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# South Korea-GCC Economic Relations: An Overview

**Mohammed Turki Al-Sudairi**

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# South Korea-GCC Economic Relations: An Overview

Mohammed Turki Al-Sudairi\*

The Republic of Korea (ROK, also known as South Korea) maintains a strong and increasingly multi-faceted, interdependent economic relationship with the GCC countries that dates back to at least the early 1970s when Korean firms first got the contracts for some of the Gulf's early infrastructure projects during the "First Oil Boom."<sup>1</sup> The economic take-off experienced by both regions since then has allowed for a new synergy to emerge, mostly based on the twin pillars of energy and technology transfer. As of 2011, the volume of bilateral trade has reached an all-time high of \$112.7 billion, up from \$61.5 billion in 2009, making the GCC South Korea's second largest trading partner following China.<sup>2</sup> Trade with South Korea constituted around 8 percent of all GCC global trade, thus making it the region's fifth most important trading partner.<sup>3</sup> South Korea's trade with the GCC acquires added significance when we take into account that nearly half of GCC

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\* Mohammed Al-Sudairi is a graduate of Georgetown University's School of Foreign Service in Qatar with a degree in International Politics. He is currently in Beijing studying Chinese and preparing for his postgraduate studies focusing on Sino-Arab relations.

1. According to the Korean Ministry of Foreign Affairs and Trade, diplomatic relations were established with Saudi Arabia in 1961, Oman in 1974, Qatar in 1974, Bahrain in 1976, Kuwait in 1979, and finally with the UAE in 1980. Source: <http://www.mofat.go.kr/ENG/main/index.jsp>
2. According to the Korean Ministry of Foreign Affairs and Trade Statistics available at: [http://www.mofat.go.kr/webmodule/htsboard/template/read/engreadboard.jsp?typeID=12&cboardid=8114&seqno=310963&c=&t=&pagenum=1&tableName=TYPE\\_ENGLISH&pc=&dc=&wc=&du=&vu=&iu=&du](http://www.mofat.go.kr/webmodule/htsboard/template/read/engreadboard.jsp?typeID=12&cboardid=8114&seqno=310963&c=&t=&pagenum=1&tableName=TYPE_ENGLISH&pc=&dc=&wc=&du=&vu=&iu=&du)
3. "GCC Trade Hits New Records as Asia Rises in Prominence," Qatar National Bank, March 22, 2012, [www.qnb.com.qa/qnbfirst/inner.jsp?pagetype=news&page=QNBArchiveNewsConv&lang=en&id=1332400967225](http://www.qnb.com.qa/qnbfirst/inner.jsp?pagetype=news&page=QNBArchiveNewsConv&lang=en&id=1332400967225) (accessed September 5, 2012).

trade surpluses in the years 2009 to 2011 have come from the combined trade of Japan and South Korea alone.<sup>4</sup>

Considering South Korea's growing importance to the economic well-being of the Gulf, as well as its unprecedented involvement in non-traditional ventures such as the nuclear energy projects in both the UAE and Saudi Arabia, a general overview of the state of South Korea-GCC economic relations is warranted. This paper will analyze different aspects of the bilateral relationship from a macro perspective examining both its energy and non-energy dimensions. It is hoped that this paper will serve as a basic primer highlighting the scope and intensity of South Korea-GCC linkages and how they have evolved as a whole.

## Energy-Based Economic Engagement

### *Petroleum*

According to the US Energy Information Administration's "Country Analysis Brief," South Korea has maintained a relatively stable demand for oil since the 1990s hovering at around 2 million bpd.<sup>5</sup> Given the absence of any local sources of energy, South Korea, much like Japan, depends heavily on oil imports for both internal domestic consumption and industrial production. As of 2010, South Korea imported some 2.2 million bpd, of which 61 percent was sourced back to the GCC – Saudi Arabia led with 28 percent, followed by the UAE with 13 percent, Kuwait with 12 percent, and finally Qatar with 8 percent.<sup>6</sup> As of 2011, a Reuters report claimed that South Korea's oil demand rose to 2.54 million bpd, with Saudi Arabia alone accounting for nearly 31.4 percent of all oil imports.<sup>7</sup> The same report mentioned that 87 percent of South Korea's oil came from the Middle East with Iran accounting for some 9 percent of overall imports. Since then, the Iranian share may have decreased in light of recent events involving South Korea's decision to join in the US sanctions against the country. This may have precipitated an overall increase of the GCC percentage as throughout 2011 and 2012, and particularly during President Lee Myung-bak's state visits, South Korea managed to solicit several pledges from Saudi Arabia, the UAE, and even Oman to cover any import gaps that could emerge as a result of

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4. Ibid.

