



# Enhancement of Korea-Taiwan Trade and Investment Ties

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November 2014



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- Korea remembers Taiwan as one in the brotherhood of nations
  - Since Korea is a land of faithfulness, Korea do remember how Taiwan has supported Korea to fight against communism during the Korean war and thereafter.
  - Korea and Taiwan have a long history of mutual cooperation in the perspectives of improving human rights and democracy
  - Even though Korea's total exports reliance on China is currently 26% and its economic relationship to China is important, Korea does not forget Taiwan's help and support.
  
- Chinese growth rates slow as the Chinese development strategies change from quantity-driven to quality-driven policy
  - Shifting from high growth policy to quality-oriented growth strategies (World Bank economic outlook estimates for Chinese growth rates: 7.4% in 2014, 7.2% in 2015)
  - Increased possibility of China risks
  
- Korea and Taiwan are mutually competitive in Chinese market
  - In 2014, both Korean and Taiwan exports shares in Chinese import markets are ranked at the top levels in chemicals, machinery, electricals, textiles, steel, and clothing industries among others.



- In Korea-China FTA era, Korea and Taiwan would be better to cooperate in manufacturing industries by expanding and upgrading global production network within East Asia region
  - Korea has increased its production network in East Asia since the 2000s.
  - In Korea-China FTA era, there exist needs for changes from substitution relationship to complementary relationship, in which the global value chains (GVC) that Korean and Taiwanese firms are participating .
    - ❖ “GVC is the full range of activities that are required to bring a product from its conception, through its design, its sourced raw materials and intermediate inputs, its marketing, its distribution and its support to the final consumer” (Wikipedia, 2014)
  
- In pioneering Chinese domestic final goods market, need to find cooperative ways to improve the Korea-Taiwan mutually substitutable relationship into mutually supportive relationship
  - Try to find ways for facilitating and enhancing Korea and Taiwan bilateral Trade and Investment
  - At first, increase trade and investment within Korea and Taiwan
  - However, not limited within Korea and Taiwan but need to extend both countries' trade and investment cooperation within east Asian region and above





## II

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# Stylized Facts of Korea-Taiwan Trade and Investment

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## 1. Korea - Taiwan Trade Status

- (Trade Volume) Korea-Taiwan bilateral trade volume has been continually increased since 2009.

### < Korea-Taiwan Trade >

(Unit: \$ billion, growth rate is in the parenthesis)

	2009	2010	2011	2012	2013	2014.1-9
Total Trade Volume	19.4(Δ12.5)	28.5(47.2)	32.9(15.5)	28.8(5.2)	30.3(5.2)	23.1
Exports	9.5(Δ17.1)	14.8(56.1)	18.2(22.7)	14.8(6.0)	15.7(6.0)	11.4(Δ2.8)
Imports	9.9(Δ7.4)	13.7(38.5)	14.7(7.7)	14.0(4.4)	14.6(4.4)	11.6(3.8)
Trade Balance	Δ.35	1.18	3.51	.81	1.07	Δ0.19





### 1. Korea - Taiwan Trade Status

- (Trade Volume) As of 2013, Taiwan is Korea's 6<sup>th</sup> largest trading partner.
  - Trade volume between Korea and Taiwan is about \$30 billion in 2013.
  - Korea maintains Trade surplus against Taiwan
    - ❖ Taiwan is Korea's 6<sup>th</sup>~9<sup>th</sup> trading partner (China, Japan, U.S., Saudi Arabia, Australia, then Taiwan in order)
    - ❖ Korea is Taiwan's 4<sup>th</sup> ~6<sup>th</sup> trading partner (China, Japan, U.S. then Korea in order)
  - Due to the similarity of industry structures in Korea and Taiwan, major export products (semiconductors, steel, computer, micro-chemicals) of both countries are overlapped around 70%
  - Relatively comparative advantageous products are greatly traded between Korea and Taiwan



## 2. Korea - Taiwan Foreign Direct Investment Trend

- (Taiwan -> Korea) Total amounts of Taiwan's foreign direct investment into Korea between 1962 and June 2014 is \$1.28 billion.

