Patron or partner: inequality disguised by complementarity in the S. Korea-Mexico economic relations

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Abstract
Mexico is an increasingly important destination of Korean exports and investment in Latin America, especially due to its geographical location and competitive advantages, including labor, natural resources and friendly institutional framework for foreign investment. Trade and investment has grown in impressive pace, now equaling traditional partners such as Germany. However, unlike Korean developmental approach to industrialization and engagement in international markets, Mexican government has chosen to limit itself to become an assembling economy with marginal impact on fostering superior capacities for local capital. This creates a structural condition of dependence, although it is not recognized as such but as complementarity. In this paper I discuss the conceptual trap that this line of discourse brings about and explore to what extent the recent bilateral economic cooperation initiatives show and reinforce this trend.

Introduction
In the past three decades, South Korea’s (hereafter Korea) economy and its big corporations have expanded their role in the world economy by engaging in diverse forms of internationalization, apart from exports. One of them is foreign direct investment (FDI) and another is international cooperation. The internationalization of the large firms, their subsidiaries and affiliates, together with their traditional Korean suppliers in first tiers of the productive chains is a relatively new phenomenon. Along with FDI, Korean government has been increasingly involved in cooperation and aid projects in several developing countries around the world, but particularly in those where FDI is prominent.

Mexico and Brazil have been the largest recipients of Korean FDI and cooperation projects in Latin America for the last couple of decades (CEPAL, 2015). However, despite the notorious and constant increase of trade, investment, and cooperation, only a small percentage of Korean FDI and cooperation projects and funds go to Latin America compared to South East Asia, and trade is chronically in deficit since 1990s.

Economic structures of Korea and most countries in Latin America are in opposite ends: a resource and land rich region contrasts with relative small and technological advanced economy. As I will discuss
later, this brings about the idea that both parties should see each other as complementary, rather than competitive. However, taking into account the industrial development trajectory of Korea and the organizational characteristics of its biggest corporations, which dominates investments and trade, the idea of complementarity has to be revisited. But before doing that, I would like to share some notes about the role of Korea in the global economy.

Korea’s economic development has the merit of achieving industrial prowess in a very short period of time. The role of the government and the public policies was crucial in that process, but also the role of family companies and the people. The regime pursued industrialization driven by exports, nurtured local capitalists and had a vigilant and restrictive approach towards foreign investment (López Aymes, 2015a). As a result, Korea is the world’s 7th exporter in terms of value and the 6th in merchandize trade (WTO, 2016), and the 5th patent applicant to the World Intellectual Property Organization.1 Korean firms are present in the top 5 producers in tech and capital intensive industries such as shipbuilding (2nd), semiconductors (2nd), automotive (5th), steel (4th), electronics (4th), among others.2

Like many other advanced industrialized economies, Korea has gone through several changes on its economic structure: from light manufacturing in the 1960s and 1970s, to capital intensive industries in the 1980s, technology in the 1990s and knowledge intensive in the 2000s. Internationalization of firms is partly a response to such structural changes (Yang, Lim, Sakurai, & Seo, 2009; Yoon, 2007), as economic organizations seek to find and exploit the advantages they once had at home to improve their competitiveness against major transnational corporations, but also seek access to resources and markets that are not readily available through traditional trade exchanges. Each stage has meant a different way of engaging with the external markets and corporations have adjusted to it as well (Yang et al., 2009).

In light of this evolutionary process of adaptation to its own economic transformation and the globalization pressures, Korean firms have moved on by expanding the chaebol networks overseas segmenting the production processes in the industries and services they have developed. In order to maintain some degree of control, the expansion approach operates in terms of property and relational subcontracting. Control is critical, especially in value added segments of the process, such as research

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and development, design, and in downstream stages like marketing, distribution and sales services. The strategy is mostly executed by the groups’ leading firms who establish subsidiaries and affiliates, which are soon followed by their traditional suppliers reproducing the group’s organizational dynamics.

As has been recognized in the literature, there could be several objectives of firms to risk their investment abroad, mostly seeking resources, markets or certain factors of production. The rationale for choosing where to invest also varies according to those objectives and the physical, institutional or strategic conditions of the economic space itself. For instance, the firms may be attracted by pull factors such as industrial agglomerations, either originated by market forces or by policy initiatives, or by institutional incentives, or closeness to relevant markets. Korean firms, affiliates and suppliers are certainly influenced by these factors or the several combinations of them, but their main attribute is the pattern of keeping closed networks. So, what matters most is the strategic decision of the leading firm as to where to invest and then the rest will follow suit.

**Regional preferences**

I mentioned above that Korean investment in manufacture is mostly directed to Southeast Asian countries. The region offers several advantages to global production networks, like diverse stages of economic development among neighbor countries and a range of factors of production; furthermore, geographic, institutional, and a well-connected infrastructure between industrial clusters and urban corridors make Southeast Asia an attractive region to establish a wide export processing platform. National and local governments also offer a great deal of incentives, especially in designated special economic zones throughout each country to receive foreign investment (López Aymes, 2015b). Most of them have been successful, at least in terms of attracting transnational companies and creating jobs. Some of them have even succeeded in attracting high value segments of production process that contributed to upgrade technological and managerial capacities (Dent, 2003).

