

The Analysis Bilateral Relationships between Paraguay and Republic of Korea

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Introduction: Background of Bilateral Relationships

The establishment of diplomatic relations between South Korea and Paraguay dates from June 15th 1962 in agreement with official information provided by the Embassy of South Korea in Paraguay.

Positioned in the tenth place in world economy, the Asian nation continues to expand their commercial portfolio and insertion to the world. Although their principal economic partners in the region are Mexico with 43% of the total in purchases in the year 2019 and Brazil with 16%, South Korea continues efforts to establish agreements with the countries in the Pacific Alliance, Center American and MERCOSUR.

It is in this sense, after the impasse in the negotiations started in 2018 and renewed after the sanitary crisis of Coronavirus, during august of the current year, the seventh round of negotiations of free trade agreement between South Korea and MERCOSUR countries (Argentina, Brazil, Paraguay and Uruguay, mostly) took place. They represent 68% of the regional economy and 70% of the South American population (Agencia de Noticias YONHAP, 2021).

The accelerated growth and development of Asian countries and the speedy economic recovery after the pandemic has made the help possible for underdeveloped countries. By means of capital injection, innovation and technology, Korea continues cooperating with its South American peers. According to data from Economy and Finance of Korea, 53 million dollars were destined to Central America and South America for strengthening of the health care system. Paraguay alone has received 50 million dollars in the form of joint finance between the Inter-American Development Bank for economic development and for the struggle against Covid – 19 and the strengthening health care system, also 3 million directed towards Uruguay and Central America (The Korea Herald, 2021).

Building on the strengths of Korea, from its own experiences of growth and development, the Korean Government supports Paraguay through the “*Country Partnership Strategy*”¹ for the strengthening of political, diplomatic and commercial relations between both nations. This

¹ Estrategia de Alianza País de la República de Corea con la República del Paraguay 2016-2020.

support for nine (9) consecutive years contributes to reducing the development gaps existing in Paraguay in matters of health care, infrastructure and digital inequality. The areas contemplated by these projects, reflect the crucial needs of the national development policy in Paraguay and the vast growth experience in the Asian nation (Official Development Assistance, 2021).

Paraguay still has big challenges to achieve a major insertion into the international market and to achieve better competitiveness. Korea is a strategic partner to Paraguay that seeks to correct these weaknesses with prospects of growth also inclusive and sustainable development. Paraguay is considered throughout the region as a favorable environment for business and investment opportunities. It has several advantages such as natural resources, low tax burden, macroeconomic stability, and current demographic bonus to be considered by Korean investors.

Trade and Investment Partnership between Paraguay and South Korea

In relation to the Paraguayan trade balance with respect to the Korean one, it remains with a deficit trend of 127.1 million USD for the year 2020. Paraguay exports to the Asian country are based mainly on agricultural products and waste raw materials. In previous years, in the 90s and early 2000s, the main exported products were cotton, wood, and leather.

Currently, according to data provided by the Central Bank of Paraguay, the most exported product from Paraguay to Korea is corn, with a participation of 98% (82,657.1 in thousands of USD FOB) of exports in 2019 and 86.5% (21,459.1 in thousands of USD FOB) in 2020. Other products that stand out are aluminum and copper waste and scrap, followed by and undeveined tobacco and tobacco waste. The total export in both years (2019-2020) amounts to the sum of 109,129.6 million USD FOB. Regarding the products exported by Korea to Paraguay are: automobiles and other vehicles for the transportation of people and merchandise, devices for cutting or connecting electrical circuits, aluminum sheets and strips, tobacco with or without deveining, and sugar cane (Ministerio de Hacienda, 2021)².

Road to the Free Trade Agreement between South Korea and MERCOSUR

In 2005, the first feasibility studies of a free trade agreement started with MERCOSUR. Paraguay is one of the founding parts of MERCOSUR and signatories of the Asuncion Treaty like Argentina, Brazil, and Uruguay. MERCOSUR represents 70% of the population of South America and 68% of the regional gross domestic product, It is in this sense that Korea continues to make efforts to insert the local market through regional blocs such as MERCOSUR, and also the Pacific Alliance made up of Peru, Mexico, Chile and Colombia.

² Ministry of Finance

In August 2021, the sixth and seventh round of negotiations were held for the realization of the agreement. The future agreement will include chapters on goods, services, government purchases, intellectual property, electronic commerce, investments, sustainable development and competition, among others.

For the MERCOSUR countries, the new commercial ties with the Asian country imply new marketing opportunities for both agricultural products and new products in the East, in the same way, it opens a window of possibilities to attract Asian investment to the region. Korea has become one of the economic powers of Asia Pacific, and has an extensive network of free trade agreements with more than 52 countries.

Despite the health crisis and the fall of more than 40% of investments in Latin America and the Caribbean as a result of the pandemic, Paraguay was one of the 5 countries that received more foreign direct investment than in 2019. It received US \$ 568 million, about US \$ 46 million more than in 2019, thanks to the announcement of a mega-investment in Paraguay for an amount of 3,200 million dollars of Swedish investment by Girindus Investments AB (ECLA, 2021).

