

Canada-Korea Free Trade Agreement

What the trade agreement with South Korea could mean for western Canada

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WHAT IS THE CANADA-KOREA TRADE AGREEMENT?

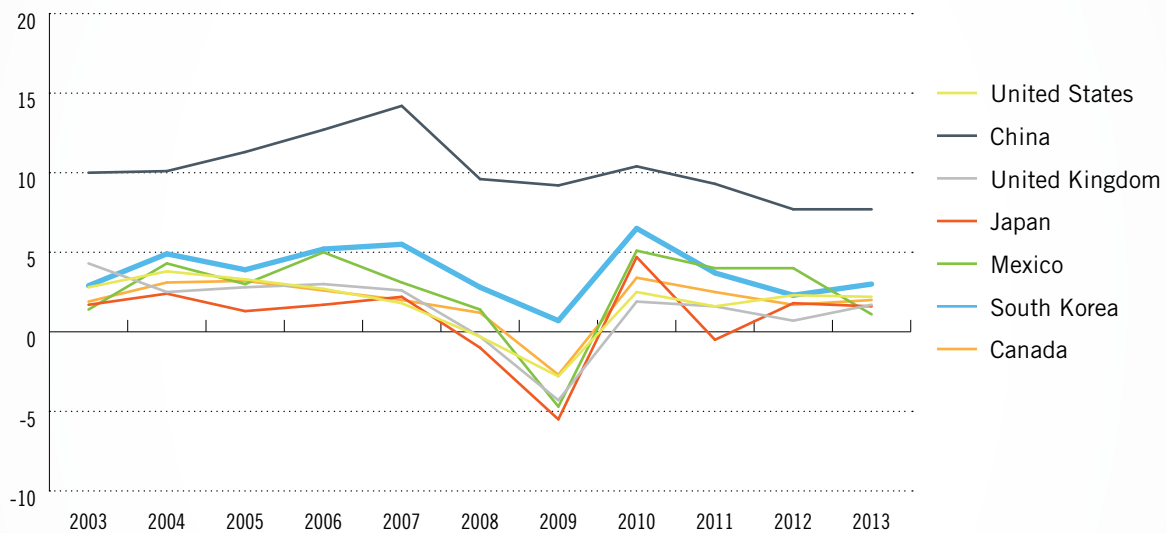
The Canada-Korea Free Trade Agreement (CKFTA), which came into force on Jan. 1, 2015, is a comprehensive trade agreement between Canada and South Korea. It liberalizes or reduces barriers to: trade in goods, financial and other services, government procurement, intellectual property and investment. The agreement also addresses non-tariff trade barriers, movement of people for work and co-operation in labour and the environment.



HOW IMPORTANT IS THE SOUTH KOREAN MARKET TO CANADA?

With 50 million people and an annual GDP of \$1.3 trillion, South Korea is the world's 15th largest economy and the 4th largest in Asia by GDP, at purchasing power parity. It is the world's eighth largest exporter and 10th largest importer. In 2013, South Korea's GDP per capita was US\$25,977 (up from US\$2,300 per person in 1980); this places the Korean market squarely in the middle of Canada's top trading partners outside the U.S. – China (US\$ 6,807), the United Kingdom (US\$41,787), Japan (US\$38,634) and Mexico (US\$10,307). South Korea's economy grew by three per cent in 2013 and is projected to grow by around 3.5 per cent in 2014-15. The United States, in comparison, grew by 2.2 per cent in 2013, and is projected to grow between 2.5 to three per cent through to 2016.

ANNUAL GDP GROWTH: CANADA, TOP 5 CANADIAN TRADING PARTNERS AND SOUTH KOREA



Source: World Bank

SOUTH KOREA HAS
AN ANNUAL GDP OF

\$1.3T

IN 2013, SOUTH KOREA'S
GDP PER CAPITA WAS

US \$25,977

IN 2013, SOUTH KOREA'S
ECONOMY GREW BY

3%

WHY IS THE CKFTA IMPORTANT FOR WESTERN CANADA?