5. EIA, "Country Analysis Brief - Korea," as of October 11, 2011, available at: [http://www.eia.gov/EMEU/cabs/South\\_Korea/pdf.pdf](http://www.eia.gov/EMEU/cabs/South_Korea/pdf.pdf)

6. Please note that if one chooses to include Iraq and Iran, the percentage rises to 74.

7. Reuters, "S. Korea's Lee To Start Middle East Crude Talks Tuesday," February 6, 2012.

South Korea's participation in the sanctions.<sup>8</sup> Notwithstanding recent attempts on the part of South Korea to resume oil imports from Iran in July-August of 2012, the volume of crude supply from Iran will not likely approach its pre-sanctions level.<sup>9</sup> This suggests that the GCC is at present probably the source of over 75 percent of all South Korean oil imports.<sup>10</sup>

During this same period, South Korea concluded several major deals with the GCC guaranteeing the country long-term access to crude oil. Under an MoU signed in March 2011 between the Korea National Oil Corp (KNOC) and the Abu Dhabi National Oil Company (ADNOC), KNOC was granted access to over 1 billion recoverable barrels of oil found in the Emirate.<sup>11</sup> Another agreement was also reached with the UAE permitting South Korea to create a 6 million barrel strategic reserve drawn from Abu Dhabi crude. These agreements paved the way for the finalization a deal between a South Korean consortium led by the Korean National Oil Company (KNOC) and the Abu Dhabi National Oil Company (ADNOC) in March 2012 for an estimated \$5 billion 30-year concession including three onshore and offshore oil drilling areas in Tufala with a combined estimated reserve of 570 million barrels.<sup>12</sup> According to various news reports, the Korean consortium was granted 40 percent of the stake and was allowed to retain the right to import 100 percent of all oil produced if disruptions emerged in global supply. When completed in 2014, the concession is expected to have a daily production capacity of around 43,000 bpd. In addition to these UAE deals, S-Oil, a Korean refiner with ties to

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8. BBC, "Iran Oil Sanctions Divide Asia's Four Largest Economies," January 15, 2012; Bloomberg, "South Korea Seeks Omani Cooperation if Energy Supply Disrupted," January 15, 2012.
  9. Patrick Osgood, "South Korea Resumes Iran Oil Imports," *Arabian Oil and Gas*, August 13, 2012, <http://www.arabianoilandgas.com/article-10568-south-korea-resumes-iran-oil-imports/> (accessed September 10, 2012).
  10. The Korean Ministry of Foreign Affairs and Trade says that in 2011 its Middle Eastern energy imports amounted to 86.9 percent of crude oil and 48.2 percent of natural gas. Unfortunately, there is no breakdown of the Middle Eastern countries in question. Source: [http://www.mofat.go.kr/ENG/countries/middleeast/local/20110915/1\\_25194.jsp?menu=m\\_30\\_50\\_20&tabmenu=t\\_5](http://www.mofat.go.kr/ENG/countries/middleeast/local/20110915/1_25194.jsp?menu=m_30_50_20&tabmenu=t_5)
  11. Reuters, "S. Korea Secures Abu Dhabi Oil Deal," *Gulf News*, March 14, 2011, <http://gulfnews.com/business/oil-gas/s-korea-secures-abu-dhabi-oil-deal-1.776166> (accessed September 10, 2012).
  12. See Reuters, "Korea Claims 40% Stake in UAE Oil Fields," *Arabian Business*, March 5, 2012, [www.arabianbusiness.com/s-korea-claims-40-stake-in-uae-oil-fields-448481.html](http://www.arabianbusiness.com/s-korea-claims-40-stake-in-uae-oil-fields-448481.html) (accessed September 8, 2012); Reuters, "South Korea Denies UAE To Buy Stake in Finance Firm," *Arabian Business*, March 25, 2011, [www.arabianbusiness.com/south-korea-denies-uae-buy-stake-in-finance-firm-389929.html](http://www.arabianbusiness.com/south-korea-denies-uae-buy-stake-in-finance-firm-389929.html) (accessed September 8, 2012); Babu Das Augustine, "UAE's Trade Relations with South Korea To Grow Stronger," *Gulf News*, March 19, 2012, <http://gulfnews.com/business/economy/uae-s-trade-relations-with-south-korea-to-grow-stronger-1.996547> (accessed September 10, 2012).

Aramco dating back to 1991, secured a 20-year long supply contract from Saudi Arabia in February 2012.<sup>13</sup> While largely influenced by concerns over replacing dwindling Iranian crude supplies, these ventures should be examined in light of the Lee Presidency's "resource diplomacy" aimed at ensuring long-term resource accessibility for the Korean market.<sup>14</sup>

### *Liquefied Natural Gas (LNG)*

According to the EIA report mentioned earlier, South Korea consumes around 1.5 tcf of natural gas every year, of which it is forced to import around 80 percent. Of that, the GCC provides some 43 percent, with Qatar supplying the lion's share (27 percent) followed by Oman (16 percent).<sup>15</sup> This dependence on LNG imports from the Gulf has its origins in the mid-1990s when many GCC countries sought to counteract deflated oil and gas prices by financing new diversification projects via long-term LNG supply contracts. South Korea embraced and supported these efforts as they corresponded with the country's own energy/resource strategies and security goals. Starting in 1995, Korea Gas (KOGAS) sought a stake in the Qatari Ras Laffan LNG Project (established as RasGas in 2001) and concluded several long-term supply agreements that stipulated, according to one report, the provision of some 4.92 million tons of LNG annually to South Korea from Qatar until 2023.<sup>16</sup> These arrangements were reproduced in the KOGAS and Oman LNG Co. long-term supply deals signed in 1996 and 2000, respectively.<sup>17</sup> As it was concluding these agreements, KOGAS bought a 1.2 percent share in Oman LNG Co. in 1997 and 3 percent in RasGas in 1999, the latter of which was then followed by another equity purchase of 5 percent in 2005.<sup>18</sup> In 2007, and in light of growing energy demands

13. Reuters, "S-Oil Inks 20-Yr Deal with Aramco To Secure Oil Supplies," February 8, 2012, <http://www.reuters.com/article/2012/02/09/oil-korea-aramco-idUSL4E8D905Z20120209> (accessed September 10, 2012).

