

The Present Situation and Prospect of Qingdao-Korea Economic and Trade Relations

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I. Review and Present Situation

1. Bilateral trade: The economic and trade cooperation between Qingdao and Korea has resulted in remarkable achievements in recent years. Korea has been at the top among Qingdao's trade partners for consecutive 8 years. The trade between Qingdao and Korea could be traced back to the end of the 1980s. The bilateral trade has enjoyed a rapid growth, especially after the establishment of the diplomatic relations between the two nations in 1992. From US\$ 82 million in 1992, the bilateral trade volumes reached to US\$2.834 billion in the year 2000, with an average annual increase of 55.7%. In view of the relevant growth, we can see that the growth rate of export from Qingdao to Korea is visibly slower than that of the export from Korea to Qingdao. According to the customs' statistics, Qingdao has kept trade deficit from 1993 to 2000 and the deficit shows an expanding trend. The grand total of bilateral trade in last 12 years is US\$13.97 billion, among which US\$ 4.13 billion are for the export from Qingdao to Korea and US\$9.84 billion are for the export from Korea to Qingdao.

2. Capital flow: The FDI from Korea to Qingdao grows rapidly. Korean investment has increased from US\$3.45 million in 1989 to US\$ 239 million in 1995 and became the largest foreign investment among the nations and regions invested in Qingdao. During the last 12 years, the number of projects and the volume of contractual investment by Korea had accumulated to 2,248 and US\$ 3.035 billion with the actual investment of US\$2.042 billion. The contractual sum and actual investment sum account for respective 15% and 18.8% of the total investment from Korea to China. The investment had served to drive up the bilateral trade. The export and import volumes of Korea-invested companies in Qingdao has contributed 90% to the total of the trade between the two places..

II. Feature and Trend

1. The FDI from Korea in Qingdao has effectively brought forth the rapid growth of bilateral trade. During the last 12 years, any increase or decrease of Korean FDI in Qingdao would affect the bilateral trade volumes, either appeared in the same year or in the following year. The regression analysis shows that the trade volumes between the two places are greatly interrelated with the volumes of Korean FDI in Qingdao.

2. Korea has become one of the most important long-term trade counterparts for Qingdao while Qingdao is increasingly to be an important trade partner for Korea. In the mid-1990s, the bilateral trade volumes accounted for a proportion of 1/3 of the total trade volumes for Qingdao City. The percentage has declined slightly since 1998. Despite of this, Qingdao-Korea bilateral trade still remains in a higher proportion comparing to the trade with other nations and regions.

3. Bilateral trade has such characteristics as complementarity and segmentation Among the items exported to Korea from Qingdao, a large proportion are garments, cloth wears and aquatic products while Korea exported textile products, leather wear, electronics and machinery products to Qingdao.

4. Processing trade is the main form in bilateral trade. In 2000 processing trade made up 86% of the bilateral trade between Qingdao and Korea which is the direct result of the low rate of technology transfer and low input on R&D by Korean FDI in Qingdao.

5. Korean FDI has relatively low economic contribution rate. The Korean invested companies are usually high in investment and large employment but low in tax contribution and economic returns. The sales revenue of Korea-invested companies is 34%-40% of the total of all foreign-invested companies in Qingdao. But the tax paid in at the same time is only 7%-14% of the total.

6. The Korean FDI per project was larger than average but shrank in recent years while the contract-fulfilling rate is still higher than the average level. Between 1993 to 1994, the average size of Korean FDI per project was larger than average. But since 1995, the situation reversed--the size of Korea investment per project was half the size of average FDI in Qingdao. The figure is only 1/3 for some years. Yet, the contract fulfilling level of Korea investment is 67.3%, 18.5 percent higher than that of the other foreign investment and enjoyed a high credibility on the fulfillment of the signed contracts and agreements.

III. Problems and Prospect

We should pay attention to resolve some key problems existed in Qingdao-Korea economic and trade relations, which include. (1) the large trade deficit and over-dependence on processing trade; (2) the irregular trade structures of the two parties; (3) the fluctuation of the exchange rate of Korean currency and (4) the decrease of Korean FDI in Qingdao (the Korean FDI in Qingdao dropped from 6.7% of its total FDI in the middle of the 1990s to 5% at present).

Despite of such difficulties and problems, Qingdao-Korea bilateral trade and economic relations will have an overall bright prospect in a long run.

Trade: After China's entry into WTO, both nations will reduce their export cost accordingly. A regression analysis shows that the tariff reduction itself can bring a 3% increase on the import to Qingdao from Korea. At the same time, with the comparative advantages, the potentials for further development and the bright prospect of the exportable products, Qingdao city can keep higher growth speed and market share in its trade with other countries and regions.

FDI: With further opening of its market, the comparative advantage of Qingdao City will play a more important role in promoting trade and FDI. The size and structure of the Korean manufactures migrating into the low cost countries and regions will change accordingly. As the opening up of China's service industries is still in its trial and experimental phase and the comparative advantage in its manufacture industry is more than that of other industries, the migration of Korean industries to Qingdao will mainly be in the manufacturing filed. The further opening up of the service industry in Qingdao will for sure lead to a rapid growth of Korean FDI in this area in the city.

Resume

Le Corée du Sud est un des partenaires importants de la coopération économique de la ville de Qingdao et joue un rôle déterminant pour le développement économique de Qingdao qui se caractérise par l'ouverture vers l'extérieur. La coopération économique entre les 2 côtés a un grand potentiel.