The Korea- Africa Partnership: Beyond Trade and Investment

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1 – Introduction

Africa’s economic relationships with Korea are increasing rapidly and they are drawing the attention of Korean policymakers and business houses. These relations extend beyond trade and investment and involve also knowledge sharing and policy dialogue. In this context, the Korean Government, who hosted the Seoul G20 summit in 2010, has actively reached out to Africa to help increase awareness of Africa’s development interests.

This brief examines the major trends in trade, investment and aid flows between Korea and Africa. It highlights policy implications for African countries in view of the recent developments in this economic relationship.

2 – Trend of trade between Korea and Africa

The volume of trade between Africa and Korea has increased rapidly, reaching $13.9 billion in 2009, up from $6.4 billion in 2000 (Table 1). However, in relative terms, Africa remains a marginal trade partner for Korea. Africa accounts for only 3.3% of total Korean exports and 1% of imports. While the share of the continent in Korean exports has steadily increased since 2003, Africa’s share in Korean imports has declined after rising to about 2% in 2006 (figure 1). Overall, trade flows are in favour of Korea, with a trade surplus of USD 7 billion in 2009. Nevertheless, recent trade trends between Korea and Africa are encouraging, with a rapid increase in exports and imports.

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<th>Table 1 Trend of the trade between Korea and Africa</th>
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<td>Total Korean exports to Africa (US $ mn)</td>
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<td>Share of Africa in Korean exports (%)</td>
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<td>Total Korean imports from Africa (US $ mn)</td>
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<td>Share of Africa in Korean imports (%)</td>
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<td>Total trade Korea-Africa (exports+imports) (US $ mn)</td>
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<td>Share of Korea in total Africa’s trade (%)</td>
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Source: IMF Direction of Trade (2010).

* The brief was written when the author was with the Development Research Department of the AfDB as Principal Research Economist.
As depicted in Figure 2, Korean exports to Africa are concentrated in a few countries. Indeed in 2009, almost 90% of Korean exports were destined for eight countries on the continent – Liberia (38%), Egypt (12%), Libya (10%), Algeria (8%), South Africa (8%), Nigeria (6%), Angola (3%), Morocco (2%) and Sudan (2%). It should be noted however that Liberia’s large share of trade with Korea includes vessels registered in that country but not owned by Liberians.

When Liberia is excluded, the other seven countries represent about 50% of the total Korean exports. These exports are also dominated by machinery and transport equipment (e.g., vehicles and vessels), manufacturing goods (e.g., television and cellular phone) and chemical products (Figure 3).
Similarly, more than 90% of African export to Korea originated from 10 countries: South Africa (26%), Equatorial Guinea (16%), Algeria (15%), Egypt (10%), Zambia (8%), Nigeria (5%) and Gabon (5%) (Figure 4).

Figure 5 demonstrates that primary commodities constitute the largest share of the exports from Africa. In particular, crude oil accounts for over 50% of the total exports from Africa to Korea.

“…more that 90% of African export to Korea originated from 10 countries…”

“Primary commodities such as crude oil constitute the largest share of the exports from Africa.”
3 – Trend of Korean Investments in Africa

Korea’s investment into Africa has steadily increased as Figure 6 illustrates. Korean FDI to Africa, which was USD 16.9 million in 2001, recorded USD 373.6 million in 2009. Considering the potential of the African market, however, Korean investments in Africa still remain marginal. Africa’s share in total Korean outward FDI flows that had peaked up to 2.8% for 1990 – 1994, dropped to 1.1% for 2000 – 2004 and slightly rebounded to 1.5% for 2005 – 2009 (Figure 7). Asia, North America and Europe are the major destinations of Korean outward FDI, while Africa, the Middle East and Oceania have marginal shares (Figure 8).