In addition to the individual efforts of governments and private sector, for several years Southeast Asian countries have also developed regional cooperation and coordination mechanisms to collectively face the challenges of globalization and manage the demands from foreign powers and their companies. One of the most important cooperation mechanisms is the Association of South East Asian Nations (ASEAN). The ASEAN has evolved from a security pact among some countries to an active forum for discussing policies towards economic integration and the formulation of minimal identity tenets in
several areas to nurture the formation of a community. The way ASEAN helps to govern regional relations and stimulate dialogue has been effective in bringing about unlikely partnerships among historically rival countries; open regionalism, as such approach has been called, also provided a model to other economic cooperation entities such as APEC and, arguably, the Pacific Alliance.

The combination of incipient developmental countries with mostly friendly policies towards TNCs and a fairly sound regional cooperation and policy coordination regime offers a stable business environment in a historically fragmented and geopolitically fragile area. It also conferred a common ground for individual countries to deal with regional powers and extract compromises that are conducive to SE Asia interests. Japan and, more recently Korea and China have been major factors contributing to the economic integration process and enhanced the region’s stance in the global economy. Their investments in infrastructure and manufacture of these Northeast Asian countries are the backbone of the high intraregional trade and investment rates (ESCAP, 2014: 10-11). To be sure, there are several challenges still to be topped, such as upgrading education and invest more in research and development to improve domestic and regional capabilities for self-help development, but the sense of community empowers the region and its constituents to play outside powers in their favor.

Quite a different story is that of Latin America. Despite sharing a similar experience of colonialism and continuous intrusion of foreign powers, civil wars, military coups, and dictatorships, unlike SE Asia, Latin America is still consumed by unresolved historical issues and fragmented political economies. Beyond the rhetoric of brotherhood, governments still find difficult to establish reliable cooperation and common governance mechanisms that help get rid of ancient rivalries and suspicions. No shared interest has been recognized across governments and societies. United States is time and again the bone of contention, and alliances with the superpower often taint efforts towards autonomous integration. Notwithstanding several attempts of regional and sub-regional integration, discontinuities are rather the pattern (Contipelli, 2017). As a result, economic integration is lower than in SE Asia and regional production chains are weak and dominated by non-Latin American firms.

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At the national level, whether democracies or dictatorships, Latin American countries have been unable to establish sustainable domestic economic structures that pursue the development of indigenous technology and domestic capital. Furthermore, societies are deeply stratified – principally as a legacy of colonial times – and widening of income gaps are reinforced by the predatory nature of the capitalist economic system where governments systematically serve the interests of few parasite oligarchies; economic nationalism is easily confused negatively with eccentric patriotism, rather than as the axis of industrialization like in East Asia (López Aymes, 2009, 2010). As a consequence, regional production chains are fragmented, dependent of foreign firms and with meager incorporation of domestic firms, and concentrated in extractive and labor intensive economic activities. Big Latin American corporations, the “multi-latinas”, are family business cliques in low tech sectors such as food processing, construction, extraction, and services (those in services and telecommunications do not produce their own equipment), which despite their close links with government and political elites, seize financial resources, but have low spillover effects.

The lack of a functional regional integration process, plus the competition among national and provincial governments to attract fragments of global production chains provokes a race to the bottom regulatory spree, which deepens distrust and undermines the prospects to formulate a common goal and cooperation mechanisms. This situation makes individual countries and the region as a whole vulnerable to extra regional economic and political interests to set foot and not held responsible or accountable to the individual efforts of economic development. Those efforts are constrained by the development model itself, whether of socialist or neoliberal nature, which regard foreign capital as a threat or as panacea, but in neither case policies and resources are fully devoted to build domestic capabilities aiming to gain autonomy. Education policies, training and technical cooperation programs rather aim to make better workers, not so much scientists or entrepreneurs committed to upgrade indigenous technology and the industrial base to engage the global economy in more favorable terms.

Why Korea prefers or finds SE Asia more convenient than Latin America in its economic relations and what might be the implications? I think there are at least four notable differences between these two regions that perhaps give each one a particular attractiveness for Korean investments and cooperation programs. First, SE Asia represents a larger scale and more integrated market, which implies a better articulated export platform than Latin America in terms of infrastructure and institutional framework, notwithstanding the contrasts in actual geographic size. This of course translates into reduction of
transaction and transportation costs. Second, agglomeration effects in SE Asia may seem stronger to Northeast Asian corporations than in Latin America and logistics appear to be more efficient and better established, even to export to United States, the ultimate market. Third, manpower and regional division of labor in SE Asia provides better long-term prospects to investment, while Latin America remains in their view an extractive market with few poles for manufacturing, mostly in Brazil and Mexico (CEPAL, 2015: 76-77). Fourth, even though SE Asian political economies are more prone to developmental policies and economic nationalism towards the formation of indigenous technology and capital, improvement of competitive advantages can be seen in a more favorable light than Latin American weak states that are more unpredictable and care less about investing in physical infrastructure and development of human resources as drivers for industrial progress.\(^4\)

So, while South East Asia is making strides to attract better quality of foreign investment and larger production chains, aid funds and technical cooperation programs from Korea, which are put in use to interconnect the region and make the most of those dynamics for national development, Latin America is attracting far less investment, mostly concentrated in low skilled manufacturing and assembling (80%), especially in electronics and automotive industries, and to a lesser extent metals, finance, textiles, marketing and sales, among others (Estevadeordal, Mesquita Moreira, & Theodore, 2015: 22-3). Korea’s cooperation programs are also distributed unevenly among regions, being SE Asia the primary recipient and Latin America a far second one; Vietnam alone receives more ODA than the whole Latin America (OECD-DAC, 2012). The fact that cooperation is mostly bilateral and the allocation of funds and projects in SE Asia and Latin America goes to infrastructure and social services (60%) (CEPAL, 2015: 83), followed by education, industry, energy, and economic services, shows its developmental seal of Korean international cooperation system (López Aymes, 2016).\(^5\)

For the time being, foreign interests in Latin America, including Korean firms and some of their cooperation programs, are clearly left to play a free riders role for the benefit of their own economic organizations. The recent Kia drama in the Mexican Northern state of Nuevo Leon is an example of how

\(^4\) Cultural affinity is arguably another factor why Korean firms prefer SE Asia, but not so convincing because the great diversity of SE Asia in terms of religion and philosophical tenets, political systems, ethnic composition and colonial experiences. Unless we consider the conviction towards open market as a common wisdom, other cultural elements are as non-existent as in Latin America. Perhaps labor ethics may be a factor, but that I cannot qualify in this paper.

