

Beyond selling Samsung phones and Hyundai cars: South Korea wants to be Africa's industrialisation partner

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South Korean products are used by millions of people in Africa every day – from Samsung mobile phones to LG air conditioners to Hyundai and Kia cars. In fact, in this year's Brand Africa 100 ranking of the most-admired brands on the continent, Samsung and LG featured in second and 10th places respectively.

Commercial ties between Africa and South Korea have strengthened considerably over the last three decades. Between 1990 and 2017, South Korean exports to the continent increased from \$892 million to an estimated \$13.3 billion, while imports from Africa rose from \$383 million to an all-time high of \$11.7 billion in 2014, before dropping to about \$5.4 billion in 2017, largely due to a decline in natural gas and petroleum products trading.¹ Despite this, Africa only accounts for a tiny proportion of South Korea's total trade – about 2.6% and 1.3% of exports and imports respectively in 2016.² An encouraging trend is South Korea's manufacturing investments in Africa, which have grown from only \$1.1 million in 1990 to over \$180 million in 2017.

The who's who of African government and business recently flew halfway across the world for the week-long annual meetings of the African Development Bank (AfDB), which was hosted in the South Korean port city of Busan from 21 to 25 May. Although the AfDB's event is primarily a gathering of the institution's board of governors, it further serves to raise the AfDB's profile on the global stage, which explains this year's location. There were also some parallel-running official side events, such as the Korea-Africa Economic Cooperation (KOAPEC) Conference.

The week saw the signing of various agreements that are likely to bolster relationships between South Korea and African countries. The most significant announcement was a \$5-billion financial assistance package for Africa, which will be delivered over two years through

partnerships with various development agencies.

The South Korean government and the AfDB also signed a letter of intent to launch the Korea-Africa Energy Investment Facility, with the aim of supporting universal access to electricity for the African continent. Under the facility, Korea stands ready to provide \$600 million over a period of five years in both concessional and non-concessional finance for a variety of projects that will provide electricity to homes, schools, hospitals, farming and industries.

Furthermore, South Korea entered into a memorandum of understanding with the United States-led Power Africa initiative, with the intention to support Africa's energy sector, particularly regarding transmission-line infrastructure.

In addition, the Export-Import Bank of Korea (Korea Eximbank) announced an interbank credit facility of up to \$200 million, with favourable terms and conditions, to the African Export-Import Bank (Afreximbank). Under the facility, Afrximbank will be able to provide financing to African companies doing business with Korean entities.

THE FOURTH INDUSTRIAL REVOLUTION: AN OPPORTUNITY FOR ECONOMIC COOPERATION?

Embracing a future of artificial intelligence, robots and internet-connected workplaces was high on the agenda at the KOAFEC Conference, which brought together both government officials and business people. The theme of the event was: Africa and the Fourth Industrial Revolution: Opportunities for leapfrogging?

"To translate Africa's huge potential into actual economic prosperity, industrialisation is critical," said Dong Yeon Kim, South Korea's Deputy Prime Minister and Minister of Strategy and Finance, after highlighting that in many African countries,

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industry’s contribution to GDP remains lower than in other parts of the world.

“In the face of the Fourth Industrial Revolution, a new approach has become more important than ever. New technologies can provide leapfrogging opportunities by speeding up the industrialisation process and creating new value. Africa is well-positioned to capitalise on these technologies on the back of its favourable structural factors,” Kim added, in a speech at the KOAFEC Conference.

South Korea offers many lessons for African countries that want to pursue a path of industrialisation. At the end of the Korean War, South Korea was a poor and backward economy. In fact, in 1967, South Korea and Africa had roughly the same GDP per capita. However, through a range of policy interventions, it was able to quickly boost its industrial base, moving from agrarian reform into low- and high-tech sectors. Today South Korea is the world’s 11th biggest economy, and a leader in advanced technologies. The capital Seoul has become a global entertainment centre, and a hub for the creative industries.

“There is a real opportunity for Africa to draw instructive lessons from Korea’s remarkable path to economic glory, and for Africa to create jobs and promote inclusive economic transformation through domestic manufacturing and a commodity-based industrialisation process,” commented Akinwumi Adesina, president of the AfDB.

According to Adesina, the Fourth Industrial Revolution offers opportunities for greater cooperation between Africa and South Korea, adding that so far the internet has only led to modest economic gains for Africa, and that it is primarily used for consumption, rather than for enterprise or production.

South Korea is keen to get involved in Africa’s industrialisation journey. In a declaration signed after the KOAFEC Conference, it agreed to cooperate with Africa in a number of areas, including: infrastructure such as roads, electricity and communications; agriculture, especially in terms combining farming and ICT; and the promotion of entrepreneurial startups.

