



Asia-Pacific Trade Briefs

Republic of Korea

Merchandise trade: The economy of the Republic of Korea is highly trade-dependent. In 2015, it had a trade-to-GDP ratio of 84.8%, of which merchandise trade accounted for 82.2% of total trade. While merchandise exports – which in 2015 accounted for 84.5% of total exports – grew modestly by 3.1% on average during 2010-2015, they fell sharply in 2015 by 8%, a slightly lower contraction than the Asia-Pacific average export decline of 9.7%. Electronic integrated circuits, motor vehicles and petroleum oils formed the major export goods. Lower export demand from China and the United States as well as falling world crude oil prices were the main drivers behind this contraction in exports. Merchandise imports in 2015 also experienced a sharp fall of 16.9%, which was slightly higher than the Asia-Pacific average import decline of 15%. The import contraction was strongly linked to the country's slowing exports growth and participation in global value chains, since the economy remained heavily reliant on imports of intermediate goods and raw materials.

Services trade: The services trade share of total trade in 2015 reached 17.8%, slightly up from 17.1% in 2014. Services exports grew modestly by 3.3%, on average, during 2010-2015, but contracted sharply in 2015 by 12.8% compared with the more moderate Asia-Pacific average export contraction of 4.8%. Transportation, tourism, licensing of cultural and entertainment products, and financial services formed the major exported services, with the largest drop in exports recorded by transportation services. In 2015, services imports contracted more moderately by 2.6% due to a fall in transportation and other business services imports, although a low level of import penetration continued to characterize the Republic of Korea's services sector.

Intraregional trade: In 2015, 59.9% of goods exports was absorbed by the ESCAP region and 40.1% by the rest of the world. The two largest export destinations were China (35.1%) and the United States (14.9%), followed by Japan (5.4%). Meanwhile, 58.4% and 41.6% of goods imports were from the ESCAP region and the rest of the world, with China (28.7%) and Japan (12.5%) as the largest intraregional import sources. The Republic of Korea appears to trade slightly more intensively with Asia-Pacific economies in terms of both exports and imports.

Foreign direct investment (FDI): The role of FDI in the economy of the Republic of Korea has been critical for the country's rapid economic growth and transformation over the past three decades. FDI inflows contracted by 11.9%, on average, during 2010-2015, while the Asia-Pacific region averaged a 4.7% expansion. In 2015, the inflow contraction was more dramatic as it fell by 45.6%. The manufacturing, finance and insurance, and trade and maintenance sectors attracted the largest inflows, with Japan (27.8%) and the United States (18.1%) as the main foreign investors. Over-reliance on the struggling export-oriented manufacturing sector and increasing intraregional competition for investment may explain the drop in inflows. FDI outflows in 2015 fell by only 1.4%; the Republic of Korea remains a major foreign investor (net outflows) as electronics manufacturers continue to move to SEA economies.

Tariffs: In 2014, average MFN applied and effective tariffs at 11.8% and 9.6%, respectively, were higher than the Asia-Pacific averages of 6.9% and 5.9%, respectively. In contrast, the average bound duty, at 16.4%, was below the Asia-Pacific average of 20%. Tariffs continue to form a major component in trade costs for the Republic of Korea, although increasingly at a lower rate, with a binding coverage at 94.6% of tariff lines, which is above the Asia-Pacific average of 84.9%.

Trade costs: Intraregional trade costs in the Republic of Korea are slightly higher compared with the most efficient major traders in Asia and the Pacific, and during 2009-2013 they declined marginally from relatively low levels. Trade costs incurred by the Republic of Korea are, on average, 18.7% higher than those of East Asia-3 – which is dominated by China – and around 23.8% lower than those for the European Union-3 in reaching major trading economies of Asia and the Pacific (China, India, Indonesia and the Russian Federation).

Trade agreements: Republic of Korea has 18 preferential trade agreements (PTAs) in force, which is higher than the Asia-Pacific average of 7.6 agreements. Of total exports, 79% are to PTA partners, compared with 33.3% with the Asia-Pacific region. Of total imports, 72% are from PTA partners, compared with 44% for the Asia-Pacific region.