### < Korea-Taiwan Foreign Direct Investment >

(Unit: \$million, number of investment as of reports)

FDI		2009	2010	2011	2012	2013	2014.1-6	Total amounts
Taiwan -> Korea	Number	21	42	29	39	27	13	637
	Volume	7.9	208.5	10.9	21.6	55.0	44.5	1,282
Korea -> Taiwan	Number	38	43	44	38	34	15 *1-3	646
	Volume	29.8	13.9	47.4	9.5	68.1	5.3	616.8







## 2. Korea - Taiwan Foreign Direct Investment Trend

- (Taiwan -> Korea) Taiwan is ranked as 23<sup>rd</sup> place in terms of inward FDI in Korea.
  - Taiwan's FDI into Korea is mainly for building foreign affiliates at which investment sizes ranges from \$100,000~\$200,000.
    - ❖ Taiwan's green field FDI is concentrated in China and East Asia.
    - ❖ Taiwan's R&D FDI is concentrated in U.S. and Japan.
  - Taiwan firms tend to increase its investment on China and East Asia to build manufacturing plants, or increase U-turn investment into Taiwan. Therefore, it has been difficult to induce Taiwan FDI into Korea
  - After the Taiwan-Japan investment agreement in September 2011, bilateral investment between Taiwan and Japan has been increasing.
    - ❖ Especially, Taiwan's investment reduction into Korea in new renewal energy, electronics and IT products are worried due to the competitive relationship between Korea and Japan.





### 2. Korea - Taiwan Foreign Direct Investment Trend

- ❑ (Korea -> Taiwan) Korea's foreign direct investment into Taiwan between 1962 and 2013 is \$563 million.
  
- ❑ Korean outward investment into Taiwan is fairly small compared to the trade volume between Korea and Taiwan.
  - Purposes of Korean direct investments into Taiwan are mostly finding new markets or providing services to its customer companies
  - As of 2013, Korean foreign direct investment into Taiwan increased whether it is measured by the number of opening new affiliates or by the actual investment amounts.
  - FDI are mostly concentrated to the small-sized local sales affiliates.





# III

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## Challenges and Opportunities: Enhancing Trade and Investment Cooperation

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## 1. (Challenges) Competitive Korea-Taiwan Economic Relationship

- ❑ Taiwan has a competitive relationship with Korea, while a complementary relationship with Japan
  
- ❑ Taiwan has increased its exports and investment to China by using Economic Cooperation and Framework Agreement(ECFA)
  - Trade: early harvest program ratification('2011.11.1)
    - ❖ (Products) China's tariff reduction on 538 products before the year 2013
    - ❖ (Services) China open 11 service industries (including 3 financial service industries) to Taiwan
  - Investment: China-Taiwan Investment Guarantee Agreement signed as of Aug 9, 2012. Guaranteeing Taiwan-Chinese investors benefits is institutionalized.
  
- ❑ Korea-China FTA is concluded in November 10, 2014
  - Because of the high level of similarities between Taiwanese and Korean manufacturing industry structures, Taiwan is worried as Korea-China FTA deal gains steam
  - Taiwan economic department estimated that Korea-China FTA may have impact on  $\frac{1}{4}$  of its industries
    - ❖ According to the estimation, Taiwan's market share in China may decrease by about 2%(\$3.2 billion)~5.4%(\$8.5 billion).
    - ❖ Taiwan's GDP and exports will likely drop by 0.5% and 1.34%, respectively.



## 2. (Opportunities) Korea and Taiwan share common interests

- ❑ (Regional Economic Integration) Taiwan has strong willingness to participate in the regional economic integration such as TPP and RCEP
  - Taiwan government ordered preparation of participation in TPP and RCEP before July 2014.
- ❑ (Common interests between Korea and Taiwan) Agreements for avoidance of double taxation, and investment guarantee agreement should be concluded to maximize benefits of entrepreneurs on both sides
  - Korea-Taiwan bilateral relationship is very close as it is shown by the facts that both of them are 6<sup>th</sup>~8<sup>th</sup> trading partners each other.
  - Agreements for avoidance of double taxation
    - ❖ In July 2013, at the 6<sup>th</sup> Korea-Taiwan Economic and Commerce Council meetings, both sides agreed on the opening of negotiation conditional on (1) private agreements format (2) ex-post legal evaluation on authorizing legal effectiveness on private agreements format by domestic law
  - Investment guarantee agreement
    - ❖ Taiwanese side suggested concluding Korea-Taiwan Investment guarantee agreement in 1998 and 2007, and Korean side agreed on proceeding the conclusion of investment guarantee agreement in December 2008
    - ❖ Since the disagreement on who is the concluding initiator and usage of terms, the negotiation could not continued. At the 2<sup>nd</sup> meeting in 2013.10.30-31, both sides draw agreement on general contents except the specific term (Taiwanese side hoped to include "Agreement" on the contents)



