International Trade and Investment

Exports and Imports

Exports and Imports of Korea

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, and information technologies, as well as the international flow of key production elements such as capital, labor, and technology. Furthermore, it includes a series of international agreements such as the Free Trade Agreement (FTA) for international regulations or norms that 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 few decades.

Korea’s rapid growth in trade stems directly from the government-sponsored export-oriented economic development strategy that was implemented with a series of five-year plans that began in 1962. For example, the trading volume has increased significantly from around USD 100 billion in 1990 to USD 1.14 trillion (import: USD 605.5 billion, import: USD 360.0 billion) in 2018. Korea is now ranked 9th in the world by trading volume. Along with the significant growth of trade, the Korean economy has become more and more dependent on international trade. A rapid increase in trade dependence data in the early 2000s, accounting for 62.7% in 2004, 60.9% in 2011, and 59.1% in 2018. Since the early 2000s, there has also been remarkable growth in exports. For example, exports have increased from USD 110.4 billion in 2001 to USD 655.3 billion in 2018, making the trade balance grow from USD 8.2 billion in 2001 to USD 773.1 billion in 2018. The main commodities exported by Korea between 2008 and 2018 were semiconductors, automobiles, oil products, flat-screen displays, and sensors. This export of semiconductors also increased significantly since 2008. By 2018, semiconductors had become the largest export commodity, contributing a significant share of the total trade surplus in 2018.

In the 1980s, the trade balance showed deficits that continued until the mid-1990s. Beginning in the late 1990s, Korea experienced rapid increases in trade surplus, with the largest surplus of USD 95 billion in 2017 and the lowest deficit of USD 20.6 billion in 1996. Since the mid-1990s, Korea has posted mostly surpluses in trade due to the rapid growth of export-oriented industries in Vietnam. Exports to advanced economies such as the US, Japan, Singapore, and the European Union (EU) have also increased significantly due to the rapid growth of Korean foreign direct investments in Vietnam. Exports to developed countries have become smaller as a share of total exports in Vietnam. Exports to advanced economies such as the US, Japan, Singapore, and the EU have decreased. Along with this pattern of exports, imports have followed a similar trend. Korea’s major import partners are China, Japan, the United States, and Saudi Arabia, with China being the top importer of Korean goods since 2007.

In 2011, the percentage of semiconductors accounted for 20.1% of all exports. Automobile exports have also increased significantly since 2011, the main FTA with the United States and growing demand from other advanced economies. Exports from Korea are also the result of oil products’ export growth from USD 116 billion in 2016 to 7.1% in 2016 due to the increase in oil products’ export prices.

Korea has also experienced significant growth in trade despite the economic downturn during the world economic crisis in 2009 and the declining oil price in 2008. Rebounding oil prices and the improvement of the electricity sector have stimulated growth in the first time. Since the early 2000s, rebounding oil prices have led energy imports into Korea to have corresponding fluctuations. However, as oil prices decreased, the trade balance showed deficits that continued until the mid-1990s. Beginning in the late 1990s, Korea experienced rapid increases in trade surplus, with the largest surplus of USD 95 billion in 2017 and the lowest deficit of USD 20.6 billion in 1996. Since the mid-1990s, Korea has posted mostly surpluses in trade due to the rapid growth of export-oriented industries in Vietnam. Exports to advanced economies such as the US, Japan, Singapore, and the EU have decreased. Along with this pattern of exports, imports have followed a similar trend. Korea’s major import partners are China, Japan, the United States, and Saudi Arabia, with China being the top importer of Korean goods since 2007.

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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. Overseas FDI has become a part of the firm’s progression because it provides better business opportunities matching 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 USD 1.1 billion in 1990 to USD 4.4 billion in 2018. The amount of Korean FDI was USD 399.3 billion between 1960 and 2018. When grouped by region, Asia, North America, and Europe accounted for 34.1%, 23.8%, and 23.5% of Korean outward FDI, respectively, in 2018. By country, the United States, China, and Vietnam accounted for 28.1%, 12.4%, and 8.2%, respectively. Interestingly, the Korean FDI to Vietnam has increased significantly since the early 2000s with the result that Vietnam has emerged as the 3rd largest host economy for the Korean outward FDI. The Korean outward FDI has also significantly contributed to the GDP of some host countries. For example, the proportion of Korean outward FDI was 4.1%, 2.9%, 2.1%, 1.3%, and 1.1% for Luxemburg, Liberia, Samoa, Vietnam, and Cambodia, respectively. The manufacturing sector received the largest investment, accounting for 32.3% of Korean total outward FDI in 2018. Financial and insurance, mining and quarrying, and wholesale and retail trade sectors received 18.0%, 14.3%, and 11.6%, respectively, in 2018. By country, the United States, China, and Vietnam accounted for 34.1%, 22.8%, and 23.5% of Korean outward FDI, respectively. By industry, manufacturing accounted for 32.3% of Korean total outward FDI in 2018. There are fluctuations in the manufacturing of motor vehicles, trailers, and semitrailers. Investment in this category increased from USD 100 million in 1990 to USD 840 million in 1998, but it decreased to USD 40 million in 2001. In 2018, it increased again to USD 3.5 billion. Geographically, this kind of investment is concentrated in China (including Hong Kong), which accounts for 33.7% of total Korean manufacturing FDI in the world. The United States, India, Austria, Poland, and the Czech Republic followed, accounting for 12.3%, 10.9%, 5.1%, 5.0%, and 4.8%, respectively, in 2018. Korean outward FDI to the 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 10.5% and 8.9% of cumulative manufacturing FDI as of 2018. Investment in the manufacture of electronic components, computer, radio, television, and communication equipment, and the manufacture of motor vehicles, trailers, and semitrailers, which accounted for 33.7% of total cumulative manufacturing FDI as of 2018.
Korean Inward Foreign Direct Investment by Industry (1990)