14. Scott Snyder, "Lee Myung-bak's Foreign Policy: A 250-Day Assessment," *Korean Journal of Defense Analysis* 21, Issue no. 1 (March 2009): 22ff.

15. EIA, "Country Analysis Brief - Korea."

16. "South Korea Seeks Closer UAE Ties in Technology, Trade," *Gulf News*, May 14, 2001, [www.gulfnews.com/news/gulf/uae/general/south-korea-seeks-closer-uae-ties-in-technology-trade-1.416592](http://www.gulfnews.com/news/gulf/uae/general/south-korea-seeks-closer-uae-ties-in-technology-trade-1.416592) (accessed September 6, 2012).

17. See Jonghyun Choe, "Economic Bond Gives Fillip to Oman-Korea Ties," *The Times of Oman*, <http://www.timesofoman.com/column/details.aspx?detail=388>, June 30, 2012 (accessed September 10, 2012); Patrick Osgood, "Oman's Great Gas Conundrum," *Arabian Oil and Gas*, November 15, 2011, <http://www.arabianoilandgas.com/article-9667-omans-great-gas-conundrum/1/> (accessed September 10, 2012).

18. Pratap John, "Qatar Met Quarter of S Korea's LNG Demand Last Year," *GulfTimes* (Qatar), [www.gulftimes.com](http://www.gulftimes.com)

in South Korea, KOGAS pushed for two new major agreements with RasGas and Oman LNG that effectively secured 2 million tons of additional LNG annually from each party, and also resulted in the construction of a joint venture LNG facility in Oman.<sup>19</sup> This meant that Qatari LNG exports amounted to 7 million tons and Oman's to 4 million tons. In 2012, the RasGas deal was revised with Qatar agreeing to sell an additional 2 million tons of LNG annually until the year 2024, raising the total Qatari LNG exports to 9 million tons.<sup>20</sup>

### *Nuclear Energy Generation*

Recent cooperative ventures in nuclear energy between South Korea and the GCC countries signify the emergence of a new strategic synthesis in the making. Unfortunately, analyzing the political and strategic implications of these agreements is well beyond the scope of this paper, which is concerned primarily with their economic utility and their place within the larger energy framework. It has been well enumerated elsewhere that the GCC collectively faces several unique challenges stemming from its place in the global economic topography and the structural ordering of its rentier societies. More specifically, the dramatic rise in population and the overt reliance on fossil fuels for domestic utilities is slowly putting pressure on exportable energy reserves (and profits). The quest for 'energy' diversification presents itself therefore as an unavoidable alternative for sustainable development.<sup>21</sup> This ties in well with the South Korea's own desire to secure access to non-diminishing energy supplies – so-called "Hydrocarbon Safekeeping" – and provides an opportunity, enabled by the Korea's innovational capacity and expertise, to expand its EPC-based economic and long-term strategic interests in the Gulf.<sup>22</sup>

At present, South Korea has signed nuclear cooperation agreements with its two major trading partners in the GCC: the UAE and Saudi Arabia. In 2009, the Abu

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[gulf-times.com/site/topics/article.asp?cu\\_no=2&item\\_no=485746&version=1&temp](http://gulf-times.com/site/topics/article.asp?cu_no=2&item_no=485746&version=1&temp) (accessed September 7, 2012).

19. "South Korea and Oman Strengthen Ties with Storage and Trade Agreement," *ICIS Heren*, June 1, 2007, [www.icis.com/heren/articles/2007/06/01/9296509/south-korea-and-oman-strengthen-ties-with-storage-and-trade.html](http://www.icis.com/heren/articles/2007/06/01/9296509/south-korea-and-oman-strengthen-ties-with-storage-and-trade.html) (accessed September 5, 2012).
20. Philip Iglauer, "Qatar Marks Korea Ties beyond Gas Imports," *The Korea Times*, December 25, 2011, [www.koreatimes.co.kr/www/news/special/2012/08/176](http://www.koreatimes.co.kr/www/news/special/2012/08/176) (accessed September 4, 2012).
21. Reuters, "Saudi Arabia, South Korea in Nuclear Cooperation Deal," November 15, 2011, <http://af.reuters.com/article/worldNews> (accessed September 10, 2012)
22. Chris Stanton, "South Koreans a Surprising Choice as Nuclear Plant Suppliers," *The National* (UAE), December 28, 2009, <http://www.thenational.ae/news/uae-news/south-koreans-a-surprising-choice-as-nuclear-plant-suppliers> (accessed September 10, 2012).