\(^5\) Most of the funding for these projects comes from Korea International Cooperation Agency, the Economic Development Cooperation Fund, and the Korean Eximbank.
big Korean firms not only utilize the attractiveness of being few hours away from the border to United States, but also the competition for FDI that led the local government to bestow extraordinary concessions in exchange for creating jobs. It is in this context that countries like Korea and its corporations take advantage of Latin American willingness to grant property of natural resources and facilitate use of factors of production, to invest and establish their own closed manufacturing networks, besides trading finished value added goods for natural resources. Furthermore, this pattern of economic relationship is increasingly formalized and protected by several legal agreements that safeguards intellectual and industrial property rights, regardless of insignificant knowledge shared or concerns for developing domestic firms or integrate existing ones.\textsuperscript{6} As the CEPAL recognizes, it is unlikely that trade and investment agreements alone would change the structure of exchange and economic relationship between Korea and Latin American partners (CEPAL, 2015).

Mexico and Brazil are the main recipients of Korean FDI (80\%) and have showed the largest increase in trade volumes, but also are the ones that show the greatest trade deficit (CEPAL, 2015: 30; Estevadeordal et al., 2015), especially due to the import of parts and components for the Korean firms located in those countries. Nevertheless, trade deficit is not seen as a major problem by government officials and neoliberal economists. The problem of narrow economic perspectives about Korea and Latin America countries is the idea that trade balance alone can give a positive or negative interpretation about an economic relationship; from that perspective, even if the exchange is unfavorable for one party in a bilateral relation, what matters is the final trade balance in national accounts. Mexico’s trade account is positive mostly due to the trade surplus with United States, so the 12 billion trade deficit between Mexico and Korea is not a big deal. Similarly, the CEPAL observes that Chile exports great volumes of primary products and processed natural resources to Korea and the surplus from these sectors “more than compensates the deficit in sectors with greater technological content.”

A critical political economy perspective may point out that is not the trade balance but the trade structure what lies at the heart of the development problem. It may sound OK that while Mexico exports basic goods and raw materials to Korea, the 80\% of Mexican imports from Korea are intermediate goods and components that will be assembled by Korean companies established in Mexico (FDI), which will

\textsuperscript{6} In contrast to the common idea that FDI is instrumental for technology spillovers, generally there is no evidence available to demonstrate any significant contribution of foreign manufacturing firms regarding substantial technology transfer, unless education and science and technology public policies are established to enable capacity building for assimilation and production of knowledge (Romo Murillo, 2003).
be exported chiefly to United States, so at the end the trade deficit with Korea compensates with surplus with United States. However, this means Mexican firms are not being engaged in the value and production chains. Perhaps there are no Mexican firms able to produce those goods and components in quantities, quality, and timely delivered and thus Korean companies must acquire them from home. It can also be that Korean networks are closed to protect technology and know-how, and secure coordination swiftness, which are key advantages in world market competition. Either way, dominant wisdom calls this structure a complementary division of labor, based on comparative advantages. Consequently, the economic and technological asymmetry becomes a normal feature of the relationship as long as trade is not in the red numbers. This seems wrong to me, especially considering that Korean government and private corporations thought that too about themselves some five or six decades ago.

The particular case of Mexico

What does a new partner as Korea look for in Latin America? Why is Mexico particularly important for the Asian country instead of other countries in the region? In general, Mexico is a convenient target for trade and foreign investment due to its competitive advantages, including an open market, cheap labor force, availability and access to natural resources and energy sector, export infrastructure, established industrial agglomerations and global production networks in several sectors and a favorable institutional framework for foreign investment. But the main reason why Mexico is an attractive destination above all the other Latin American countries (except Brazil perhaps) is doubtlessly its closeness with the US market. Despite the current uncertainties related to the electoral cycles in Mexican political system and the adverse environment in US politics, which may affect the North America Free Trade Agreement, the geographical condition is permanent. Hence, Korea’s main purpose and expectation for engaging Mexican economy is to participate in the regional integration process from within.

Korean economy has gone through several structural changes, for which some industries and several segments of production processes have had to move to a different location. Mexico represents one ideal setting for many Korean firms who want to exploit its competitive advantages without compromising the firms’ advantages of ownership and internalization. Very much the same reasons that motivates Japanese corporations as well. Korean corporations’ first ventures in Mexico were in late 1980s, a period when demographic and economic conditions at home started to exert production costs pressures on firms, so it was necessary to rationalize and perform more efficiently in order to compete and survive
in the export market. It was also a period when technological advance displaced labor intensive segments of production out of the country. It was really up until this time when Korean companies started to invest abroad more autonomously as the financial sector had recently been liberalized (Yang et al., 2009; Yoon, 2007).