Kim highlighted “smart infrastructure” as an area where Korea can assist in Africa’s

development. “Smart infrastructure can provide a new solution to Africa’s shortage in roads, airports and harbours. It allows optimal use of resources and can even replace traditional infrastructure.”

He highlighted South Korean involvement in such projects, including a Korean-financed railroad electronic locking system in Egypt, and support in terms of knowledge sharing for Kenya’s intelligent public transportation system.

SOUTH KOREAN ECONOMIC INTERESTS IN AFRICA

South Korea has been active in Africa for many decades, but according to a report by Chatham House, 2006 heralded a new area in relations between Seoul and Africa. That year, then-president Roh Moo-hyun undertook an official state visit to Nigeria, Egypt and Algeria, and the first Korea-Africa summit took place in the South Korean capital.³

The report states that South Korea’s new phase of engagement with the continent is driven primarily by three factors: “The pursuit of food and energy security; the establishment of new markets for its manufactured goods; and the enhancement of its credentials as a prominent global player.”

Compared to Western nations and China, South Korea hasn’t been as successful in securing access to Africa’s natural resources. “The primary cause of South Korea’s relative failure in its pursuit of sub-Saharan Africa’s natural resources is rooted in the extremely competitive nature of the market. As sub-Saharan Africa’s resources are in high demand, South Korean firms must compete with more experienced, wealthier and more politically-powerful international actors,” notes Chatham House.

Since 2006, the Korean National Oil Corporation (KNOC) had signed memorandums of understanding with the state-owned oil companies of Angola, Equatorial Guinea and Gabon, all of which failed to lead to access to oil blocks or exploratory licences.⁴ And rights to two offshore oil blocks in Nigeria were revoked due to allegations that KNOC didn’t meet some contractual obligations.⁵ The single African project currently listed on KNOC’s website is a small interest in a Libyan oil

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field. However, in 2010 the state-owned oil producer acquired UK-based Dana Petroleum, which gave it access to oil assets in Egypt, amongst other territories.

In the gas sector, government-backed KOGAS's only significant African venture is an interest in a Mozambican offshore gas project. And although South Korea is not a major player in African mining, the Korea Resources Corporation (KORES) has managed to secure a stake in the Ambatovy nickel project in Madagascar.

It can be argued that South Korea's private-sector manufacturing companies have been much more successful in establishing an African footprint than its state-owned enterprises. The products of consumer electronics and appliances makers such as Samsung and LG are ubiquitous in most countries on the continent. These entities have also boosted their local manufacturing capacity: LG makes washing machines in Egypt and Samsung has a television factory in South Africa.^{6 7} South Korean automotive brands Hyundai and Kia are also found on roads throughout Africa, and both have extensive dealership networks.

South Korean engineering and construction entities have landed sizeable projects in Africa. For instance, earlier this year Samsung Heavy Industries delivered the world's largest floating production storage and offloading (FPSO) vessel in Lagos, Nigeria. The gigantic FPSO will be installed at the Egina offshore oil field, 200km from the Nigerian shore. The contract for the engineering, procurement, construction, installation, and commissioning of the vessel is worth \$3 billion.⁸ Some of Daewoo Engineering and Construction's recent projects include the building of a highway in Ethiopia and a bridge over the Zambezi River to connect Zambia and Botswana, while Hyundai Engineering and Construction has secured a contract to build a bridge over the Nile River in Uganda.^{9 10} Daewoo Shipbuilding & Marine Engineering has, however, faced challenges in Angola due to the inability by the state-owned oil company Sonangol to pay for two drillships it ordered in 2013 (Sonangol recently pledged that it will honour its commitment).^{11 12}

In the information and communications technology (ICT) sector, South Korea's KT

Corporation has rolled out a nationwide 4G LTE network in Rwanda. At the KOAFEC Conference, Kim Hyung-Joon, head of the KT Global Business Unit, said the company plans to expand cooperation with African countries in ICT. A few years ago, KT Corporation suffered a setback in South Africa when it had to abandon its plans to buy 20% of the semi-privatised telecommunications provider Telkom, after the South African government failed to support the transaction.¹³

Korea Eximbank is actively working to create markets for South Korean businesses in Africa. For instance, at the KOAFEC event, it was announced that Korea Eximbank would provide an \$88.5 million loan to establish an oncology centre in Senegal, which will involve the participation of South Korean companies. "Upon completion of this project, the centre is expected to be the first hospital specialising in cancer treatment in Senegal, with Korea's high-end medical equipment and skills for cancer treatment fully transferred to the country. Moreover, it will support the entry of Korean companies into the African medical market," read a statement by Korea Eximbank.