Dhabi government, via the Emirates Nuclear Energy Corporation (ENEC), awarded its first nuclear energy bid to a Korean consortium led by the Korea Electric Power Corporation (Kepco).<sup>23</sup> The bid worth some \$20.4 billion was strongly championed by the South Korean government and entailed the construction and maintenance of four APR1400 civil nuclear power stations and the creation of an indigenous knowledge base that would ensure the eventual transfer of plant management to local operators. A less significant and somewhat ambiguous agreement was signed with Saudi Arabia in 2012 calling for “cooperation in research and development, including building nuclear power plants and research reactors, as well as training, safety and waste management.”<sup>24</sup> Although the exact details of this agreement remain unknown, Saudi Arabia has expressed its intention to build over 16 nuclear power reactors by 2030 and is expected to turn to South Korea – including other countries like Argentina, France and China – for assistance and technical know-how.<sup>25</sup>

### Non-Energy Trade and Investment

As mentioned earlier in the overview, the volume of bilateral trade between the GCC and South Korea amounted to \$112.7 billion in 2011, making the region Korea’s second largest trading partner after China.<sup>26</sup> By far, trade with Saudi Arabia makes up the largest share in Korea’s GCC trade with \$44 billion (40 percent of the total) followed by the UAE with \$22 billion (20 percent of the total) as of 2011.<sup>27</sup> South Korea’s heavy dependence on energy imports has resulted in a strong trade imbalance in favor of the GCC which, given the overall volume of trade, is discernible in the size of non-hydrocarbon trade: \$3.2 billion with Saudi Arabia, \$2.4 billion with the UAE, \$1 billion with Qatar, \$845 million with Kuwait, \$449 million with Oman and \$338 million with Bahrain. According to a QNB Group analysis report, in 2010 South Korea accounted for over 10 percent of all Gulf exports and supplied

23. Ibid.

24. See “Kingdom, S. Korea Sign Nuclear Cooperation Deal,” *Saudi Gazette* <http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentID=20111116112243> (accessed September 10, 2012); and Ed Attwood, “Korea Has ‘Great Interest’ in Saudi Nuclear Deals Bid,” *Arabian Business*, January 18, 2011, <http://www.arabianbusiness.com/korea-has-great-interest-in-saudi-nuclear-deals-bid-374442.html> (accessed September 10, 2012).

25. Ibid.

26. According to the Korean Ministry of Foreign Affairs and Trade Statistics available at: [http://www.mofat.go.kr/webmodule/htsboard/template/read/engreadboard.jsp?typeID=12&boardid=8114&seqno=310963&cc=&xt=&pagenum=1&tableName=TYPE\\_ENGLISH&pc=&dc=&wc=&du=&vu=&iu=&du](http://www.mofat.go.kr/webmodule/htsboard/template/read/engreadboard.jsp?typeID=12&boardid=8114&seqno=310963&cc=&xt=&pagenum=1&tableName=TYPE_ENGLISH&pc=&dc=&wc=&du=&vu=&iu=&du)

27. Ibid.



only 4 percent of the region's imports. When coupled with Japan (which consumes 16 percent of exports and provides around 6 percent of imports), the two countries accounted for more than half of all GCC trade surpluses.<sup>28</sup>

Since President Roh's visit to the Middle East in 2007, South Korea and the GCC have held three rounds of negotiations for an FTA agreement.<sup>29</sup> Based on available news reports, it appears that both parties have concluded talks in such areas as investment, services, and rules of origin. However, progress in the talks has stalled as a result of differences over tariff concessions for high-priority products like electronics, automobiles, and petrochemicals.<sup>30</sup> An Economic Free Zone agreement is also being negotiated with the UAE.<sup>31</sup> According to the Korea Exim Bank, a bilateral treaty for the Reciprocal Protection of Investments has been signed with Saudi Arabia, the UAE and Qatar, although only the latter is currently in force.<sup>32</sup> A bilateral convention for the Avoidance of Double Taxation was signed with Kuwait alone from among all the GCC states.

Major Korean exports to the region include textiles, chemical goods, machinery, electronics, automobiles, steel/metal items, and LNG/oil tankers, many of which are marketed through a number of popular brands such as Samsung, LG, Hyundai, and Hankook.<sup>33</sup> This list may soon include military hardware and ammunition if recent strategic and defense overtures with the GCC come to fruition.<sup>34</sup> GCC exports in

28. "GCC Trade Hits New Records as Asia Rises in Prominence."

29. See the Korean Ministry of Foreign Affairs and Trade page available at: [http://www.mofat.go.kr/ENG/policy/fta/status/negotiation/gcc/index.jsp?menu=m\\_20\\_80\\_10&tabmenu=t\\_4&submenu=s\\_3](http://www.mofat.go.kr/ENG/policy/fta/status/negotiation/gcc/index.jsp?menu=m_20_80_10&tabmenu=t_4&submenu=s_3)

30. See Kim Hyun-cheol, "Korea Seeks FTAs with Peru, GCC," *The Korea Times*, April 1, 2012, [www.koreatimes.co.kr/www/news/biz/2010/10/123\\_58392.html](http://www.koreatimes.co.kr/www/news/biz/2010/10/123_58392.html) (accessed September 9, 2012); and Yoav Cerralbo, "GCC, More than Oil Partnership," *The Korea Herald*, February 13, 2011, [www.koreaherald.com/kh/view.php?ud=20110213000306&cpv=0](http://www.koreaherald.com/kh/view.php?ud=20110213000306&cpv=0) (accessed September 10, 2012).

31. Ahmed Al Ananbeh, "Analytical Study of Foreign Trade between the United Arab Emirates and South Korea," United Arab Emirates Ministry of Foreign Affairs, May 2010.

32. See the Korea EXIM Bank link available at: [http://www.koreaexim.go.kr/en/fdi/invest\\_02.jsp](http://www.koreaexim.go.kr/en/fdi/invest_02.jsp).