It was also the time when Korean government shifted its role in the economy to become less interventionist and directive and more functional to industrial development. Among those changes was the establishment of a more formally organized international cooperation for development system, characterized by the foundation of the Economic Development Cooperation Fund (EDCF) in 1987 and establishing the Korea International Cooperation Agency (KOICA) in 1991. Official development assistance (AOD) programs and special credits for import and export administered by the Eximbank were some of the instruments used to ease the internationalization of Korean corporations around the developing world. So, even after the structural changes and the outstanding performance and growth of Korean firms, the government still found ways to support the national economy not only inside but also abroad. This renewed role of the government took an additional shift by pursuing bilateral trade agreements, especially after the multilateral trade regime showed difficulties to advance and several countries moved to form regional trade agreements instead.

The first bilateral FTA that Korea negotiated was with Chile in 2004, a country which had no significant trade interests and was no threat to its firms so it was a good learning practice. Since then, Korean government has become a champion of negotiating FTAs and now it has 15 agreements covering 52 countries and regions. However, Mexico has proven to be a hard nut to crack. For several years Korean government has tried to convince its Mexican counterparts and interest groups of the convenience of negotiating an FTA. It is understandable that Korean companies in Mexico, especially those in the export sector, are the most interested in such an agreement. Korean leading export companies and their first and second tier suppliers are also big importers of Korean intermediate goods, usually from the same group or habitual suppliers. As the story goes, the first steps were taken by expert groups in the first half of 2000s who concluded that the agreement had merits and was viable, so they recommended to proceed, but after two negotiating rounds it was discarded in 2008 (López Aymes, 2011).

Much was argued about the mutual convenience of having an FTA after the first failed attempt but to no avail, until both presidents met on April 2016 and vowed to a fresh start on the matter. Many things
happened after that, though. The new government in the US presented an overwhelming challenge to Mexican policymakers, so instead of seeking diversification, their goal has been to salvage their stakes in the US market. Currently it seems rather impossible to even start negotiations as the government has its hands full dealing with the NAFTA’s survival and the upcoming presidential elections in 2018. Besides, the bilateral agreement with Korea has not found strong support in Mexico apart from some industries, especially those affected by Korean agricultural protectionism. There is a good reason for that: Chile, Peru and Columbia signed trade agreements with Korea and the export of raw material and agro industrial goods is booming (CEPAL, 2015). Korean consumers are also happy because they can enjoy grapes all year long and have started to develop a taste for Chilean wine. Considering the low contribution of agricultural business in Mexican exports and share in the GNP, and the minuscule potential impact to the overall economy that gaining access to the Korean market represents, a bilateral FTA is presumably not a priority.

Mexico’s reluctance comes from steel, chemical and automotive companies, which have every reason to be concerned as they are already facing fierce competition from Japan and China at home. But Korea is eager to compete with Japanese and Chinese firms in more favorable terms, as Japan has a comprehensive partnership agreement since 2005, and China, without a formal instrument, has turned Mexico’s second biggest trade partner (and US’ main seller). Mexico can certainly consider a FTA with Korea as a window of opportunity to expand the network already in place, which by the way has done little to diversify the economy. In any case, what harm one more agreement could make? The answer will depend on the theoretical perspective, as some will argue that trade will be more efficient and investment will pour into the national economy, while others may argue that an FTA will lock in the asymmetries of that particular relation and place an additional obstacle for Mexican firms to engage in global production networks. For those advocates of the former, jobs will be gained, for the latter, jobs are a pyrrhic gain.

I believe that whatever the outcome of the renegotiation of NAFTA or if a Korea-Mexico bilateral trade agreement is finally negotiated or not, there are several other instruments and market processes that lead to the assumption that Korean investment will continue to flow, although not in the likely amounts or

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segments if a different institutional setting was in place. United States will remain Mexico’s neighbor and so its principal market; Mexico’s competitive advantages will likely remain, and so its role as manufacturing belt, for good or bad.

In any case, as will be seen below, the bilateral economic relation is marginal for both countries, so the benefits of formalizing a deal are not self-evident; besides, the composition of commercial exchange and the technological asymmetry have structural origins, so overcoming them will require not only a developmental role from the Mexican government, but also establish mechanisms to make foreign firms to contribute more in integrating local enterprises. However, it is unlikely that any agreement could force markets and private organizations—and their closed networks—to accept the role of business Samaritans.

**The Mexico-Korea economic relations and the issue of complementarity**

Korean trade and investment in Mexico has increased notably in the last 30 years. For instance, in 1990, exports to and imports from Korea were only US$ 102 and US$ 184 million, respectively, while in 2015 the value exports and imports was US$ 2.8 and US$ 14.6 billion. Currently, total commerce makes Korea Mexico’s the 6th trade partner. Despite such prominent position, Mexican exports to Korea in 2005 represented only 0.73% (9th), while imports were 3.70% (4th) (table 1). This is so because of the massive trade concentration with United States (81.24% exports, 47.39% imports). Furthermore, Mexico is Korea’s 9th export destination (2.07%) and the 26th import source with a meagre 0.80% from the total. So, to be Mexico’s 6th trade partner overall with 2.5% of its total trade does not seem to have much strategic meaning, but works as a nice discursive cliché to keep friendly economic relations that doesn’t harm anyone. Does it?

