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Korea-Latin America Partnership: A Keystone in the Architecture of Global Trade and Security

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In discussions of US-South Korea trade policy within American policy circles, a critical aspect often overlooked is the longstanding trade relationship between Korea and Latin America. This oversight misses a significant dimension of Korea's broader trade and foreign policy strategy, which increasingly sees Latin America not just as a market, but as a pivotal partner in the Indo-Pacific geoeconomic framework. Despite the geographic distance, Korea-Latin America trade ties have shown robust growth, diversifying Korea's trade portfolio and offering insights into Seoul's global economic ambitions. By sidelining this relationship, US policymakers and analysts risk underestimating the scope of Korea's geoeconomic strategies and their implications for regional dynamics.

As Korea watchers well know, the 2022 "Creating Helpful Incentives to Produce Semiconductors for America" (CHIPS) and Science Act as well as the Inflation Reduction Act (IRA), greatly affect Korea's critical sectors, especially semiconductors and electric vehicles (EVs). We'd already seen industry giants such as Hyundai and SK Hynix relocating plants to the United States to bolster economic ties prior to the game-changing US legislation. However, this represents just one facet of the IRA's objectives: to bolster the resilience of these industries and foster co-prosperity and security. There's an urgent need to shift the discourse toward the geoeconomic dynamics further up the supply chain and

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across the Pacific, especially regarding vital materials like lithium and copper, which South Korea predominantly sources from China. An often-neglected element in this discussion is the critical role of Latin America, a region with some of the world's largest deposits of copper (Chile, Peru) and lithium (Chile, Argentina, Brazil, and extending to Australia), highlighting the issue's true Pacific scope.

Like other US allies, Seoul faces difficult choices significantly impacted by the CHIPS Act and the IRA, both of which have profound implications for its trade in strategic goods. These American legislative moves, aimed at bolstering the US semiconductor industry and encouraging domestic production of clean energy technologies, have placed South Korea in a precarious position. The IRA itself does not explicitly mention China. However, the legislation emphasizes reducing dependency on foreign supply chains from foreign entities of concern (namely, strategic rivals like China and Russia) for critical minerals and components used in clean energy technologies. This could impact imports from Chinese companies, which the US classifies as foreign entities of concern, as the country is a major supplier of these materials. The act encourages domestic production and could lead to decreased reliance on Chinese imports for certain raw materials and components.

South Korea is a key player in the technology and automotive sectors, including the production of EVs and batteries. The IRA's tax credits and incentives for clean energy and EV manufacturing have already proved challenging for South Korean companies' decisions. On one hand, Seoul is striving to adapt to these policies, which necessitate a shift towards more secure and politically stable supply chains—a strategy often referred to as “friendshoring.” On the other hand, South Korea finds itself grappling with the challenge of reducing its economic dependence on China and Russia, countries that are major suppliers of raw materials and markets for its exports, including those in the semiconductor and EV sectors. SK On, for example signed a memorandum of understanding for producing EV batteries with two Chinese suppliers in March 2023, only to be surprised by IRA's final rules on foreign entities of concern a month later. This delicate balancing act between securing its supply chains, adhering to US policy directions, and maintaining its economic ties with China and Russia underscores the strategic dilemmas faced by Seoul. It is a testament to the increasingly intricate dance of diplomacy, security, and trade that countries like South Korea must perform in today's geopolitically charged economic environment.

Upstream on the supply chain, Latin America, being a significant source of critical minerals like lithium, copper, and nickel—essential for renewable energy technologies and batteries—could see increased investment and interest from US companies aiming to diversify their supply chains away from China and other regions. The IRA, which provides benefits for vehicles and batteries sourced from US FTA partners, could bolster American partnerships with select Latin American countries in securing these materials. While the IRA aims to boost the US economy, promote clean energy, and reduce carbon emissions, its indirect effects on international trade and investment could lead to shifts in global supply chains and manufacturing practices.

The importance of the Korea-Latin America trade relationship becomes particularly pronounced against the backdrop of the increasing politicization of strategic resources. In recent years, there has been a global scramble for resources critical to the high-tech and renewable energy sectors, such as rare earth elements, lithium, and copper, commodities abundantly found in Latin America. This region's rich deposits have turned it into a focal point for countries looking to secure their supply chains against geopolitical uncertainties

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and trade disputes. For South Korea, a country with limited natural resources, forging strong ties with Latin American countries is not just a matter of economic diversification but a strategic imperative to ensure access to these essential materials. This partnership is crucial for Seoul as it navigates the complex web of global geopolitics, aiming to secure its economic future while minimizing its vulnerability to supply chain disruptions.

Latin America's capacity to provide critical inputs for future technologies and manufacturing makes it an indispensable partner for Korea, ensuring the resilience of its manufacturing sector against the backdrop of rising geopolitical tensions and trade protectionism. The semiconductor industry, a cornerstone of Korea's economy, requires a stable supply of rare metals such as copper, while the burgeoning EV sector is heavily dependent on lithium for batteries—a resource Latin America is particularly rich in. Additionally, Korea's heavy and medium industries, including shipbuilding and automobile manufacturing, are significant consumers of iron ore, a commodity for which Latin America is a major global supplier. For example, in 2022, South Korea sourced over one-third of its rare metal raw materials from China, importing around 150,000 tons of ferrosilicon and more than tons of lithium hydroxide. South Korean battery maker SK On may face pitfalls with its deal with Chinese firms, but also signed a five-year memorandum of supply with Chile-based SQM in November 2022 to secure lithium, a crucial mineral for producing electric vehicle batteries. Korean companies have also sought to secure greater lithium resources from Argentina. While not currently eligible for the IRA, these partnerships would be beneficial as well should the Biden administration conclude a critical minerals FTA with Argentina.

The Inflation Reduction Act indirectly also boosts copper demand through renewable energy expansion, electric vehicle infrastructure development, building electrification and energy efficiency improvements, and the modernization of the electrical grid. Chile and Peru account for 42 percent of global copper ore exports; for Korea, these countries account for over 37 percent of its copper imports. To remain competitive on the American market, both Latin America raw material imports and Korean manufacturing have incentives to shift exports and manufacturing to US soil. Strengthening ties with Latin America not only helps Korea secure a reliable supply of strategic resources but also enhances its position in global supply chains, reinforcing its industrial competitiveness on the world stage.

Korea's concerns about global supply chains and manufacturing for its key industries, such as semiconductors, electric vehicles (EVs), and industries reliant on iron ore, like steel manufacturing, underscore the strategic importance of its relationship with Latin America. Acknowledging and understanding the Korea-Latin America trade axis is essential for a comprehensive assessment of the Indo-Pacific's economic landscape and the US-ROK strategic partnership.

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