According to the report of the Department of Statistics of the External Sector of the Central Bank of Paraguay, it is worth noting the increase in the net flows of Direct Investment in Communications, Financial Intermediation, Common Metals and Meat Production. As can be seen in the following graph, in recent years, Paraguay has received direct investment from a growing number of countries. Currently, investors come mainly from residents of Spain, the United States, the Netherlands and Brazil (BCP, 2021).

In recent years, Paraguay has adopted trade and diversification of its export base as a policy for growth and potential development as an engine of economic growth, increasingly creating an environment conducive to business and investment within the country.

The reason why Paraguay has broad advantages for investment is due to measures adopted for institutional strengthening through various laws and regimes that provide broad benefits to investors, trade policies and fiscal reforms that included improvements to the structure and administration of taxes, credit programs for specific sectors, special regimes for free zone exports, raw materials and maquiladora regimes; tax incentives for industrial investment (Law 60/90 of investments, Assembly plant Law (Ley de Maquila) National Automotive Policy (NAP) that grants tax benefits to stimulate the manufacture and / or assembly of motorized and non-motorized vehicles, auto parts and auto parts in general, among others (REDIEX- MIC, 2019).

Conclusions

As we can see, there is a long tradition of friendship and mutual cooperation between the Republic of Korea and the Republic of Paraguay. Friendship, democracy, cooperation are values by which the relationship between both States is governed.

Cooperation plays a substantial role in the relationship between South Korea and Paraguay, and is manifested through agreements that promote trust and the strengthening of reciprocal relations through large-scale projects and investment in strategic sectors such as healthcare, transportation, urban and rural development, and information and communication technology. A clear example of infrastructure projects are the country's public hospitals and highways, as well as the future Cercanía Asunción - Ypacaraí Train with an investment of 400 million dollars.

The Country Partnership Strategy of the Government of Korea towards Paraguay, aims to contribute, as described in the National Development Plan of Paraguay 2013-2030, towards the construction of a transparent, open and sustainable democratic nation with a competitiveness based on an economy of knowledge, and the improvement of social development in South America.

On the other hand, the Koreans in Paraguay have contributed enormously not only to the dissemination of culture, but have also contributed with their diligence to national development, we can mention as an example the Korean farmers that satisfy 30% of the egg consumption market in Paraguay. A well-known local brand is NutriHuevos³, a leader in egg technology production. Also in the manufacturing sector, they stand out in the manufacture of clothing, school supplies, food and non-alcoholic beverages; the paper and plastic industry, among others.

We can also point out another example of a young Korean migrant textile company in the country, Kim's Towel⁴, which is the first towel factory in the country where the raw material and labor is clearly Paraguayan and "was born from the merger of Paraguayan businessmen and Koreans, seeing the opportunity of the national market where all the towels were imported". These few examples highlight the opportunities that exist in Paraguay.

Regarding the commercial flow between both countries, although the volume of commercial exchange between Korea and Paraguay reaches approximately 200 million dollars per year, it is still low, however and in accordance with the expectations of both governments, with the signing of the Trade Agreement between Korea and MERCOSUR, it is expected that trade and investment

³ <https://nutrihuevos.com.py/>

⁴ <https://kimstowel.com/la-empresa>

between both countries will increase significantly as indicated by the antecedent of the Chilean experience (Embassy of the Republic of Korea in Paraguay, 2019).

As in the entire Latin American and Caribbean region, in Paraguay the trade flow with Korea also manifests itself in a trade deficit, with negative balances. Trade between Korea and Latin America is intra-industrial, due to the marked commercial specialization of both parties, in the case of Latin America, the production of primary goods and manufactures that require the use of natural resources and in the case of Korea, that of highly technologized manufactured goods and services (Estrada Lopez & Landa Diaz 2012). However, in the long term both economies could be complementary considering that in the coming decades there could be a high demand of food production and considering that Latin America has great agricultural potential, water resources, and biodiversity (FAO, 2017)

One of the existing physical barriers in terms of the commercialization of products between Korea and MERCOSUR continues to be the high logistics costs due to geographical distance, however the pandemic has accelerated the practice of e-commerce, and Korea is an example for Paraguay and the region in scientific and technological advance that must be considered. In October 2019, the Korean government announced the *"Digital Trade Infrastructure Establishment Plan"* for the export of the *"Korean Digital Trade System"* to other countries with digital platforms focused on different audiences, segments and sectors, supporting the private sector for the increased competitiveness and exports through the "internationalization and digitization" of micro-medium and small companies (SME's) (Lee, J. 2021)

These good practices of Korea to support SME's should be taken into account in the region to favor not only users reducing time and administrative costs, but also companies with the lowest logistics costs, helping to increase commercial transactions.

South Korea's cooperation policy continues to emphasize economic partnerships, and identifies critical areas by expanding its agenda towards the health sector, climate change, education and human resource development, and digitization (Donor Track, 2021). This means a great opportunity for Latin America and for Paraguay that must be taken into account by the governments, civil society and the private sector of these countries, even more so taking care of all the expertise of South Korea, a leading country in innovation and technology ("South Korea, Singapore lead world in innovation; US drops out of top 10", 2021).

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