



## **A FREE TRADE AGREEMENT WITH KOREA: INVESTMENT OPPORTUNITIES**

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In 2005, Canada was a net exporter of investment, with Canadians holding \$465 billion of investments in foreign markets and foreign direct investment (FDI) in Canada totalling \$416 billion. Investment plays an increasingly important part in the Canadian economy.

Outward investment by Canadians provides improved access to foreign markets, technology and expertise, and enhances the competitiveness of Canadian firms. Foreign direct investment benefits Canada by stimulating economic growth, creating new jobs, providing new technologies and increasing competition in the Canadian economy. Moreover, bilateral investment encourages bilateral trade by strengthening the economic ties between countries, as Canadian investors abroad purchase investment-related goods and services from Canadian suppliers.

### **Korea is an important investment partner for Canada**

Korea is currently an important Asian investment partner, both as a destination for Canadian direct investment abroad (CDIA) and as a source of incoming FDI:

- In 2005, the stock of CDIA in Korea was \$779 million, which makes Korea the 30<sup>th</sup> largest destination for CDIA in the world. Also in 2005, the stock of Korean FDI in Canada was \$364 million, making Korea our 23<sup>rd</sup> largest source of FDI.
- Examples of Korean investment in Canada include the [US\\$270 million invested](#) by the Korea National Oil Corporation (KNOC) in an oil sands project in Alberta and the [C\\$34 million](#) invested by Seoul City Gas for oil & gas exploration/production projects.
- Leading Canadian investors in Korea include [Magna International](#), [Bombardier Transportation](#), [Novelis Inc.](#) and [Nortel Networks](#).

### **How an FTA with Korea can benefit Canada**

Despite the significant liberalization that has occurred in the Korean investment regime and the favourable terms available to foreign investors in certain circumstances, foreign investors still perceive some aspects of the Korean investment environment as challenging. Investment rules in a free trade agreement (FTA) based on Canada's model Foreign Investment and Protection and Promotion Agreement (FIPA) would provide



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Canadian investors greater stability and protection for their investments. Moreover, the transparency of the regulatory regime confronting investors could also be improved in the investment chapter of an FTA. Past investment agreements and FTAs signed by Korea suggest that Canada could expect to achieve a high standard agreement, including commitments on non-discrimination, minimum standard of treatment, expropriation, performance requirements, transfer of capital, transparency and investor-state dispute settlement.

Thus, an FTA would help to deal with challenges faced by investors. It would protect investors from discrimination while providing for fair and equitable treatment and full protection and security in accordance with principles of customary international law. An FTA would also ensure the free transfer of capital related to an investment, protect against expropriation without adequate and effective compensation, and provide access to international arbitration to resolve disputes. Through the promotion of good governance (e.g., respect for rule of law, transparency), an FTA would help influence the development of national laws and generally lead to a better investment climate in Korea. Stronger reciprocal commitments between Canada and Korea will promote greater two-way investment flows.

Canadian business can take advantage of Korea's plan to establish itself as a regional business services hub for North-East Asia. In 2002, Korea announced its intent to become a regional logistics centre and business hub for high value-added services (headquarters functions, trade, finance, IT, design, R&D, leisure and tourism). The plan is to develop three free economic zones around the Incheon International Airport and the Busan and Gwangyang ports. These zones will feature state-of-the-art infrastructure (bridges, highways, railroads, ports, utilities, communications, IT) and an advanced business environment<sup>1</sup>, which may serve as a strong attraction to Canadian investors.

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<sup>1</sup> Source: [http://www.unctad.org/en/docs/wir2004\\_en.pdf](http://www.unctad.org/en/docs/wir2004_en.pdf)