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Business Relations of South Korea with the Remaining Three Little Asian Dragons

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ABSTRACT

The article gives the overview of the growth and development of Republic of Korea (South Korea) after its independence in 1948. South Korea, one of the four Asian Tigers which are growing at a rapid rate is the hub for doing business. The speed and scope of South Korea's development in recent years have been as impressive as its economic development in previous decades. Since the transition to democracy occurred, with the belated arrival of political liberalisation and a return to direct presidential elections in 1987. The investments started flowing into the country in the form of FDI and FPI from many developed countries. This was what exactly happened in the other three little dragons as well. All the four countries had a necessity to be together, trade with each other, get raw materials, and export finished goods from one country to another. All parts of the world were trying to become self-sufficient by signing treaties like NAFTA and other free trade agreements. The four nations still relying on China, had to make deals and agreements on their own so that their economy will also prosper just like the other North American and European countries. South Korea, after liberating from mainland Korea it decided to reduce the reliance on China and start developing on its own with the help of the other three Asian dragons and made many agreements, treaties, free trade agreements with Singapore, Hong Kong and Taiwan as well. The article is a small research on the current trade relations of South Korea and the other three Asian Dragons and the impact of it on South Korea.

Keyword: Republic of Korea, Four Asian Tigers, Scope for Development, Reliance on China, NAFTA, Liberation, Current Trade Relations.

1. TAIWAN

Taiwan's and South Korea's Business relations depend on some major agreements and treaties which are- the Aviation Agreement (1952), the Trade Agreement (1961), the Cultural Agreement (1963), an Agreement on Maritime Transport (1983), and an Air Transport Agreement (1986). Taiwan and South Korea have undergone many political tensions, but still it wasn't strong enough to come in the way of their economic and business relations. The ties have been formal, because Taiwan didn't appreciate South Korea's ties with China in 1992. So the expansion of business ties is greatly owing to public sector networks.

Taiwan felt betrayed because South Korea accepted the one China policy and no longer recognised it as a separate country and breached the Aviation Agreement, the political and economic relationship deteriorated rapidly. The number of lawsuits against South Korean companies under anti-dumping law increased and they were barred from participating in infrastructural projects such as subway construction. But the cultural and educational exchanges never let the formal ties take a loose between the countries. The Aviation Agreement was again established in 2004 and the business relations came back on track.

Kim, U. H. (n.d.). South Korea-Taiwan Relations: A Private Sector Network Explanation. Pdf, University of Wisconsin-Milwaukee is a research conducted in the year 2007 which explains the South Korea-Taiwan relationship precisely on the basis of private sector network according to it,

Both South Korea and Taiwan followed export- oriented economic model. They put a great deal of effort in improving private sector relationship, Taiwan Federation of Industry and Federation of South Korean Industries had yearly conferences, for improving trade relationships, the trade ministries of both the countries discussed issues and came up with solutions to strengthen ties. As a result, Taiwan is South Korea's 7th largest trading partner, and South Korea is Taiwan's 6th largest trading partner as per 2016 statistics.

The countries are devoid of any incentive in each other's country because their industrial structure and cost of production are almost the same; there is no comparative or absolute advantage.

That's why the flow of foreign direct investment between these two countries is limited. They both compete in the Information Technology (IT) industry, semiconductors, and flat panel displays. But still, South Korea is the 14th largest Foreign Direct Investor in Taiwan. The key sectors for investment are finance and insurance, wholesale and retail industries and manufacturing industries.

Now Taiwan is expecting to sign a Free Trade Agreement (FTA) with South Korea as it exports small electronic devices to South Korea. But South Korea rather shows disinterest in the issue. But after the China South Korea FTA, Taiwan looks hopeful as Taipei- Seoul relations have improved overtime.

2. HONG KONG

A small autonomous territory which was once colonized by the British Empire today is the hub for global business. With one of the busiest ports on the planet, highest population density and skyscrapers, Hong Kong is the hub of investment, development and growth for a business.