South Korea has learnt a few hard lessons in the agriculture and food sector. About a decade ago, Daewoo Logistics secured 1.3 million hectares of land from the government of Madagascar in a 99-year lease deal. The land awarded was reportedly almost 50% of Madagascar's total cultivable area, that would have been used to grow maize and oil palm for the Korean market. Daewoo Logistics received the land for free, in exchange for a commitment to create a substantial number of jobs and to support the development of Madagascar's infrastructure. The deal led to a public outcry, contributing to the fall of Madagascar's president and the subsequent cancellation of the contract.¹⁴

South Korea has also been accused of illegal and unregulated fishing practices in West African waters, which, in 2013, led to the European Union putting the country on notice, threatening to block South Korean fish exports to its member states. However, in 2015, the EU stated that it was satisfied that South Korea had carried out appropriate reforms of its legal system to tackle illegal fishing.¹⁵

On a more positive note, South Korea has financially assisted the promotion of its Saemaul Undong rural development model in many African countries. First initiated in 1970 by former president Park Chung-hee, the Saemaul Undong model, also known as the New Community Movement, played an essential role in reducing rural poverty in South Korea by promoting self-reliance and collaboration among the people living in rural villages. The central government provided each participating community with raw materials and entrusted the locals to build whatever they wished, leading to a significant improvement in rural infrastructure. According to *The Diplomat*, “the Saemaul Undong model is being used as a soft power export by South Korea in the hope of forming key partnerships in Africa.”¹⁶

CONCLUSION

Although Africa represents a small portion of South Korea’s international economic interests, Seoul clearly wants to maintain good political and business ties with the

continent, and participate in its economic growth story. To fully capitalise on Africa’s business opportunities, it needs to demonstrate that its involvement is indeed a win-win for all parties, and avoid situations such as the controversial Madagascar land deal and the illegal fishing allegations.

Similarly, Africa can benefit significantly from South Korea’s economic assistance, especially concerning infrastructure development. However, African countries should ensure they create environments in which South Korean companies feel comfortable to do business.

AfDB president Akinwumi Adesina concluded his speech at the KOAFEC Conference by saying: “Korea is a partner of choice for the continent and for the African Development Bank. I have no doubt that we will help lift the continent out of poverty together, and in doing so, contribute in no small measure to global peace and prosperity.”

¹ Speech delivered by Akinwumi Adesina at the Ministerial Roundtable at the KOAFEC.

<https://am.afdb.org/en/speeches/speech-delivered-akinwumi-adesina-president-african-development-bank-ministerial-roundtable>

² Speech for KOAFEC Dinner – Akinwumi A. Adesina, President of the African Development Bank.

<https://am.afdb.org/en/speeches/speech-koafec-dinner-akinwumi-adesina-president-african-development-bank>

³ Chatam House report.
https://www.chathamhouse.org/sites/default/files/field/field_document/20141027SouthKoreaAfricaDarracqNeville.pdf

⁴ Chatham House.

⁵ *Upstream*.
http://www.upstreamonline.com/hardcopy/1226472/knoc-loses-bid-to-win-back-nigerian-acreage?utm_medium=email&utm_source=free_article_access&utm_content=221954254

⁶ *Mubasher*.
<https://english.mubasher.info/news/3132152/LG-opens-new-production-line-in-Egypt>

⁷ *MyBroadband*.
<https://mybroadband.co.za/news/hardware/247812-samsungs-tv-factory-in-south-africa-can-produce-5000-units-per-day.html>

⁸ Samsung Heavy Industries.

http://www.samsungshi.com/Eng/Pr/news_view.aspx?Page=1&Seq=1057&mac=fae97cd6146217b056d6739413af97ec

⁹ *BusinessKorea*.

<http://www.businesskorea.co.kr/news/articleView.html?idxno=13861>

¹⁰ *The Africa Report*.

<http://www.theafricareport.com/East-Horn-Africa/samsung-leads-the-african-investment-charge.html>

¹¹ *BusinessKorea*.

<http://www.businesskorea.co.kr/news/articleView.html?idxno=19785>

¹² *AllAfrica*.

<http://allafrica.com/stories/201805080140.html>

¹³ *Financial Times*.

<https://www.ft.com/content/63ce03d6-aeda-11e1-a4e0-00144feabdc0>

¹⁴ *Financial Times*.

<https://www.ft.com/content/7e133310-13ba-11de-9e32-0000779fd2ac>

¹⁵ European Commission.

http://europa.eu/rapid/press-release_IP-15-4806_en.htm

¹⁶ *The Diplomat*.

<https://thediplomat.com/2017/10/south-koreas-saemaul-undong-in-africa/>