33. See Kim Hyun Ho, "History of Economic Exchange between Saudi Arabia and Korea," Zentrale für Unterrichtsmedien, <http://www.zum.de/whkmla/sp/hyunho/hyunho> (accessed September 10, 2012); "Saudi Arabia Remains Hyundai's Biggest Market in Middle East," *Saudi Gazette*, July 24, 2012, <http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=20120728131284> (accessed September 10, 2012); and Muteb Al-Mutoteh, "Kuwait, Korea Expand Bilateral Relations," *The Korea Herald*, February 26, 2012, [view.koreaherald.com/kh/view.php?ud=20120226000100&cpv=0/](http://www.koreaherald.com/kh/view.php?ud=20120226000100&cpv=0/) (accessed September 10, 2012).

34. See Chang Jae-soon, "S. Korea, Saudi Arabia Agree To Boost Defense Cooperation," Yonhap News, February 8, 2012, <http://english.yonhapnews.co.kr/national/2012/02/08> (accessed September 10, 2012).

turn are largely confined to petroleum, LNG, minerals, and petrochemicals.

Figures issued from the Ministry of Foreign Affairs and Trade in 2011 show the number of Koreans in the GCC to be at 13,400.<sup>35</sup> The number is poised to grow as economic linkages continue to expand and solidify.<sup>36</sup> While there are no available records of the exact number of long-term GCC residents in Korea, including students, there are indicators that the number may very well exceed 8,000 or so (and this in the case of Saudi students alone).<sup>37</sup> Bilateral tourism is also increasing. The Korea Tourism Organization reported that in 2011 over 50,035 Middle Eastern visitors came to South Korea for tourist and business purposes, up from 37,871 in 2007.<sup>38</sup> Although it is difficult to extract the exact percentage of GCC visitors from that total, news reports do suggest that Korea is emerging as a viable holiday destination.<sup>39</sup> There are also signs that Korean tourists are coming to the GCC – specifically the UAE – in unprecedented numbers. Statistics from Abu Dhabi Tourism, reprinted in the *Emarat al-Youm*, reveal that the number of Koreans who occupied hotels in the city in 2011 amounted to nearly 9,580, an almost 73 percent increase from the preceding year.<sup>40</sup>

### *Investments and JV Projects*

It is difficult to determine the exact size of GCC and South Korean FDI. This task is complicated primarily by the lack of accessible data, the conflation of EPC contracts with FDI investments in most news reports, and an overemphasis on

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10, 2012); Jeongmin Seo, "South Korea's Interests in the Gulf: From Construction to Military Cooperation," Hankuk University of Foreign Studies (2011).

35. Please refer to Korea Ministry of Foreign Affairs and Trade Country Profiles, available at: <http://www.mofat.go.kr>.

36. "UAE-South Korea Reflect Development, Partnership," *Khaleej Times*, March 12, 2011, [http://www.khaleejtimes.com/DisplayArticleNew.aspx?xfile=/data/theuae/2011/March/theuae\\_\(accessed September 10, 2012\)](http://www.khaleejtimes.com/DisplayArticleNew.aspx?xfile=/data/theuae/2011/March/theuae_(accessed September 10, 2012)).

37. الرئيس الكوري: العالم يقدر للمملكة مساعيها للحفاظ على سعر عادل للنفط: اتفاقيات سعودية – كورية للتمويل والتجارة وتطوير المنشآت الاقتصادية  
[Korean President: The World Appreciates the Kingdom's Role in Maintaining a Fair Price for Oil: Korean-Saudi Agreements on Investment, Trade, and Development], [http://www.aleqt.com/2007/03/26/article\\_84022.html?related](http://www.aleqt.com/2007/03/26/article_84022.html?related) (accessed September 10, 2012).

38. See the Korea Tourism Organization statistics available at: <http://kto.visitkorea.or.kr/eng/tourismStatics/keyFacts/KoreaMonthlyStatistics/eng/inout/inout.kto>.

39. Safura Rahimi, "Emirates Tourism Boost for S. Korea," *Arabian Business*, May 27, 2007, <http://www.arabianbusiness.com/property/article/13393-tourism-boost-between-uae-skorea> (accessed September 10, 2012).

40. <http://www.emaratalyoum.com/business/local/2012-05-22-1.486098>.

bilateral trade statistics over FDI as a medium of measurement when discussing GCC-South Korea economic relations. More disconcerting is the fact that while Korean investments in the GCC can be drawn from relatively reliable sources, data on the size and nature of GCC investments in South Korea is largely nonexistent with the exception of UAE-related data. Indeed, while major GCC joint ventures in Korea can be identified and their value estimated, an aggregate picture of GCC investments as a whole is open to speculation.

According to data released from the Korea EXIM Bank for 2011, there are currently over 448 South Korea-GCC JV enterprises in the Gulf (the number rises to 990 if one takes into account JVs involving multinational entities that are not all South Korea and GCC-based).<sup>41</sup> The bulk of these enterprises are located in the UAE (187) and Saudi Arabia (166) with the rest dispersed across the Gulf in varying concentrations reflecting the importance of each GCC bilateral relationship with South Korea. The region-wide value of these investments amounts to nearly \$2.7 billion with the UAE clearly attracting the most with \$1.24 billion (46 percent), Oman following with over \$606 million (22 percent) and then Saudi Arabia with \$565 million (20 percent).<sup>42</sup> The same dataset reveals that most of these JVs are industrial SME projects focusing on telecommunications, petrochemicals, IT, and even automobile manufacturing.<sup>43</sup> In addition, there are growing Korean investments in service, finance and real estate ventures, most of which are located in the UAE.<sup>44</sup>

41. See the Korea EXIM Bank overseas investment page, available at: [http://www.koreaexim.go.kr/en/fdi/invest\\_02.jsp](http://www.koreaexim.go.kr/en/fdi/invest_02.jsp).

