA (Korea Trade Investment Promotion Agency) and the Board of Investment, Pakistan, on the sidelines of this visit, expressed hope that as an outcome of the business forum, the Korean companies would be engaged in the energy, infrastructure development, railways and telecommunication sectors.

## South Korean investments in Pakistan

Most of the prominent Korean conglomerates, such as Lotte Group, K-Water, Sambu, Hyundai Motor, Daewoo E&C, Doosan, DeokJae and SsangYong, have participated in tenders for major infrastructure projects including roads, chemical plants, tunnels, hydro power projects and thermal power projects.

Among the most significant investments has been the \$ 500Mn injection by Lotte Group in a chemical plant acquired from ICI to produce pure terephthalic acid used in the textile industry and the subsequent acquisition of a food and beverage company, Kolson Foods. Korean companies have expressed interest in participating in numerous hydel power projects in Pakistan. Sambu built the 8.5km Lawari tunnel and is participating in the 84MW New Bong Escape Hydropower project in Azad Kashmir. A consortium made up of K-Water, Sambu and Daewoo E&C have worked on the 150MW Patrind run of the river Hydel Water Project. Doosan Heavy Industries and Construction Co. has completed a 175MW combined cycle power plant worth \$ 160Mn. Ssangyong E&C has completed work on reinforcing old ports and construction of docks and subsidiary facilities at the Port of Karachi. Lately, it has been working on \$ 90Mn berth reconstruction project in Karachi. DeokJae Construction Ltd. has participated in the construction of the Mirpurkhas-Hyderabad 64km dual carriageway public-private partnership project of the Sindh government. Steel giant POSCO has invested \$ 15Mn in Tawariqi Steel in Karachi, a \$ 260Mn project. It has also expressed interest in the \$ 174Mn Pakistan International Bulk Terminal at Port Qasim.

## Potentials for enhancing bilateral trade between Pakistan and South Korea

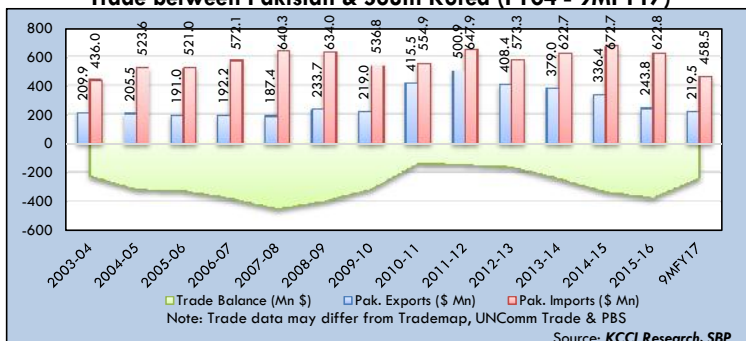
South Korea imports wheat and maize from different countries of the world. Pakistan exports all these items to different countries except Korea. By establishing trade links between the businessmen of two countries, bilateral trade can be enhanced.

## Economic Indicators

Indicators	Unit	2015	2016	Change
GDP (PPP)	\$ Bn	1,878.00	1,929.00	2.72%
GDP per Capita	\$	37,100	37,900	2.16%
GDP growth	%	2.6	2.7	0.10%
Forex Reserves	\$ Bn	367.90	372.70	1.30%
External Debt	\$ Bn	381.80	385.60	1.00%
Exports of Goods	\$ Bn	548.80	509.00	-7.25%
Imports of Goods	\$ Bn	428.50	405.10	-5.46%
Trade Balance	\$ Bn	120.30	103.90	-13.63%
Current Account	\$ Bn	105.90	101.60	-4.06%
FDI - at Home	\$ Bn	174.60	179.60	2.86%
FDI - at Abroad	\$ Bn	286.90	318.00	10.84%
CPI	%	0.7	0.8	0.10%
Prime Lending Rate	%	3.53	3.40	-0.13%
Population	Mn	N/A	50.92	N/A
Unemployment	%	3.6	4.0	0.40%
Litarcy Rate	%	N/A	87.6	N/A

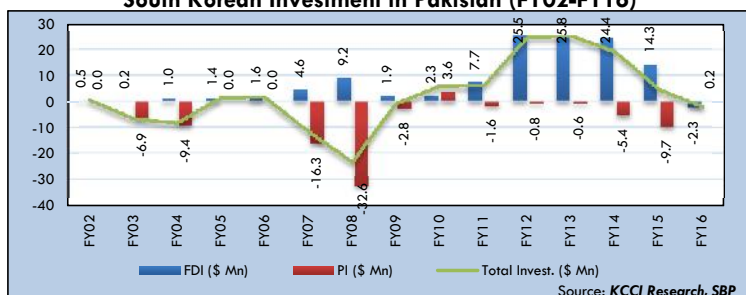
Sources: KCCI Research, CIA Factbook

## Trade between Pakistan & South Korea (FY04 - 9MFY17)



Source: KCCI Research, SBP

## South Korean Investment in Pakistan (FY02-FY16)



Source: KCCI Research, SBP

## South Korea's Top 6 Trade Items (2016)

Imports Items	(\$ Mn)	Exports Items	(\$ Mn)
Mineral fuels, oils, products	81,688	Electric Machinery & Equip	134,303
Electric Machinery & Equip	75,145	Vehicles other than railway	62,655
Machine, Mech. Appliances	46,036	Machine, Mech. Appliances	58,258
Optical, photographic measures	17,472	Ships, boats, floating structures	33,155
Vehicles other than railway	15,235	Plastics, articles thereof	27,652
Iron and steel	14,323	Optical, photographic measures	27,647

Source: KCCI Research, Trademap

## Pak - South Korean Top 6 Trade Items (2016)

Pakistan Export Items	(\$ Mn)	Pakistan Imports Items	(\$ Mn)
Cotton	75.53	Machine, Mech. Appliances	128.86
Mineral fuels, oils	56.57	Plastics, articles thereof	95.777
Beverages, spirits and vinegar	36.88	Iron and steel	80.088
Raw hides, skins, leather	22.75	Mineral fuels, oils, products	76.475
Fish, crustaceans, molluscs	21.46	Pharmaceuticals	57.144
Knit; Apparel Articles &	14.04	Organic chemicals	54.195

Sources: KCCI Research, Trademap