Figure 1. Key trade and investment indicators

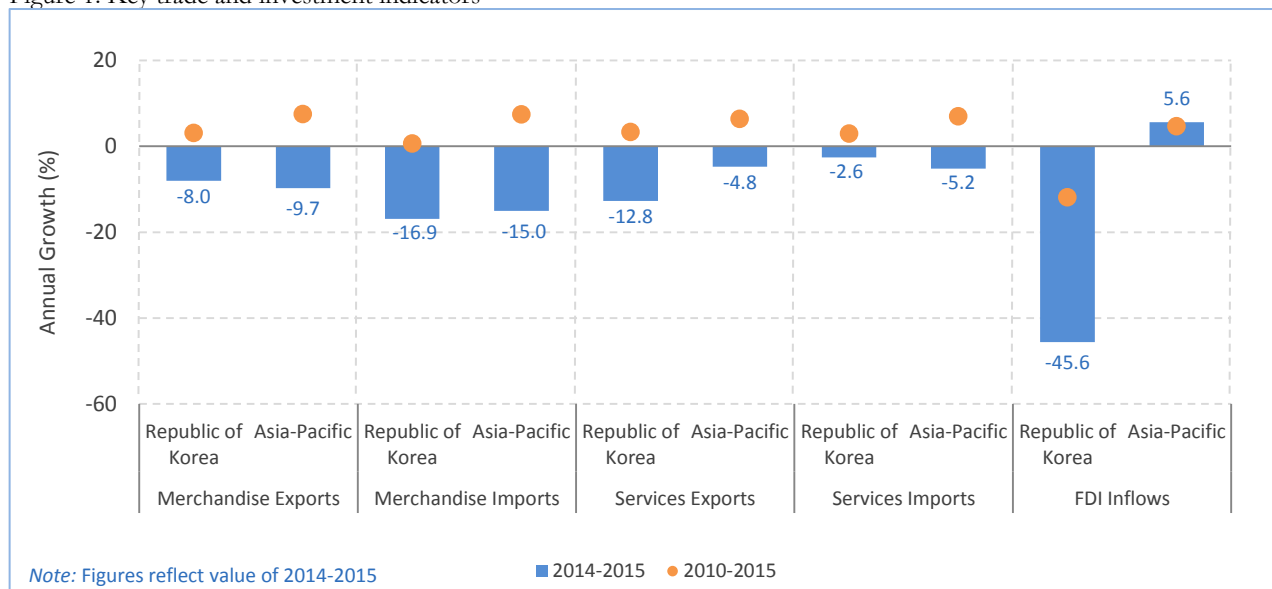


Figure 2. Top merchandise markets

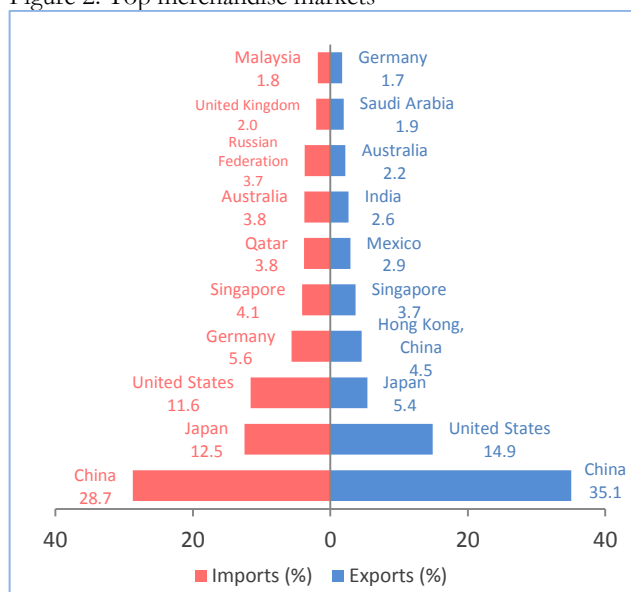


Figure 3. Top merchandise products

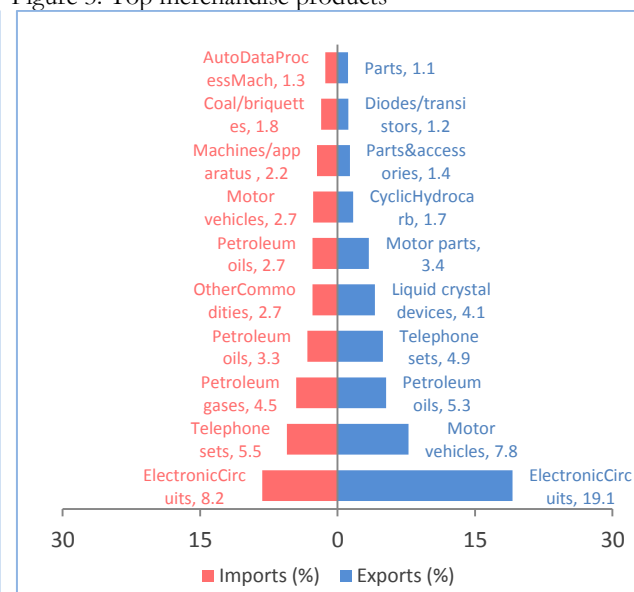


Figure 4. Trade within region and rest of the world