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9 Except for United States, the rest of Korea’s export markets are Asian countries and territories.
Table 1. Mexico-Korea trade balance 2000-2015 (US$ million, %, and ranking)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>%</th>
<th>Rank</th>
<th>Imports</th>
<th>%</th>
<th>Rank</th>
<th>Total trade</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>293,866</td>
<td>0.18%</td>
<td>21</td>
<td>3,381,710</td>
<td>1.88%</td>
<td>6</td>
<td>3,675,576</td>
<td>-3,087,844</td>
</tr>
<tr>
<td>2001</td>
<td>208,126</td>
<td>0.13%</td>
<td>25</td>
<td>3,491,048</td>
<td>2.07%</td>
<td>6</td>
<td>3,699,174</td>
<td>-3,282,922</td>
</tr>
<tr>
<td>2002</td>
<td>160,678</td>
<td>0.10%</td>
<td>31</td>
<td>3,783,173</td>
<td>2.24%</td>
<td>7</td>
<td>3,946,851</td>
<td>-3,622,495</td>
</tr>
<tr>
<td>2003</td>
<td>181,069</td>
<td>0.11%</td>
<td>30</td>
<td>4,067,231</td>
<td>2.39%</td>
<td>6</td>
<td>4,248,300</td>
<td>-3,886,162</td>
</tr>
<tr>
<td>2004</td>
<td>110,513</td>
<td>0.06%</td>
<td>40</td>
<td>5,189,391</td>
<td>2.64%</td>
<td>6</td>
<td>5,299,904</td>
<td>-5,078,878</td>
</tr>
<tr>
<td>2005</td>
<td>241,447</td>
<td>0.11%</td>
<td>30</td>
<td>6,438,986</td>
<td>2.90%</td>
<td>5</td>
<td>6,680,433</td>
<td>-6,197,539</td>
</tr>
<tr>
<td>2006</td>
<td>456,952</td>
<td>0.18%</td>
<td>26</td>
<td>10,498,595</td>
<td>4.10%</td>
<td>4</td>
<td>10,955,547</td>
<td>-10,041,643</td>
</tr>
<tr>
<td>2007</td>
<td>655,411</td>
<td>0.24%</td>
<td>25</td>
<td>11,473,988</td>
<td>4.07%</td>
<td>5</td>
<td>12,129,399</td>
<td>-10,818,577</td>
</tr>
<tr>
<td>2008</td>
<td>537,605</td>
<td>0.18%</td>
<td>28</td>
<td>13,527,288</td>
<td>4.38%</td>
<td>4</td>
<td>14,064,893</td>
<td>-12,989,683</td>
</tr>
<tr>
<td>2009</td>
<td>498,752</td>
<td>0.22%</td>
<td>25</td>
<td>10,946,194</td>
<td>4.67%</td>
<td>4</td>
<td>11,444,946</td>
<td>-10,444,422</td>
</tr>
<tr>
<td>2010</td>
<td>928,781</td>
<td>0.31%</td>
<td>17</td>
<td>12,730,677</td>
<td>4.22%</td>
<td>4</td>
<td>13,659,458</td>
<td>-11,801,896</td>
</tr>
<tr>
<td>2011</td>
<td>1,521,780</td>
<td>0.44%</td>
<td>17</td>
<td>13,663,756</td>
<td>3.89%</td>
<td>4</td>
<td>15,185,536</td>
<td>-12,141,976</td>
</tr>
<tr>
<td>2012</td>
<td>1,726,592</td>
<td>0.47%</td>
<td>16</td>
<td>13,340,966</td>
<td>3.60%</td>
<td>5</td>
<td>15,067,558</td>
<td>13,340,966</td>
</tr>
<tr>
<td>2013</td>
<td>1,525,323</td>
<td>0.40%</td>
<td>16</td>
<td>13,492,971</td>
<td>3.54%</td>
<td>4</td>
<td>15,018,294</td>
<td>-11,967,648</td>
</tr>
<tr>
<td>2014</td>
<td>2,027,369</td>
<td>0.51%</td>
<td>12</td>
<td>13,771,522</td>
<td>3.44%</td>
<td>4</td>
<td>15,798,891</td>
<td>-11,744,153</td>
</tr>
<tr>
<td>2015</td>
<td>2,770,047</td>
<td>0.73%</td>
<td>9</td>
<td>14,618,851</td>
<td>3.70%</td>
<td>4</td>
<td>17,388,898</td>
<td>-11,848,804</td>
</tr>
</tbody>
</table>


The problem seems not to be the US$ 12 billion trade deficit per se, because Mexico has a trade surplus overall. Actually trade deficit with China and Japan are even larger (US$ -65.1 and US$ -14.4 billion, respectively\(^\text{11}\)). My argument is that the problem lies with the trade composition, which makes trade asymmetries the symptom of a chronic illness of industrial and technological dependence. From 2005 to 2015 the main Mexican export items to Korea were metals and minerals, textiles, chemicals, whereas imports were mostly machinery and electrical equipment, between 50% and 70%, followed by textiles, plastics, and metals around 10% to 20% (tables 2 and 3).\(^\text{12}\) This means that more than 80% is intra-industry trade, consisting in manufactured and capital goods, components and intermediate goods for Korean firms (subsidiaries and suppliers) that have established plants in certain regions of Mexico to assemble final products for export to United States.


\(^\text{12}\) WITS/Comtrade-World Bank, *ibid*. 
What most studies conclude is that the role of the State is a key factor for understanding the differences in such production and trade patterns and the position in the international economic system. The public policies that shape each country’s economic development models are related factors that provide different sets of incentives to private economic organizations: Korean developmental approach fostered national firms and stimulated technological progress through exports of value added goods, while Mexican import substitution and then neoliberal approach also relied on export of manufactured goods by favoring labor advantages, but eventually relinquishing technological and organizational control to foreign private interests. As a consequence, Korean mode of capitalism led to established the production of
technology-driven industrial structure and Mexico’s policy choices conducted to labor-driven economic growth, but with low technology upgrade capacities. This State/policy aspect of both political economies is in my view the original cause of the structural asymmetry between Korea and Mexico, which is publicly recognized with the euphemism of “complementarity”.

