



BULLETIN

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Polish–South Korean Relations: New Ways Forward

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Poland is becoming more engaged in Asia. Among the Polish foreign policy priority countries in the region is South Korea. Despite a short history of bilateral ties, they are rather close, recently upgraded to a strategic partnership, and focused on economic cooperation. As Poland's main goals are to expand exports and attract more Korean investment, Poland should promptly implement an amended law on special economic zones and use the EU–Korea FTA to increase exports. This new format in relations should also be applied to improve closer cooperation on North Korea and the promotion of the Polish reconciliation experience, which Seoul appreciates.

For the last few years, Poland has been paying more attention to Asia, and this region has become an important direction for Polish foreign policy. The reason is not only the shift of the world's foreign policy gravity from West to East but also the fact that Asia's markets and innovative economies are attractive partners. Taking into account that the depth of current relations is mainly measured in economic terms, Polish cooperation with Asia is thusly economy-oriented. Apart from China, the most important country for Polish economic diplomacy in Asia, South Korea is among the top Polish priority countries.

What Is Attractive about South Korea? The Republic of Korea (ROK) is among the most developed, technologically advanced and innovative economies in the world. Its economy is based on electronics (a world leader in manufacturing LCD panels, mobile phones and semiconductors), automotive, engineering, petrochemicals and shipbuilding. According to IMF estimates, in 2013 Korea's economic growth was 2.8%, its nominal GDP reached \$1.197 trillion, GDP per capita was \$23,837, and the trade surplus was \$44.19 billion (Korean government statistics). Korea is 15th in the world and third in East Asia in terms of nominal GDP.

ROK's economic success—the “miracle on the Han River”—was achieved in a short span of time. In the 1960s, Korea introduced government support for industry, mainly big enterprises, and fostered the development of science and technology. These incentives facilitated the establishment of huge business conglomerates—*chaebols* (e.g., Samsung, LG, Hyundai, SK Group)—which play an important role in the Korean economy and generate a significant part of its GDP and exports. *Chaebols* are also major investors abroad, including in Poland.

Strategic Partnership in the Making. Despite the short history of diplomatic relations between Poland and Korea, established 25 years ago on 1 November 1989, the countries are close and maintain an intensive political dialogue. Nevertheless, new initiatives, especially those boosting economic ties, are still needed. During Polish President Bronisław Komorowski's visit to Korea in October 2013 (the first visit by a European leader since Korean President Park Geun-hye assumed office in February 2013), a declaration about a strategic partnership, was signed. This new format is perceived as a strong push for economic relations, closer cooperation on international forums and North Korea. The lack of contentious issues between South Korea and Poland, and the long-term Polish presence on the Korean Peninsula (Poland established diplomatic ties with the Democratic People's Republic of Korea in 1948, and since 1953 has been a member of the Neutral Nations Supervisory Commission) are incentives for closer ties.

Economic Cooperation. Nevertheless, economic matters are what keep the bilateral relations tight. For Poland, the most important goal is to increase exports to Korea and attract more and diversified Korean investment.

Korea is Poland's second most important economic partner in Asia after China, while Poland is Korea's fourth-largest export market in Europe and the biggest trading partner in Central Europe, with the highest volume of trade amongst the "new" EU members. Polish imports from Korea are mainly mechanical and electrical equipment, while exports include diesel engines, pork, and ceramic products for laboratory, chemical industry or other technical uses. In 2012, the value of bilateral trade was €3.9 billion.

For Poland, the biggest problem is the trade deficit with Korea, which in 2012 reached €3 billion. Korea is third (after China and Russia) in the negative trade balance list for Poland. But to some extent, the deficit is generated by Korean companies based in Poland, which import components from Korea used in production for European markets. Recently, one can observe a rise in Polish exports. In 2012, exports reached €412 million and were about €113 million (37%) higher than in 2011. It seems that among the reasons for this are the effects of the EU–Korea FTA, which came into force in July 2011. According to EU statistics, exports are growing (by 16.2% in 2012), and the EU recorded a trade surplus with South Korea for the first time in 15 years.