Table-1 Top 10 Trading Partners (World's Top Ten)

Ranking	Country	% of total trade
1	China	55.3
2	The US	8
3	India	3
4	Japan	2.9
5	The UK	2.2
6	Taiwan	2
7	South Korea	1.9
8	Singapore	1.8
9	Vietnam	1.79
10	Switzerland	1.7

As seen from the above table, South Korea is the 7th largest trading partner of Hong Kong. South Korea plays a major role in Hong Kong's economy as well. There are so many South Korean companies in Hong Kong and the FDI in Hong Kong by South Korea is also increasing day by day.

Hong Kong exported Electronic Equipment's, Gems, Machinery, Clocks and Watches to South Korea and imported e gadgets, Plastics and Oil from it.

Hong Kong and South Korea have close trading relations. The economic relationship that they share is due to their manufacturing sectors which complement each other. In 2006, the bilateral trade between Hong Kong and South Korea was HK\$171.5 billion. There was a 0.5% increase to HK\$172.3 billion in 2007. As of 2007, South Korea was the 11th largest market for domestic exports from Hong Kong, 6th largest source of imports, 6th largest trading partner of Hong Kong, and the 7th largest market for re-exports. Hong Kong mainly exports metalliferous ores and metal scrap, electrical machinery, apparatus and appliances and electrical parts to South Korea. The trade between Hong Kong and South Korea grew by 28% in the year 2010. In 2011, the major Hong Kong exports to South Korea included semiconductors, electronic valves and tubes, telecommunications equipment and parts and parts and accessories of office machines. As of 2016, Hong Kong was the 5th largest exporter in the world by exporting \$506 billion. South Korea is one of the top export destinations of Hong Kong. Hong Kong had exported \$32.8 billion to South Korea which was 6.5% of its total exports.

Hong Kong also serves as an important conduit for South Korean products as it is the gateway to China and Southeast Asia. Most of the South Korean products that make their way to Hong Kong are sent to many other destinations. That is the reason why around 500 South Korean business enterprises are located in Hong Kong.

There is also extensive retail or tourism exchange between the two countries. In 2010, nearly 228,000 people visited South Korea from Hong Kong. In the year 2015, out of nearly 10.1 million foreign tourists, 511,703 tourists were from Hong Kong alone. In the year 2016, out of almost 14 million tourists, 638,838 were from Hong Kong that is around 5%.

(OEC Hong Kong) (Country Business Reports - South Korea) (Jackson, 2011)



Chart-1 South Korea Exports to Hong Kong

The graph shows the exports of South Korea to Hong Kong. There was a sudden decrease in the exports in the early 2015 and 16 due to the decrease in the oil price and the issue of South China Sea respectively.



Chart-2 South Korea Imports from Hong Kong

The Exports of goods and services from Hong Kong to South Korea is shown in the graph. The exports almost remained the same as the GDP and growth rate of Hong Kong remained the same and was unaffected by the oil price and the South China Sea issue respectively.

3. SINGAPORE

A small island city state in the south Asian region with a population of over 5 and a half million is one of the fastest growing economies in the world. Home to many culture, people of many religion and ethnic groups, Singapore has always been a country with peace. In the last 40-50 years the country has turned out to be a global hub for business and it has been one of the very few countries to get an AAA rating in business. Being the 14th largest exporter and 15th largest importer on the planet, Singapore has been considered as one of the four Asian dragons who are playing a vital role in the growth of Asian economy.