The so-called complementarity as the depiction of transpacific relations is framed by a development discourse of comparative advantages and economic integration theories (CEPAL/BID, 2010; Kim, 1998; Meng, 2013; Shixue, 2011). Neoclassical development discourse often implies that economic differences bring dynamism—mostly buttressed by open trade—, because it assumes that economies are always moving towards “superior” stages of production and consumption capacities; thus asymmetries are a temporary and natural quality of interregional relations. In fact, development theories based on comparative advantages approach see nothing wrong with asymmetries as long as they are portrayed as complementarities, which mean an optimal friction-free state of mutual benefit (BID, 2013; Estevadeordal et al., 2015: 7-9; Mesquita Moreira, 2011).

A more critical political economy perspective features the notion of complementarity as a concept that conceals a reality of capitalist competition framed on the international (or regional) division of labor. To keep others from crowding the markets, neoliberal ideas are spread to convince potential rivals against the convenience of seeking industrial policies and protecting infant industries, or by setting leveled trade and investment regimes, as well as restrictive intellectual property international rules. Industrial and trade policies, government procurement, patent flexibility, regulation of foreign investment, and trade barriers, among other developmental measures are all subject of scrutiny and harsh criticism in grounds of its “economic nonsense”, inefficiency, rent seeking, corruption, or unfairness. Leveling the playing field is the favorite task of international organizations and neoliberal epistemic communities, but which ultimately makes grown-ups compete unfairly with infants.

Even international cooperation for development policies and programs or the South-South framework could sometimes have the same effect of neglecting domestic development. By financing and building infrastructure for export platforms, developing capacities to become better workers, though not better scientists, or sponsoring the idea of mutual benefit, shared values of market economy and democracy, might hide the fact that advanced economies and China nowadays achieved their status by not following such prescriptions or letting outsiders gain control over key industries without learning how to do so by themselves. Reading it critically, the concept of complementarity reinforces the static view of
international economic system and that of development, which not necessarily pledges against dependency and hinders emancipation.

By keeping the current state of commercial exchange and investment with Korea justified by the concept of complementarity, it is likely that asymmetry and the technology gap will continue to expand. In such framing, there would be no need to advocate for nurturing infant industries, or include local suppliers in first tiers because Korean networks have already filled those positions, not to mention create production and value chains (or networks) led by national firms. This trend was clear after the business upsurge of China, Japan, and Korea that ignited the commodities boom in the first half of the 2010s, which lifted several Latin American firms, landlords and governments to a sudden wealthy status; in some cases, actually contributed to a temporary market and financial diversification. However, the unexpected boost was not capitalized in upgrading technological capabilities, but strengthened the tendency towards “productive reprimarization” (Bolinaga & Slipak, 2015; Gallagher, Irwin, & Koleski, 2012; Gallagher & Porzecanski, 2009; León Manríquez, 2011).

The use of certain concepts like complementarity for easing economic relations between the two countries is understandable and even needed to set the ideological ground to identify each party’s “logical” role in the structure. Korean government and business networks are meant to provide technology while Mexico should provide market access and labor, because that’s what is good at. Korean capital can settle its manufacturing segments in Mexico without compromising ownership and internalization advantages and remain competitive in the global and US market; Mexico gains jobs. Both parties win for sure, but the cost that Mexico has to bear is politically irrational in the sense of long-term economic development and political strength.

**Korean investment in Mexico**

Before Korea signed an FTA with United States in 2007 (in effect since 2012), Mexico was a logical destination for Korean productive investment. Throughout 1980s and early 1990s, new comers such as LG Electronics (1977) and Samsung (1988) founded their ventures in Mexico, mostly driven by the prospect of resource seeking (cheap labor and raw material) and market access. Later in the 1990s, Mexico became an amicable economic area for resettling firms trying to adjust from the structural changes in Korea. Especially in early 1990s, NAFTA was for the most part the prime reason for engaging in such a new and risky business of investing abroad. Between 1990 and 1995, 70 Korean
firms registered in Mexican soil, but from 1996 to 2000 it soared to 412 new firms and 518 the following five-year period.\textsuperscript{13} Korean investments had no formal protection other than the multilateral agreements, until both governments signed the Reciprocal Promotion and Protection of Investments (RPPI) in 2002.\textsuperscript{14}

As with trade, Korean investment increased steadily, but punctuated by specific events such as POSCO’s establishment of a plant in Tamaulipas in 2008 and the global crisis of 2008-2010 (graph 1). After that, Korean FDI in Mexico showed a steep rise especially along the expectation of Kia’s decision to establish a plant in the Northern border state of Nuevo Leon, which was completed in 2016.\textsuperscript{15} Alongside Kia, several other companies from Hyundai Group such as Hyundai Engineering, Hyundai Steel, Hyundai Glovis, Hyundai Aluminum and the main auto parts and engines supplier Hyundai Mobis, established operations in Nuevo Leon and the neighbor states of Coahuila, Queretaro and San Luis Potosí.


\textsuperscript{15} Between 2014 and 2015, 226 new Korean firms were registered, 130 of which settled in Nuevo Leon (58%) and 82% are directly and indirectly related to Kia’s business, including logistics, construction, infrastructure, technical and scientific consulting auto parts, and, of course, restaurants. See SE - RNIE, \textit{ibid}. 