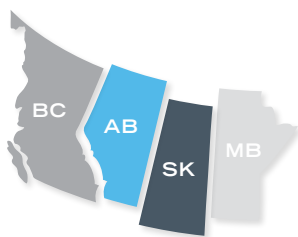
The western provinces (British Columbia, Alberta, Saskatchewan and Manitoba) account for more than 37 per cent of Canada's merchandise trade with South Korea, and the CKFTA significantly reduces tariffs on many of these goods.¹

The biggest benefit of the agreement will be to once again give Canadian companies a level playing field in the South Korean market. Canada's competitors already have trade deals with South Korea, putting them a step ahead of us. The EU signed a deal with South Korea in 2011, the U.S. in 2012, Australia in 2014, Chile in 2003 and Peru in 2010.

SOUTH KOREAN TRADE AGREEMENTS AROUND THE PACIFIC*



* Mexico and Columbia enjoy enhanced access to South Korea as members of the Pacific Alliance, whose other members, Chile and Peru, have FTAs with South Korea



THE WESTERN PROVINCES
ACCOUNT FOR MORE THAN

37%

OF CANADA'S MERCHANDISE
TRADE WITH SOUTH KOREA



¹ When the agreement is fully implemented, all tariffs on non-agricultural goods will be completely eliminated.

HOW WILL THE AGREEMENT AFFECT US?

The CKFTA will provide Canadian companies with an opportunity to increase trade with South Korea. For example, in 2011 the U.S. was South Korea's fourth largest trading partner; since 2012 it has risen to become the third largest (behind China and Japan). Likewise, in 2011, South Korea was the U.S.'s seventh largest trading partner, and in 2013 rose to sixth. While overall exports between the two countries have not increased significantly under the agreement, trade in beneficiary items (items on which tariffs were reduced) under the deal have grown each year. In 2013, U.S. exports in beneficiary items increased by nearly seven per cent, while South Korean exports in beneficiary items rose by 6.2 per cent.

Although there is no hard evidence to suggest a direct link between Canada's decreased trade with South Korea and the trade agreements it signed with other countries, Canada's trade competitiveness declines as countries with goods and services similar to ours reach trade agreements with the South Koreans. Though no causal link has been proven, it is worrying that Canadian exports to South Korea dropped by 30 per cent since the U.S. implemented its trade agreement with South Korea two years ago.² In Saskatchewan alone, agricultural exports to South Korea dropped by nearly 80 per cent. South Korea also has trade agreements in place with other commodity producing nations, such as Chile (a major exporter of minerals, wood pulp, and wine) and Peru (a major exporter of minerals and refined petroleum). The CKFTA will help to re-establish Canada as a competitive player in the South Korean market.

WHAT ARE THE EXPECTED CHALLENGES?

The U.S. is experiencing several challenges related to the implementation of certain aspects of its trade agreement with South Korea – issues Canada should take note of. South Korea is investigating some U.S. companies over the accuracy of country-of-origin labelling (such as asking McDonald's to prove its french fries are made with U.S.-grown potatoes). Failure to meet country-of-origin labelling standards would result in repayment of tariffs. The American Chamber of Commerce also reports issues in the implementation of the agreement in the areas covering auto exports and cross-border data movement.

On investment, Canada's slower review and approval processes for natural resource and infrastructure projects, as well as its reputation for delays resulting from gaps in public support, could undermine advantages achieved through the agreement. This is especially true in comparison to other countries with which South Korea has trade and investment agreements.

THE U.S. IS EXPERIENCING SEVERAL
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RELATED TO THE IMPLEMENTATION
OF CERTAIN ASPECTS OF ITS TRADE
AGREEMENT WITH SOUTH KOREA



² Eugene Beaulieu, "Canada-Korea Free Trade: A Watershed in Economic Integration with Asia," University of Calgary School of Public Policy, March 2014.

HOW COULD WESTERN CANADA BENEFIT FROM THE CKFTA?

The West has many of the products and materials the South Korean economy must import, and South Korea is already a major export destination for western provinces. For example, South Korea has only one commercially producing oil field and only one natural gas field. It relies on imports to meet 97 per cent of its energy demand. In 2013, it was the world's second largest importer of liquefied natural gas (LNG) and fourth largest importer of coal. South Korea's population density is more than 500 people per square kilometre (Canada has less than four people per square kilometre), and only about two per cent of South Korea's land mass is used for agricultural production. By removing trade barriers, the CKFTA puts Canada on a level playing field with our competitors, making it easier to increase trade and investment between the two countries.