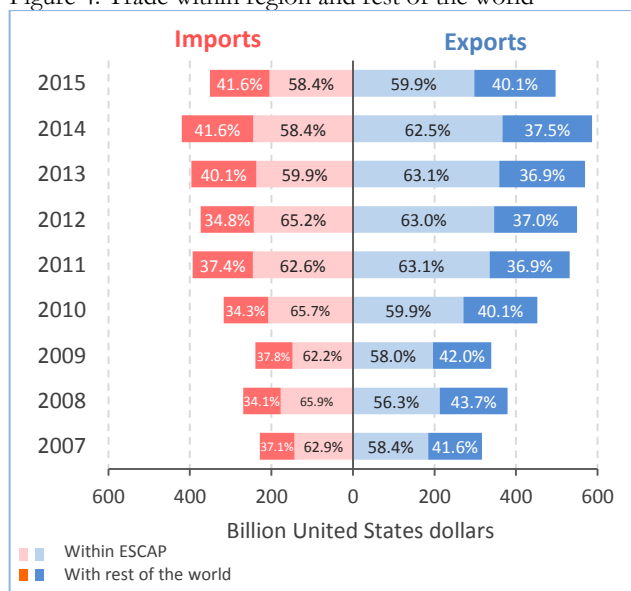


Figure 5. Foreign direct investment

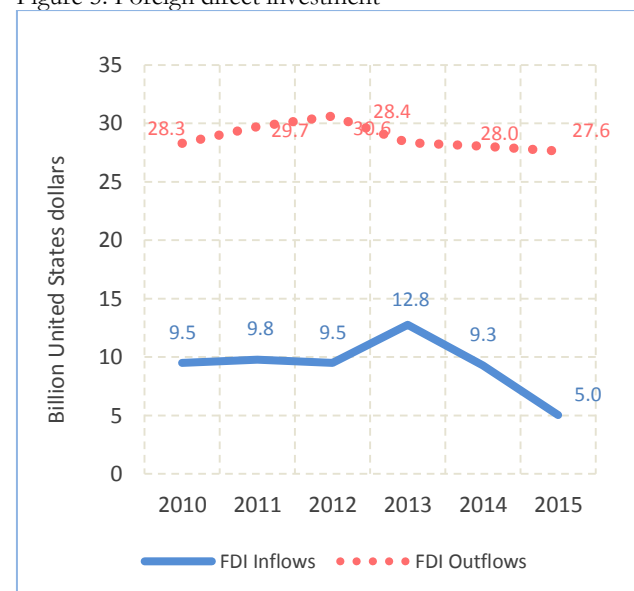


Figure 6. Tariffs (as of 2014)

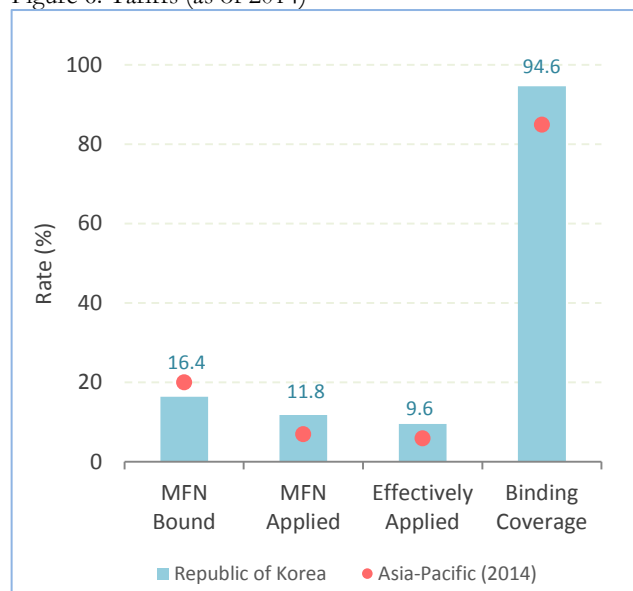
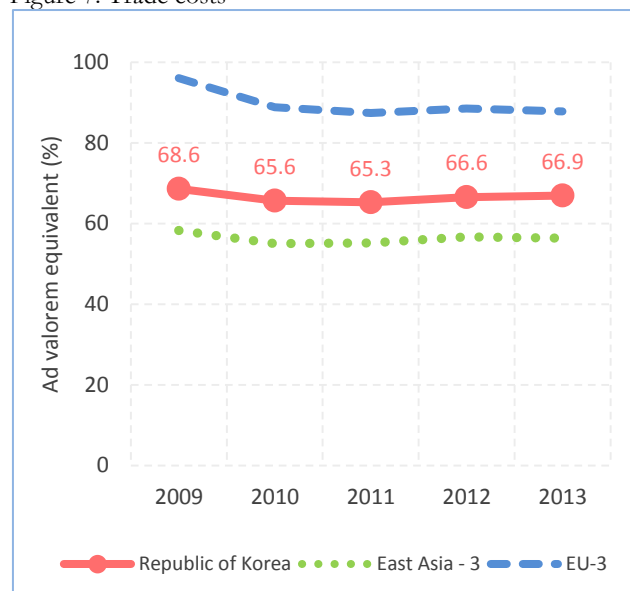


Figure 7. Trade costs



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