42. See

رئيس التحرير يحاضر في كوريا عن العلاقات السعودية - الكورية على مدى خمسين عاماً : نصف قرن مضى فماذا عن النصف الثاني؟! الجزيرة

[Chief Editor Lectures in Korea on Saudi-Korean Relations over the Course of Fifty Years: a Half Century Has Already Passed, What about the Next Half?], July 2, 2012, [www.al-jazirah.com/2012/20120702/mh1.htm](http://www.al-jazirah.com/2012/20120702/mh1.htm) (accessed September 8, 2012); and the UAE Embassy in Seoul's Bilateral Information page available at: <http://uae-embassy.ae/Embassies/kr/Content/2238>.

43. See "Saudi Arabia Plans \$500 Million Auto Factory," *Saudi Gazette*, [www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=2010122790067](http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=2010122790067) (accessed September 9, 2012); and جامعة الملك سعود تمتلك 10% من الشركة الجديدة وطرح 60% للمؤسسات الاستثمارية: "إطلاق شركة سعودية كورية برأسمال 500 مليون دولار لتصنيع سيارات اقتصادية." [جريدة الرياض] [King Saud University Owns 10% of the New Company and Opens up 60% for Investment: Launching a Saudi-Korean Car Factory with a Capital of 500 Million Dollars], <http://www.alriyadh.com/2010/12/27/article589352> (accessed September 11, 2012).

44. "Korea's Investment Corp Inks \$50m Deal with Abu Dhabi's Mubadala," *Arabian Business*, December 23, 2010, <http://www.arabianbusiness.com/korea's-investment-corp-inks-50m-deal-with-abu-dhabi's-mubadala-369132.html> (accessed September 11, 2012).

As mentioned earlier, there is little in the way of data regarding GCC investments in Korea. What is certain however is that, aside from a few major JV projects, the total amount of region-wide GCC FDI will not be considerably large given established patterns in global investment (Japan and Korea represented just 2 percent of global FDI coming into Asia in 2010), prevailing structural conditions in South Korea, and cultural-legal impediments that limit investments from the GCC.<sup>45</sup> It is likely that the largest source of GCC FDI is the UAE, which, according to a 2010 report, *Analytical Study of Foreign Trade between the United Arab Emirates and South Korea*, has invested some \$69 million in the country, a figure that represents nearly 0.6 percent of all FDI into Korea. The same report adds that 57 percent of these investments went into the manufacturing sector, 34 percent into industrial services, and 9 percent into utilities and construction – a pattern that reflects the general behavior of GCC investors and SWFs. Major UAE investment bodies include the International Petroleum Investment Company (IPIC), Dubai World Investments, and the Horizon Storage Company (a subsidiary of Abu Dhabi National Oil Company – ADNOC.) The Abu Dhabi Investment Co. (ADIC), which signed a general-framework agreement with the Korea Development Bank (KDB) and the Korea Trade Promotion Agency (KOTRA) to increase bilateral investments, has also voiced interest in entering the market.<sup>46</sup>

Perhaps the most famous GCC-South Korean JV investment is the Aramco/S-Oil petrochemical project. In 1991, Aramco bought a 35 percent equity stake in SsangYong Oil Refining Company (name later changed to S-Oil), becoming the entity's largest stakeholder and main source of CEOs.<sup>47</sup> This paved the way for the

45. IISS Seminar lecture by Terry Newendrop, "Barriers and Challenges to Gulf-Asia Engagement: Political, Financial and Social Barriers and Obstacles to GCC-Asia Economic Relations: Closing the Triangle," October 15-16, 2011.

46. Neeraj Gangal, "Abu Dhabi's ADIC Eyes Investments in South Korea," *Arabian Business*, June 5, 2009 (accessed September 9, 2012).

47. See <http://www.s-oil.com/> (Historical Documents); Kim Jae-won, "S-Oil Boasts of Top-Rated Technology to Beat Crisis," *Korea Today*, April 28, 2010, [http://www.koreatimes.co.kr/www/news/special/2011/04/242\\_65050.html](http://www.koreatimes.co.kr/www/news/special/2011/04/242_65050.html) (accessed September 7, 2012); Jane Han, "Plastics Worth More than We Thought," *The Korea Times*, February 27, 2008, [www.koreatimes.co.kr/www/news/biz/2012](http://www.koreatimes.co.kr/www/news/biz/2012) (accessed September 7, 2012); 'Aramco-Korean JV Onsan Refinery World's Largest Single Train PX Plant,' *Saudi Gazette*, <http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentID=20111023110992> (accessed September 10, 2012); and "Saudi Aramco: S-Oil to Expand Onsan Refinery," MENAFN, December 24, 2009, [www.menafn.com/menafn/1093291250/Saudi-Aramco-SOIL-to-expand-Onsan-refinery](http://www.menafn.com/menafn/1093291250/Saudi-Aramco-SOIL-to-expand-Onsan-refinery) (accessed September 7, 2012). Also see Saudi Aramco Al-Falih lecture and the following news items: <http://www.saudiaramco.com/en/home/news/latest-news/2011/s-oil-to-expand-onsan-refinery.html#news%257C%252Fen%252Fhome%252Fnews%252Flatest-news%252F2011%252Fs-oil-to-expand-onsan-refinery.baseajax.html>, and <http://www.saudiaramco.com/en/home/news/latest-news/2011/s-oil-to-expand-onsan-refinery.html#news%257C%252Fen%252Fhome%252Fnews%252Flatest-news%252F2011%252Fs-oil-to-expand-onsan-refinery.baseajax.html>, and <http://www.saudiaramco.com/en/home/news/latest-news/2011/s-oil-to-expand-onsan-refinery.html#news%257C%252Fen%252Fhome%252Fnews%252Flatest-news%252F2011%252Fs-oil-to-expand-onsan-refinery.baseajax.html>.