Table-2 Trading Partners of Singapore

Top 10 Export Countries		Top 10 Import Countries	
Country	Export USD\$	Country	Import USD\$
China	\$42,858,714,181	China	\$40,414,282,974
Hong Kong	\$41,592,668,344	Malaysia	\$32,249,838,474
Malaysia	\$35,003,569,060	United States	\$30,718,019,959
Indonesia	\$25,785,545,528	Japan	\$19,864,202,599
United States	\$22,640,982,818	South Korea	\$16,995,983,043
Japan	\$14,568,383,829	Indonesia	\$13,458,725,937
South Korea	\$14,523,889,528	Germany	\$8,686,885,530
Thailand	\$12,988,614,127	France	\$8,557,852,608
Vietnam	\$11,359,250,653	Saudi Arabia	\$8,131,777,661
India	\$9,833,561,793	Thailand	\$6,847,975,230

It can be seen from the above figure that South Korea plays a very important role in Singapore's economy. Singapore exports goods worth \$14bn to South Korea (7th largest) and imports goods worth \$16 bn. South Korea also helped the growth of Singapore's economy. There was a huge amount of FDI from South Korea to Singapore during the early 1990's, the period when Singapore became the hub of investment. Many South Korean companies set up their factories and even headquarters in Singapore. There has been a very interesting relation between the two nations. Singapore produces the components required to make cars, computers etc., while the South Korean companies assemble them either in South Korea or any other unit.

3.1 The KSFTA

Singapore and South Korea have signed a Free Trade Agreement on 4 August 2005. The trade agreement is known as Korea Singapore Free Trade Agreement (KSFTA). It is the first trade agreement that Korea has signed with any Asian country. It came into force on 2 March 2006.

According to (Free Trade Agreements - KSFTA) the objectives of the Free Trade Agreement are as follows –

- Liberalize and facilitate trade in goods and services and expand investment between the parties
- Establish a framework for strengthening the economic relations
- Establish a more favorable environment for their businesses and promote conditions of fair competition in the free trade area
- Establish transparent rules to govern trade and investment
- Create effective procedures for the implementation and application of this Agreement
- Establish a multi-lateral and regional cooperation and economic integration of Asian economies.

The KSFTA has been a very influential move by the Singapore government from the exporters' perception because Korea removed the tariffs on most of the goods that they import from Singapore. South Korean government however induced tariff on the goods imported from Singapore that can compete with their local manufacturers. Almost three fourth of Singapore's domestic exports to Korea got a very good advantage after this move. They were earlier charged between 25-40% and now the trade was of no charge. Products ranging from freshwater fish to cotton fabrics were exported with zero trade tariffs. Biomedical sciences, chemicals, consumer electronics, precision engineering etc., which are the major sectors that Singapore exports did not get a free trade but got a very less tariff compared to previous years and helped to increase the exports of Singapore.



Chart-3 South Korea exports to Singapore

The imports of goods by Singapore to South Korea had been fluctuating over the years. As the graph shows, there was a very huge decrease in the imports in the early 2015.

Singapore’s imports from South Korea amounted to 6% of its total imports. The main goods that they imported were: Electronic equipment’s, Mineral fuels, and Oil, Machinery, Iron and steel products, Plastics.

With the increased supply of E gadgets and plastics that were made in China and Taiwan, in 2015, the imports from South Korea fell down drastically.

(World’s Richest Countries)



Chart-4 South Korea imports from Singapore

(Trading Economics)

Singapore mainly exports Electronic components, Machinery, Medical technique, Organic chemicals, spacecraft’s, and cosmetics to South Korea. South Korea contributes to 6.9% of the total exports of Singapore and it amounted to \$14.5 bn.

4. CONCLUSIONS

All the Four Little Dragons have followed the export led model and now are categorised as newly industrialised economies. Out of these South Korea has shown slowest growth rates over the decades. Right now all the four economies face a steep declaration of growth because of economic and political malaise, investment contraction due to indebted households and low foreign trade because of global liquidity swings. All the four countries face the similar risk of the ageing population, slowing economy, and growing inequality. So they with their mutual cooperation, come up with policies and pacts to overcome this problem. Because their industries are complementary this is of great advantage to South Korea as it has fixed markets and fixed suppliers. The increase participation of the countries in WTO, ASEAN is not only making their trade grow, it is helping them make an impact in the South Asian region. In future too, the trade between these countries is expected to increase as the number of e-gadgets manufacturing is also increasing. Japan and the four little dragons are the biggest force of change in Pacific Rim right now, and all other countries look up to them if the trade relations between these countries.

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