Geographically, Korea’s inward FDI was dominated by the United States and Japan in 1990, but it was diversified due to the recent growth of investments from the United States, China, and European countries. For example, the proportion of investments from the US and Japan decreased significantly from 39.8% and 29.5%, respectively, in 1990 to 15.4% and 7.8% in 2018. Concurrently, the inward FDI from China increased to 21.9%, 12.9%, and 9.7%, respectively. The focus of FDI development by AT Kearney was also improved from 24th in 2007 to 17th in 2018. Of the countries investing in Korea increased from 26 countries in 1990 to 69 countries in 2018. According to the Ministry of Trade, Industry, and Energy, the ranking of Korea on the "doing business" index developed by the World Bank rose from 23rd in 2008 to 5th in 2018, and the ranking of the trust index of FDI developed by Al Kasey was also improved from 2006 to 2017 in 1998.

Korean Inward Foreign Direct Investment by Industry (2018)

According to the status of foreign investment firms issued by MTIE (July 2019), there are 14,473 foreign firms in Korea. The main investment sectors are wholesale and retail trade, followed by R&D and science and technology services, accounting for 41.4% (5,989 firms) and 7.1% (1,032 firms), respectively. Information and communication, machinery and equipment, electric and electronic, and R&D and science and technology services, accounting for 41.4% (5,989 firms) and 7.1% (1,032 firms), respectively. Apart from the metropolitan areas, Ulsan (5.8%, USD 1.57 billion) attracted the most foreign investors.

In 2018, the amount of inward FDI in Korea amounted to USD 26.9 billion. Most of the inward FDI was invested in the metropolitan areas, accounting for 62.0% (USD 16.65 billion) of the total inward FDI. For example, Seoul, Incheon, and Gyeonggi Province received 33.5% (USD 8.95 billion), 18.7% (USD 5.04 billion), and 18.9% (USD 5.26 billion), respectively. Apart from the metropolitan areas, Ulsan (5.8%, USD 1.57 billion) attracted the most foreign investors.

Inward Foreign Direct Investment by Region (2018)

Distribution of Inward Foreign Direct Investment Firms in Korea

Distribution of Inward Foreign Direct Investment 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

Korean Inward Foreign Direct Investment by Industry (2018)
The technology balance of payments may be defined as commercial transactions related to international technical knowledge and technology-related services between partners in different countries. It consists of money paid or received for the use of patents, licenses, know-how, trademarks, patterns, designs, technology services, and assistance, and for industrial R&D carried out abroad. It is an important indicator that enables us to measure technology transfer among countries, restructuring in technology and industrial structure, and level of technology in the macro-perspective. In particular, technology balance of payments (ratio of technology receipts to technology payments), the amount of money used to purchase foreign technology divided by technology sold to other countries, could be used as an indicator of national technology competitiveness. The technology balance of payments may be defined as commercial transactions related to international technical knowledge and technology-related services between partners in different countries. It consists of money paid or received for the use of patents, licenses, know-how, trademarks, patterns, designs, technology services, and assistance, and for industrial R&D carried out abroad. It is an important indicator that enables us to measure technology transfer among countries, restructuring in technology and industrial structure, and level of technology in the macro-perspective. In particular, technology balance of payments (ratio of technology receipts to technology payments), the amount of money used to purchase foreign technology divided by technology sold to other countries, could be used as an indicator of national technology competitiveness. The technology balance of payments has increased dramatically since 1997. For example, it increased from USD 2.24 billion in 1997 to USD 20.27 billion in 2017, a growth of over 20 times in 20 years. The amount of technology payments as a percentage of total technology balance of payments increased significantly from 6.7% in 1997 to 40.7% in 2017. Also, the technology balance of payments ratio increased from 0.07 to 0.72 in 2017. In terms of the performance of Korean technology balance of payments, the leading technology trade partner for Korea are the United States, China, Vietnam, Singapore, the United Kingdom, Japan, Finland, India, Germany, and Ireland. Vietnam was the top technology exporting country in 2017, accounting for 99.9% of the technology balance of payments. Technology payments have increased significantly since the early 2000s. Their volume has increased dramatically, from around USD 598 million in 1997 to USD 11.4 billion in 2017. Technology payments in Korea have increased by more than 70 times in 20 years. In terms of Korean technology payments by industries, the leading technology exporting industries were the electrical and electronics industry (44.4%) and the machinery industry (19.9%) in the early 1990s. However, the information and communication industry jumped to 39.0%, and the electrical and electronics industry jumped to 36.4% in 2017. Since the late 1990s, technology receipts have increased along with increases in needs for new technologies as the development of the electrical and electronics industry moves forward. The significant increase in the amount of technology receipts has led to the liberalization of technology receipts since the late 1990s. For example, technology receipts as a percentage of total technology balance of payments rose 93.7% in 1997. In terms of Korean technology receipts by country, Korea’s technology dependence on Japan was highest until the late 1970s. Since the 1980s, its dependence on the United States has been growing dramatically because of the rapid progress in the introduction of high-tech instruments to the electrical and electronics industry. As a result, in 2017, the percentage of technology receipts from the United States was 45.9%, whereas that from Japan was only 6.0%.