conclusion of a first-of-its-kind agreement guaranteeing a 20-year supply of oil that enabled S-Oil to launch its Bunker-C cracking, desulfurization and Xylene projects in the 1990s. In 2007, plans were made with Aramco to expand the 580,000 bpd Onsan Refinery and add several new aromatic/PX facilities at the cost of \$1.2 billion. Completed in 2011 to great fanfare, the plant's capacity was effectively raised to 650,000 bpd, making it one of South Korea's largest refineries by far.

### *EPC Projects*

Engineering, procurement and construction (EPC) activities constitute an important part of the non-hydrocarbon trade between South Korea and the GCC. The importance of these areas, one could add, only trails that of oil and LNG in terms of its overall value and scope as it effectively addresses, by virtue of its natural complementarity, South Korea's trade imbalances and the GCC's infrastructure deficit. According to the data issued by the 8<sup>th</sup> Korea-Middle East Cooperation Forum, the GCC accounted for nearly 60 percent of all South Korean global EPC contracts in 2011, amounting to some \$43.3 billion.<sup>48</sup> This is by no means a new phenomenon. Indeed, the South Korean EPC legacy in the Gulf dates to at least 1976 to the first "Middle East boom." This early EPC engagement peaked in 1982 as over 170,000 Korean laborers, under the supervision of such pioneering companies as Samwhan, Daelim, LG E&C, and Hyundai E&C, worked across the region in annual projects valued at \$10 billion.<sup>49</sup> This period had an indelible effect on South Korea's economic and industrial development – when examining the cumulative records of all Korean EPC contracts signed in the past 47 years, the GCC alone has been the source of nearly 52 percent of all projects totaling \$250.7 billion.<sup>50</sup> It is not surprising therefore that the Lee Presidency drawing on this formative historical experience and seeking to tap into the Gulf's present development rush, has called for a "second Gulf construction

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[saudiaramco.com/en/home/news/speeches/saudi-aramco-and-korea--mutual-benefits--shared-opportunities-an.html#news%257C%252Fen%252Fhome%252Fnews%252Fspeeches%252Fsaudi-aramco-and-korea--mutual-benefits--shared-opportunities-an.baseajax.html](http://saudiaramco.com/en/home/news/speeches/saudi-aramco-and-korea--mutual-benefits--shared-opportunities-an.html#news%257C%252Fen%252Fhome%252Fnews%252Fspeeches%252Fsaudi-aramco-and-korea--mutual-benefits--shared-opportunities-an.baseajax.html).

48. "GCC Accounts for 60% of all Korean EPC Contracts Abroad Amounting to \$43.3bn, Says Made in Korea Organizer," *MEED*, December 12, 2011, <http://www.meed.com/sectors/economy/gcc-accounts-for-60-of-all-korean-epc-contracts-abroad-amounting-to-433bn-says-made-in-korea-organizer/3119192.article> (accessed September 11, 2012).
49. Bloomberg, "Korea's Samsung Eyes Saudi Chemical Plant Deals," *Arabian Business*, May 10, 2011, <http://www.arabianbusiness.com/korea-s-samsung-eyes-saudi-chemical-plant-deals-398981.html> (accessed September 11, 2012).
50. "Korea's Overseas Construction Orders Exceed USD 500 Billion," Korea.net, the official website of the Republic of Korea, July 10, 2012, <http://www.korea.net/NewsFocus/Business/view?articleId=101184> (accessed September 11, 2012).



boom” to commence. To that end, the government issued a report titled *Building a Partnership with the Middle East in the Post-Oil Era* that outlined its strategies for capturing a bigger share of the EPC market for Korean companies. This was followed in 2011 by the decision of the Korean Ministry of Land Transportation and Maritime Affairs to establish a Middle East Infrastructure Support Center in Abu Dhabi which aims to facilitate South Korean penetration into the Gulf market.

According to available news reports confirmed by data drawn from the International Contractors Association of Korea, the majority of awarded EPC contracts are for plant utilities and oil infrastructure, a phenomenon duly dubbed by some experts as the “exportation of plants.”<sup>51</sup> In Saudi Arabia, which is currently the South Korea’s biggest regional market for EPC projects (and in fact the source of nearly a fifth of all Korean EPC contracts signed since the 1960s),<sup>52</sup> Aramco alone has already signed deals with over 89 Korean construction companies to carry out some 39 contracts valued at \$11.5 billion. These include the construction of various major petrochemical complexes in Rabigh and Jubail, the development of the Karan gas field utilities, and building the country’s largest gas plant, Wasit.<sup>53</sup> The Saudi government has also invited Korean companies to participate in ventures such as power and desalination plants, aromatic, polysilicon and polycarbonate-plastic factories, as well as housing and railway projects in various parts of the Kingdom.<sup>54</sup> Similar EPC projects are

51. Ibid.

52. See “Kingdom Top Market for S. Korean Builders,” *Saudi Gazette*, <http://www.saudigazette.com.sa/index.cfm?home.con&contentid=20111001109737> (accessed September 11, 2012); and “Korean Builders Become Top Foreign Players in Saudi Arabia,” *The Korea Times*, March 8, 2012, [https://www.koreatimes.co.kr/www/news/biz/2012/06/123\\_106469.html](https://www.koreatimes.co.kr/www/news/biz/2012/06/123_106469.html) (accessed September 9, 2012).

