



A FREE TRADE AGREEMENT WITH KOREA: KOREA ECONOMIC PROFILE

Korean Market Growth Potential

A high-growth and rapidly advancing market, Korea is positioned as a ‘gateway’ to Northeast Asia, a region of strategic importance to global value chains. With a population exceeding 48 million and a GDP approaching \$954 billion, Korea is the largest of the four “Asian tigers” (the others are Hong Kong, Singapore and Taiwan). The country has emerged from the 1997 Asian financial crisis to become the 12th-largest merchandise trading nation in the world, with total merchandise trade in 2005 reaching \$660.3 billion.

Canada and Korea are established trade and investment partners, and a free trade agreement (FTA) is expected to strengthen this relationship. In 2005, Korea was Canada’s seventh-largest merchandise trading partner, with Canadian exports totalling \$2.8 billion, and imports from Korea nearing \$5.4 billion. The stock of Canadian direct investment in Korea was \$779 million in 2005, while the stock of Korean direct investment in Canada was \$364 million. In 2004, Canada exported \$706 million in services to Korea and imported \$350 million in services.¹ See Annex A for more detailed trade and investment statistics.

Table 1: Korea Market Profile (2005)²

Gross Domestic Product (GDP)	(World Bank)	\$954 billion
Share of world GDP	(World Bank)	1.77%
GDP growth forecast (2006-2007)		annual average 4.4%
Private consumption (% GDP)		52.6%
Government consumption (% GDP)		14.1%
Main origins of gross domestic product 2005		
Manufacturing		28.4%
Wholesale & retail trade		9.5%
Construction		9.2%
Financial intermediation		8.4 %
Transport, storage & communications		7.2%
Agriculture & forestry		3.3%

¹ All statistics in this section are from Statistics Canada, unless otherwise stated.

² Statistics are from the Economist Intelligence Unit, unless otherwise noted.



Korea is well established in global value chains, especially in the Northeast Asia ‘growth triangle’ that includes China and Japan. Integration between China, Japan and Korea is growing. Between 1990 and 2001, the share of intra-regional trade and foreign direct investment increased from 13% to 22%, and 2.4% to 8.9% respectively.³ Intra-firm/industry trade is also a key aspect of present integration trends in the region.

Table 2: Korea Global Trade and Investment Profile (2005)

Korean goods trade (World Trade Atlas):

Total exports:	\$344.2 billion
Exports as % of GDP	36.1%
Top exports:	electrical machinery, machinery, vehicles, ships, mineral fuel
Total imports:	316.1 billion
Imports as % of GDP	33.1%
Top imports:	mineral fuel & oil, electrical machinery, machinery, iron and steel, optic and medical equipment

Korean services trade (IMF):

Total exports:	US\$45.4 billion (2005)
Total imports:	US\$58.5 billion (2005)

Korean inward and outward foreign direct investment (IMF):