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Like most FDI in Mexico, Korean firms are attracted by the agglomeration effect of traditional manufacturing regions and corridors. For instance, as graph 2 shows, 99% of Korean FDI is concentrated in three interconnected regions, which are recipients of most FDI that Mexico receives. The states that receive most of Korea’s investment (78%) are Mexico City (1062), Nuevo Leon (198), Baja California (161) and State of Mexico (114).

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16 Japanese FDI in Mexico in the same period was US$ 12,165 million, see CNIE, SE, *op cit.*
It is also noteworthy that most Korean firms operate in the service sector and one third is related to manufacture (graph 3).

Notes: Services includes medical and educational services. Manufacture includes general manufactures, light, heavy and construction. There are only 9 firms on agriculture related business (0.46%). Source: SE- RNIE, *ibid*.
Given that Mexico’s foreign investment attraction policy is based on job creation, then Korea’s contribution to such a goal can be regarded as successful. Most accounts, including the Korean Embassy in Mexico estimates, Korean firms generate around 50 to 55 thousand direct jobs. The largest employers are the big leading corporations and their supply networks. Nonetheless, the expectation that such presence can automatically detonate technology transfers to local firms is still wishful thinking. One reason for skepticism is the fact that Mexico is part of most intellectual property agreements and the IPR protection established in the bilateral RPPI. Another reason is the lack of a large scientific base in Mexico and the low investment in R&D by the private sector relative to Korea (table 4).

Table 4. Korea and Mexico knowledge and scientific base, 2005-2015

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<tr>
<td><strong>Total R&amp;D personnel per million inhabitants (in Full-time equivalents, FTE)</strong></td>
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<tr>
<td>Korea</td>
<td>4,524</td>
<td>4,960</td>
<td>5,589</td>
<td>6,070</td>
<td>6,332</td>
<td>6,829</td>
<td>7,322</td>
<td>7,982</td>
<td>8,054</td>
<td>8,605</td>
<td>8,789</td>
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<tr>
<td>Mexico</td>
<td>763</td>
<td>601</td>
<td>621</td>
<td>656</td>
<td>716</td>
<td>599</td>
<td>610</td>
<td>482</td>
<td>477</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td><strong>Researchers per million inhabitants (FTE)</strong></td>
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<tr>
<td>Korea</td>
<td>3,777</td>
<td>4,175</td>
<td>4,604</td>
<td>4,868</td>
<td>5,001</td>
<td>5,380</td>
<td>5,853</td>
<td>6,362</td>
<td>6,457</td>
<td>6,899</td>
<td>7,087</td>
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<tr>
<td>Mexico</td>
<td>400</td>
<td>326</td>
<td>335</td>
<td>327</td>
<td>368</td>
<td>325</td>
<td>331</td>
<td>238</td>
<td>242</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td><strong>Gross domestic expenditure on Research and Development (GERD) as a percentage of GDP</strong></td>
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<tr>
<td>Korea</td>
<td>2.63</td>
<td>2.83</td>
<td>3.01</td>
<td>3.14</td>
<td>3.30</td>
<td>3.45</td>
<td>3.75</td>
<td>4.02</td>
<td>4.15</td>
<td>4.28</td>
<td>4.23</td>
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<tr>
<td>Mexico</td>
<td>0.40</td>
<td>0.37</td>
<td>0.43</td>
<td>0.47</td>
<td>0.52</td>
<td>0.54</td>
<td>0.51</td>
<td>0.49</td>
<td>0.50</td>
<td>0.54</td>
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As a result, the Mexico’s capacity to register patents is far behind Korea’s capacity, a country ranked in the 5th place among world’s most prolific patent applicants (table 5).
Table 5. Patent applications, 2005-2015 (residents + abroad, including regional)

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</thead>
<tbody>
<tr>
<td>Korea</td>
<td>162,694</td>
<td>173,301</td>
<td>176,336</td>
<td>170,233</td>
<td>178,654</td>
<td>187,747</td>
<td>203,836</td>
<td>223,527</td>
<td>230,553</td>
<td>238,015</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>927</td>
<td>1,051</td>
<td>1,173</td>
<td>1,237</td>
<td>1,341</td>
<td>1,638</td>
<td>1,924</td>
<td>2,219</td>
<td>2,139</td>
<td>2,187</td>
<td>2,508</td>
</tr>
</tbody>
</table>


These differences in technological conditions and capabilities in part explain the industrial gap between Mexico and Korea and consequently the trade structure. For the time being, and as long as Mexico keeps this path, the country will be in apparent competitive disadvantage; furthermore, it cannot expect Korean transnational corporations –and for the matter, any TNCs– and their supplier networks substitute the role of the State in formulating and implementing an appropriate national knowledge and innovation system through education and science and technology policies.

One last characteristic of Korean firms in Mexico I would like to refer to is the nature of their business networks. As Yoon (2007: 5) indicates, the largest amount (not number of cases) of Korean outward investment is done by large enterprises. Regardless of which of the leading company is in charge (Samsung, Hyundai, LG, Kia, etc.), Korean networks are closed to outsiders in most of the first-tier levels of the production process (López Aymes & Salas-Porras, forthcoming). Korean suppliers are commonly subsidiaries, affiliates and other members of the business group or have had long history of relational subcontracting (López Aymes & Salas-Porras, 2012). This discriminatory pattern is heightened when domestic regulation does not require the integration of local suppliers the network.