53. See Reuters, “South Korea’s SK E&C Wins \$1.9bn Order from Saudi Aramco,” *Arabian Business*, February 13, 2011, <http://www.arabianbusiness.com/south-korea-s-sk-e-c-wins-1-9bn-order-from-saudi-aramco-380311.html> (accessed September 11, 2012); Souhail Karam, “Petrofac, Hyundai Awarded Saudi Gas Contracts,” *Arabian Business*, February 28, 2009, <http://www.arabianbusiness.com/petrofac-hyundai-awarded-saudi-gas-contracts-79632.html> (accessed September 11, 2012); and “Saudi Kayan Polycarbonate Project,” *The Korea Times*, May 19, 2011, [www.koreatimes.co.kr/www/news/biz/2011](http://www.koreatimes.co.kr/www/news/biz/2011) (accessed September 9, 2012).

54. See Elsa Baxter, “Saudi Signs \$720m Yanbu Power Deal with South Korea,” *Arabian Business*, July 27, 2009, <http://www.arabianbusiness.com/saudi-signs-720m-yanbu-power-deal-with-south-korea-15434.html> (accessed September 11, 2012); Safura Rahimi, “Samsung To Build \$950m Saudi Plant,” *Arabian Business*, May 27, 2007, <http://www.arabianbusiness.com/samsung-build-950m-saudi-plant-144223.html> (accessed September 11, 2012); Jane Han, “Plant Exports Power Trade Growth,” *The Korea Times*, May 10, 2007 (accessed September 10, 2012); “South Korean Builders To Bid for Saudi Housing Projects,” *Saudi Gazette*, May 12, 2012, [www.saudigazette.com.sa/index.cfm?method=home.regcon&contentID=20120512123928](http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentID=20120512123928) (accessed September 8, 2012); and Cerralbi Yoav, “Saudi’s Special Situation with Korea,” *The Korea Herald*, [www.koreaherald.com/kh/view.php?ud=20100813000389&cpv=0](http://www.koreaherald.com/kh/view.php?ud=20100813000389&cpv=0) (accessed September 9, 2012).

being carried out elsewhere throughout the Gulf. In the UAE, deals have been concluded for such projects as the Ruwais refinery, the Borouge-3 petrochemical project, the Shah and Das Island Gas projects, the Khalifa port, the Bab oilfields, and more symbolically, Burj Khalifa.<sup>55</sup> In Qatar, the development of Lusail City and the Qetaifan islands has been largely handed to South Korean companies.<sup>56</sup>

## Conclusion

GCC-South Korea economic relations are poised for further growth and diversification over the course of the next few decades. While the EPC boom appears to coincide with a spurt in infrastructure projects in the region enabled by the recent spike in oil price and will likely subside in the coming years, the energy bonds linking the two regions will only strengthen with time. This is premised on South Korea's situation as a wholly energy-dependent state and the growing need in the GCC countries for Korean technologies and technical expertise to help circumvent their own set of energy-based challenges. This emerging strategic nexus aimed at 'hydrocarbon-safekeeping' may eventually give rise to a more engaged security relationship between the GCC states and South Korea, particularly as the former seek to diversify their strategic options in a way more inclusive of Asian interests and capacities. There are already signs that this is happening in relation to the UAE.<sup>57</sup> Investments, and especially GCC investments in South Korea, are likely to remain low-key and minimal. This is not unusual and is also noticeable in the case of Japan, for instance, where structural impediments and the existence of more alluring and profitable alternatives continue to divert potential GCC investments.<sup>58</sup> Overall, however, the outlook for GCC-South Korea relations remains optimistic.

55. Please refer to "UAE-South Korea Reflect Development, Partnership." Also see "Korea's Overseas Construction Orders Exceed USD 500 Billion."

56. Andy Sambridge, "South Korea's Samsung Wins Major Qatar Deals," *Arabian Business*, April 8, 2012, <http://www.arabianbusiness.com/south-korea-s-samsung-wins-major-qatar-deals-453188.html> (accessed September 11, 2012).

57. See Chang Jae-soon, "S. Korea, Saudi Arabia Agree To Boost Defense Cooperation," *Yonhap News*, February 8, 2012, <http://english.yonhapnews.co.kr/national/2012/02/08> (accessed September 10, 2012); and Jeongmin Seo, "South Korea's Interests in the Gulf: From Construction to Military Cooperation," Hankuk University of Foreign Studies (2011).

58. IISS Seminar lecture by Terry Newendrop, "Barriers and Challenges to Gulf-Asia Engagement: Political, Financial and Social Barriers and Obstacles to GCC-Asia Economic Relations: Closing the Triangle," October 15-16, 2011.



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