However, at the core of the cooperation are Korean investments. Poland is perceived in Korea as an attractive place for investments due to its special economic zones (SEZ), market size, and geographical location in the centre of Europe, along with a well-educated workforce (e.g., engineers) and relatively low production costs. According to Korean Exim Bank, the value of Korean investments at the end of 2011 was €1.3 billion and mainly included electronic, chemical and automotive industries. Some of the major investments include an LG Electronics plant in Mława and an industrial park in Kobierzyce (the biggest greenfield investment in Poland), which produce LCD panels, and Daewoo Electronics, which manufactures television sets in Pruszków. These two companies generated two-thirds of the Korean investments—\$686 million and \$343 million, respectively. Others include: SK Group, which manufactures PET granules in Włocławek and coatings for LCD screens in Dzierżoniów, Samsung's household appliances plant in Wronki and R&D centres and offices in Warsaw, Poznań, Łódź and Kraków.

Korean investments are very beneficial for Poland as they mostly represent greenfield investments that create new jobs and lead to technology transfers. At the beginning, they were focused on production but now include R&D as well. Polish investments in Korea have been few—a construction chemicals manufacturer, Selena, which in 2001 invested in the Korean company Hamil, establishing the Hamil-Selena enterprise.

Prospects for Deeper Cooperation. Although cooperation has been fruitful, there are still some barriers for both sides. The Korean market is still rather closed. Nevertheless, the ongoing implementation of the EU–Korea FTA may help reduce barriers. Poland, should closely monitor fulfilment of the FTA and raise the issue of exempting barriers during talks with partners from South Korea.

Changes in Korea's demographic situation (an aging society) and increased demand for high quality and luxury products create a window of opportunity for Polish exports, especially pharmaceutical products, food, and luxury cosmetics, yachts, etc. There is also the possibility that Korea can share its experience with ICT-based health and medical systems. The presidents' discussion in Seoul last year on medical cooperation, signing in May 2014 an MoU on healthcare and medical science cooperation, and the strategic partnership should be used by Poland as a springboard for closer cooperation in these sectors.

Another prospective area for cooperation is energy, both nuclear and LNG. Korea has advanced technologies and experience with nuclear power plant construction, while as the world's second-largest importer of LNG, it possesses well-developed storage and transport technologies. Sharing this know-how might strengthen bilateral relations significantly.

Currently, the most important short-term problem is South Korea's decision (along with Japan, China and Taiwan) to suspend Polish pork imports after it was revealed that two wild boars in Poland had died from African swine fever. Bearing in mind that pork represents 10% of Polish exports to Korea, it is worth considering steps to regain consumers' trust in Polish agriculture products. It seems that sending the Polish Minister of Agriculture to the region would be a good step.

Meanwhile, in Poland, there have been some problems for Korean investors in the SEZs. Those who had obtained permission to participate in an SEZ before 2008 have not been allowed to change the level of declared employment without refunding public assistance. Due to the global economic crisis, some Korean investors have had problems maintaining the declared level. The Polish government on 25 March accepted a draft law that unifies the rules, introducing the possibility to reduce employment by a maximum of 20% for any company that operates in an SEZ (only enterprises that invested *after* 2008 may reduce employment under the current law). This decision and an extension of the SEZs to 2026 increase the chances of further Korean investments in Poland.

Apart from the economy, there are also other areas of closer relations. Poland, which supports South Korea's policy towards the North and maintains diplomatic relations with Pyongyang, is perceived in Seoul as a crucial partner for indirect dialogue with the DPRK. Korea is also a prospective and reliable source of high-level military equipment compatible with U.S. and NATO standards. Moreover, Poland, together with Germany, may share its experience in reconciliation, which might be helpful for Korea–Japan rapprochement.