WESTERN CANADA-SOUTH KOREA BILATERAL MERCHANDISE TRADE, 2013 (C\$ MILLIONS)

Province	Exports to South Korea	Imports from South Korea	Total Two-Way Trade	% of Canada's Two-Way Trade with South Korea
British Columbia	1,816.19	1,157.38	2,973.57	27.60
Alberta	565.33	281.60	846.94	7.86
Saskatchewan	57.59	49.92	107.52	1.00
Manitoba	56.53	65.08	121.61	1.13
TOTAL	2,495.64	1,554.00	4,049.64	37.6

Source: Canadian International Merchandise Trade Database (Statistics Canada)

As well as removing tariffs, the CKFTA will improve conditions for Korean investment in Canada by:

- facilitating inter-company transfers and entry of skilled professionals
- expanding the list of professionals who can obtain work permits without a labour market opinion
- allowing spouses of professionals and people who move through inter-company transfers to work in Canada
- adding a new category of graduate student and company trainees to the labour market opinion exemption, and
- ensuring non-discriminatory treatment for Canadian investors in South Korea by establishing most favoured nation treatment, protection from expropriation, and international independent arbitration for dispute resolution.

CKFTA could benefit western Canada's energy sector by increasing the attractiveness of Canada to South Korean investors. The reciprocal privileges for Canada may also facilitate entry for Canadian companies into South Korea's financial services, energy development and environmental protection sectors.

British Columbia

The CKFTA eliminates tariffs on most of the products British Columbia exports to South Korea, particularly benefiting its industrial goods, minerals, forestry, seafood, agriculture and service sectors. For example the CKFTA eliminates:

PERCENTAGE (%)	TARIFF ELIMINATED BY THE CKFTA ON BC EXPORTS
90%	90 per cent of tariffs on fish and seafood exports by 2019 and 100 per cent by 2026 (until the implementation of CKFTA, these exports faced up to 46 per cent tariffs upon entry into South Korea).
98% 94%	More than 98 per cent of tariffs on aluminum. 94 per cent of tariffs on other minerals. The remainder will be removed within five years.
57%	57 per cent of tariffs on forestry and value-added wood products. 70 per cent will be eliminated by 2017 and the remainder by 2024.
15% 30-45%	15 per cent tariff South Korea placed on wine. 30 to 45 per cent tariffs on berries.
3%	3 per cent duty South Korea placed on LNG imports. ³

The Prairies

Alberta's 2013 exports to South Korea consisted mainly of wood pulp, coal, wheat, machinery, pork and nickel. Saskatchewan's key exports to South Korea are agricultural products, such as canola and malt, and industrial goods, such as weighing machinery and electrical transformers. In addition to agricultural, industrial and forestry exports, Manitoba also exports logistics expertise to South Korea, such as business and professional services, construction, engineering and architectural services, and marketing and distribution services.

The measures listed earlier will benefit not only British Columbia, but also Alberta, Saskatchewan and Manitoba. In addition, the CKFTA further increases opportunities for the prairie provinces by:

- eliminating tariffs on nearly **87 per cent** of South Korean agricultural tariff lines, where tariffs average **52 per cent**, including immediately removing tariffs on wheat, oats, rye, canola and other seeds
- eliminating South Korea's duties of up to **25 per cent** for fresh, chilled and frozen pork within five to 13 years, and
- eliminating South Korean duties ranging from **40 to 72 per cent** for fresh, chilled and frozen beef and some processed beef over 15 years.

³ Although Canada does not export LNG to Korea, the government of British Columbia's goal is to have three LNG facilities in operation by 2020.

WILL THE TPP RENDER THE CKFTA REDUNDANT?

No. The Trans-Pacific Partnership (TPP) includes 12 countries of the Asia-Pacific Region aiming to liberalize trade in nearly all goods and services, even beyond those established through the World Trade Organization (WTO). South Korea is not one of the 12 countries, although it has expressed interest in participating. Chances of the TPP coming into force anytime soon are remote. Negotiations were expected to conclude by the end of December 2013, but issues regarding agriculture products and intellectual property rights have delayed its conclusion.

Through the CKFTA and similar agreements, Canada can begin to catch up to our major competitors who are already enjoying liberalized trade with South Korea, without having to wait for the TPP to be ratified to establish a presence in emerging Asian markets. Multi-lateral agreements offer more bang for the buck but they are also more difficult and the negotiations have a higher rate of failure as seen in the failed Free Trade Agreement of the Americas and continued problems with WTO agreements.