## 2. (Opportunities) Korea and Taiwan share common interests

- (Complementarity of Korea-China FTA and Taiwan-China ECFA)  
Korea-China FTA may improve complementarity of manufacturing industries such as electronics, ICT, machinery, and petro-chemicals among Korea, Taiwan and China
  - Shifting competitive relationship into complementary cooperation among Korean and Taiwan companies may enhance global production network quantitatively and qualitatively.
  - Taiwan has similar industry structure as Korea. Thus Taiwan firms and Korean firms may cooperate to participate in global value chain and upgrade its value-added exports to China
  - For example, Taiwan-based Foxconn gets a boost from the Chinese domestic demand surge of Chinese phone makers including Xiaomi and Huawei (WSJ, Nov 14, 2014).
    - ❖ On the one hand, Korean contract electronics manufacturer may become a competitor with Foxconn.
    - ❖ However, Korean parts and components suppliers may become partner with Foxconn providing efficient intermediates goods to Foxconn
    - ❖ Both Taiwan and Korean firms may develop value-added tasks in the global value chain that deepen the Korea-Taiwan-Chinese production network in East Asia region.



## 1. Accommodating the existing economic interests

- (Interest of Korea) Opening of Shipping Route between Taiwan and Japan
  - Opening of Shipping Route is only remaining agenda since 1992 diplomatic cessation. And it is a severe barrier that blocks the enhancement of private level economic cooperation between Korea and Taiwan firms
    - ❖ Taiwan disallows Korean shipping company transporting container shipment using Japan-Taiwan shipping route since 1992 diplomatic cessation between Korean and Taiwan ('92.10)
    - ❖ Korean government opened Korea-Japan shipping route which has relative importance as Japan-Taiwan shipping route. However, opening of Japan-Taiwan shipping route to Korean shipping company has remained unsolved for the past 20 more years.
    - ❖ In March 26, 2014, there was shipping and logistics directorial meeting between Korea and Taiwan government. Up until now there are still no significant changes regarding this matter.
  
- (Interest of Taiwan) Private level joint research on Korea-Taiwan Economic Cooperation Agreement(ECA)
  - Taiwan suggested ECA joint research since 2009.
  - Currently Korean government (Ministry of Trade, Industry & Energy) hold a position that the ECA joint research may start after the conclusion of Korea-China FTA.
    - ❖ It is important for Taiwan to secure competitiveness on international trade, partly because it has export-oriented economic structure.
    - ❖ However, Taiwan is excluded from economic integration discussion due to its relationship with China.



## 2. Building trade and investment cooperation in the GVC

- (Increasing Value Added in Trade) Expand global value chain in the similar manufacturing industries
  - Taiwan and Korea has similar industry structure in electronics, automobile parts, and petro-chemicals
  - Taiwan economy is expected to grow at 4% level in 2014 due to its export to China and U.S., and steady increase in private consumption and firm investment
    - ❖ Sophistication of Semiconductor manufacturing process, and expanding infrastructure in communication facilities related to the upstart of 4G communication services
  
- (Upgrading the Global Value Chain) Korea-Taiwan Economic Cooperation in new growth industries
  - Chinese 7 new-strategic industries (energy-saving environment protection, new generation information technology, Bio, state-of-art equipment manufacturing, new energy, new parts, new energy automobile) are similar to Korea's new growth-engine industries
  - Using industry structures (core parts, electronics, IT, micro-chemicals, automobile parts) that are related to new growth industries, need to increase Korea-Taiwan cooperative trade of tasks in new sectors
  - As a result, the Korea-Taiwan-China production network improves the value added tasks







## 3. Both Taiwan and Korea could be prosperous

- (Developing Taiwan and Korea as win-win partners) Mutually beneficial global value chains need to be developed in new growth industries
  - Using Korea-Taiwan complementary industry structure, need to build and upgrade win-win global value chains
  - Korean and Taiwan firms need to cooperate for developing new products
  - Continue to develop new technologies, with expanding new markets and creating the high value-added tasks
  
- In the near future, both Taiwan and Korea would be prosperous
  - Contemporary economic issues between Taiwan and Korea are expected to be solved sooner than later
  - Using Taiwan and Korea FTA in the near future, both countries would be beneficial
    - ❖ Trade in high value-added goods and services would increase more rapidly
  - Investment flows between Taiwan and Korea are also expected to be continually increased
    - ❖ In Korea, majority of Korean-Huaqiao (韓國華僑) investments are related to Taiwan. And it has potential to grow. Partly because it could be channels of greater foreign direct invest flows between Korea and Taiwan.