Korean firms’ globalization started with a vertical and closed intra-firm cross-border system in which they encourage traditional suppliers to go abroad with them, regularly promising to absorb most of their production during the first critical years. This practice leads to the creation of their own clusters in foreign countries (see Debaere, Lee, & Paik, 2009; Lee, 1994; López Aymes & Salas-Porras, 2012). Although not exclusively from Korean firms, another feature is the prominent role of ownership in the internationalization process. This means the preference for full or significant ownership control of operations (Debaere et al., 2009; Kwon, Rhee, & Suh, 2004: 432), although this pattern depends on local regulations or necessities of the firm (financial and/or strategic for technology absorption). In this way, Korean firms’ internationalization is embedded into the centralized and vertical network of a typical chaebol governance structure (controlled from Korea and mostly by Korean ownership). This structure is effective when it comes to safeguard technology, management’s swift execution and adaptation
capabilities, and it’s reinforced by consistently recruiting senior executives from Korean origin. In such a network governance structure and recruitment practices, local suppliers in Mexico are frequently limited to follow technical specifications, procure low-tech inputs and benefit from a relatively secure buyer (López Aymes & Salas-Porras, 2012). Notwithstanding this practice, Korean firms still serve the employment goals of the Mexican government. However, the high skilled jobs are limited and no R&D labs are part of the network; as a result, there are constricted chances to develop and accumulate knowledge for any significant use and benefit for national or local economies.

Cooperation

The increase of bilateral trade and Korean investment has also augmented the complexity of transactions, thus created the necessity to produce new cooperation mechanisms to govern such relationship. Mexico and Korea have a fairly large network of trade, investment and services agreements, as well as fiscal, financial, transportation, telecom, tourism, and customs cooperation arrangements.17 In 2001, the Korean and Mexican government established the Mexico-Korea 21st Century Commission “mandated to study the medium and long-term outlook for bilateral relations” which sought the conformation of a Comprehensive Strategic Partnership between the two countries (Commission, 2005). The final report was delivered in 2005, a significant year that marks the 100th anniversary of the first Korean migration to Mexico. Since then several memorandums of understanding have been signed and attempts to negotiate a bilateral FTA took a notch higher, mostly from the Korean side (López Aymes, 2011).

In 2016, former president Park visited Mexico and signed 12 economic and trade cooperation MOUs in areas such as pharmaceutical, online business, infrastructure, and energy, among others. As it has happened in previous presidential visits, the Korea Eximbank granted an import credit to its Mexican peer (Bancomext) to facilitate the acquisition of Korean goods and signed a Cooperation Agreement with Comisión Federal de Electricidad (CFE) “in which the two parties agreed on Korea Eximbank's participation in CFE financings up to the amount of USD 1 billion until 2018 and exchanging information on projects tendered by CFE.” These financial cooperation deals are worth US$ 1.2 billion and Korea Eximbank expects that they “will facilitate Korean companies' entry into the Mexican power infrastructure market.” A previous US$ 2 billion credit line was signed with Pemex in 2013 under the

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17 Five years after establishing diplomatic relations in 1962, both countries formally started economic relations by signing a trade agreement (1966). No significant economic agreements were signed after that until late 1980s.
Framework Cooperation Agreement. The deals cover various industries such as manufacturing, power, oil and gas, infrastructure, etc. which will increase Korean companies' business operations in Mexico.  

Conclusions

In the last couple of decades, Latin America has been expanding its economic and cooperation relations with partners other than European and North American. There may be several reasons for that and certainly different paths according to the political/ideological bloc to which each party belongs to. One group may look for opening relations to counterbalance the United States’ power in the region and the negative aspects of capitalism it seemly represents, while the other appears to be convinced of the neoliberal notion of open regionalism, more in tune with economic integration led by market forces. Both perspectives are in tension and still lacking a middle ground. Mexico belongs to the second group, so the idea of complementarity fits well with market economy which supports comparative and competitive advantages, but leaves aside developmental role of the State. In other words, asymmetric economic relations are normalized and technological upgrade is the result of interaction with market forces rather than a policy outcome.

Despite the openness of individual countries in Latin America and the efforts of forming attractive subregional cooperation mechanisms such as the Pacific Alliance, Korean economic and business interests are still more focused on Southeast Asia. This is in part due to geographic closeness and also to regional integration policies which seem to be more attractive to the establishment and articulation of business networks. Therefore, international cooperation programs and funding are larger in that region than in Latin America.

Korea and Mexico economic and cooperation relations have developed in these regional political economy contexts. Notwithstanding Korea’s preference towards SE Asia, Mexico and Brazil have been targeted as the principal Latin American partners, even though it does not have trade agreements with any of them. Why Mexico? Despite its uneven growth, both economies have become closer and integrated.

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As it was shown in this paper, bilateral growth in trade volumes, value and composition, as well as Korea’s direct investment have grown dramatically compared to their amounts registered two or three decades ago. However, these relations are asymmetric and Mexico plays the peripheral role. The shape of this structure has been labeled as complementary and reflects two different strategies to integrate to the international capitalist system; each resulted from different development approaches: Korea seek to foster national industrial capital and firms to export and Mexico, who dropped such a path in 1980s, to seek economic growth by becoming an export platform for foreign manufacturers.

Korea’s government and business groups and their networks have developed substantial financial and technological capacities, which have been instrumental in the process of strengthening their position and influence in Latin America in order to compete more effectively against China and Japan for the US market. Despite the protectionism and uncertainties brought about by the current Trump’s government, US market is still a primary goal for Korean firms, and Mexico’s competitive and geographic advantages will apparently remain. How the Mexican economy, government and firms take advantage of this context remains to be seen, although no significant changes towards emancipation are at sight, all the contrary. So much for complementarity when in fact means dependency.

References