“Asia, North America and Europe are the major destinations of Korean outward FDI, while Africa, the Middle East and Oceania have marginal shares...”
Figure 9 shows that Korea’s outward FDI is also concentrated in a few countries: Madagascar (33%), Nigeria (18.9%), Libya (18%), South Africa (9.1%), Mauritius (8.4%), Egypt (3.5%), Ghana (2.4%) and Angola (2.2%).

These eight countries account for over 95% of total Korean investments in Africa for 2003-2008.

As with Chinese investments, Korean investment flows into these countries are into natural resource projects, such as nickel in Madagascar and crude oil in Nigeria. Notably, 77% and 8.1% of total these investments went to the mining and the retail sectors, respectively. The construction, manufacturing and infrastructure (electricity, gas and water) sectors received less than 2% each (Figure 10).
As depicted in Figure 11, the objectives of Korean investments into Africa have changed over time. For 1986 – 1988, almost 50% of total Korean investments came into the continent to search for natural resources. During the period of 1986 – 1988, local market access was the most important reason for Korean investments into Africa and then, natural resources of Africa became again the most dominant driver for 2006 – 2008. The cheap labor of Africa, which attracted about 5% of total Korean investments for 1996-1998, represented mere less than 1% for 2006-2008.
“Africa is the second largest and one of the fastest growing recipients of Korea’s ODA.”

Figure 11 Objectives of Korean investments into Africa

Source: Korea EXIM bank, 2010 and author’s calculation.

4 – Trend of Korea’s ODA for Africa

Africa is the second largest and one of the fastest growing recipients of Korea’s ODA. Since 2005 Korea’s aid to Africa has continuously increased, rising to a record USD 95.8 million in 2008. The share of aid to Africa among total Korean ODA, which fell to 1% until 2004, has sharply increased since 2005, reaching 18.4 percent in 2008 (Figure 12).

“Recently, social infrastructure such as education, health and water supply and sanitation has received an increased attention...”

Figure 12 Trend of Korean Bilateral ODA for Africa for 2000-2008


In the 1990s, Korean ODA was concentrated in economic infrastructure such as transportation and communication, which accounted for over 70% of total bilateral ODA. Recently, social infrastructure such as education, health and water supply and sanitation has received increased attention (Figure 13).
There are prospects for increased Korean aid to Africa following its announcement in November 2009 that it would double its official development aid to Africa by 2012. This commitment was reaffirmed during the KOAFEC (Korea Africa Economic Cooperation) ministerial conferences in Seoul in September 2010 by the Korean government’s announcement on an increase in the Economic Development and Cooperation Fund (EDCF) by almost twofold to USD 1.1 billion in the next five years, compared to USD 590 million for 2005 - 2009. These moves could be a positive sign for increases in contributions by Korea to the Bank, including the full implementation of commitment on an about US$ 16 million grant for the knowledge sharing for 2009- 2011.

5 – Implications for Africa

Africa’s economic partnerships with South Korea are strengthening and new opportunities are emerging. Africa’s economic growth presents opportunities for closer business ties with South Korea. However there is need for strategic reorientation of the current relationships to maximize their potential:

- Africa’s large potential in natural resources will continue to attract investments from Korea, which strives for the diversification of its energy sources. Africa could benefit from Korea’s active engagement in the mining industry, particularly through financing and technology transfer.

- Despite the abundance of Africa’s natural resources, the continent needs to move up the value chain if it is to achieve strong, sustainable and shared growth. This will require investment flows into manufacturing activities that present the greatest potential for sectoral linkages and jobs creation. Korea has strong manufacturing industries which are expanding to foreign countries such as China and Vietnam, largely driven by cheap labor and market access. Some countries in Africa may provide a good location for such manufacturing companies.

- Korea is also a good partner for Africa in infrastructure development. Korea has demonstrated strengths in civil engineering and construction as has been the case in the Middle East. The Korean experiences and capabilities in ICT infrastructure may be used in connecting Africa and allowing growth of ICT industry on the continent.

- Furthermore, Africa can benefit from knowledge sharing on policy and institutional issues through increased dialogue and cooperation.