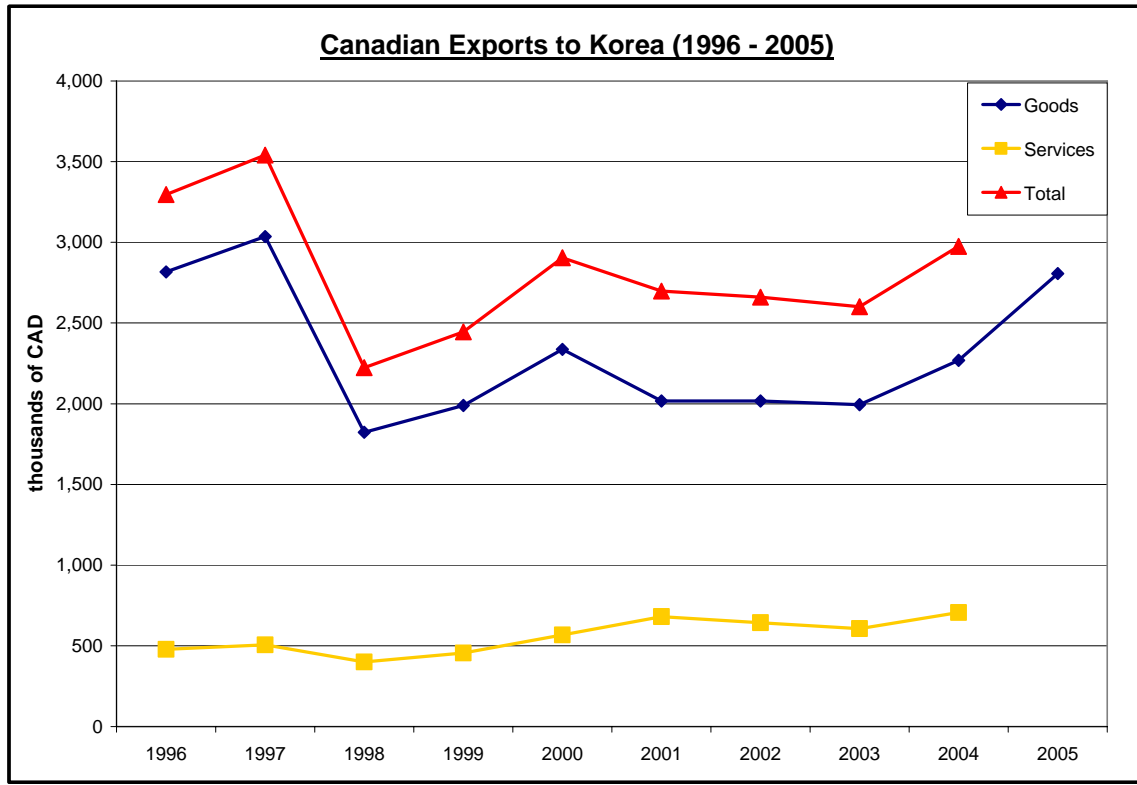
Inward FDI flows:	US\$7.2 billion (2005)
Inward FDI stocks:	US\$63.2 billion (2005)
Outward FDI flows:	US\$4.3 billion (2005)
Outward FDI stocks:	US\$36.5 billion (2005)

Bilateral trade and investment relationship

While the commercial relationship between Canada and Korea is solid, the Canadian government recognizes that there is considerable room to expand and further diversify these exchanges. For instance, despite the rapid growth of the Korean economy, Canada’s principal exports – which include wood pulp, agricultural products and telecommunications parts – are largely the same as a decade ago. Following the Asian crisis, merchandise exports fell off sharply in 1998 but have since rebounded strongly to reach 54% higher than the low point in 1998, although they still have to regain the peak of 1997. Canada’s services exports to Korea have climbed steadily in the past 10 years, and were 47% higher in 2004 as compared to 1996, the year prior to the Asian crisis. While the bilateral investment relationship has been expanding, it remains modest.

³ Chang-Jae Lee, “Towards a Northeast Asian Economic Community: A Korean Perspective,” in *Northeast Asian Economic Integration: Prospects for a Northeast Asian FTA*. Edited by Yangseon Kim and Chang-Jae Lee. Korea Institute for International Economic Policy: Seoul, 2003.

**A FREE TRADE AGREEMENT WITH KOREA:
KOREA ECONOMIC PROFILE**



**A FREE TRADE AGREEMENT WITH KOREA:
KOREA ECONOMIC PROFILE**

ANNEX A

Canada-Korea Bilateral Economic Relationship

Trade in goods – Canadian exports to Korea (CAD thousands)

	2001	2002	2003	2004	2005
Mineral Fuels, Mineral Oils, Bituminous Substances and Mineral Waxes	307,689	261,992	209,003	237,163	565,260
Pulp of Wood and The Like; Waste and Scrap of Paper or Paperboard	407,096	462,995	458,791	426,793	339,716
Cereals	70,356	37,760	22,848	76,218	221,140
Electrical or Electronic Machinery and Equipment	108,212	112,488	150,189	161,542	207,901
Ores, Slag and Ash	79,845	74,459	35,192	134,620	206,371
Organic Chemicals (Including Vitamins, Alkaloids and Antibiotics)	117,798	79,682	149,173	190,686	180,143
Nuclear Reactors, Boilers, Machinery and Mechanical Appliances	121,252	96,890	82,786	98,663	125,020
Aluminum and Articles Thereof	152,254	146,214	173,992	144,207	105,701
Meat and Edible Meat Offal	57,280	87,237	50,652	43,431	99,903
Optical, Medical , Photographic, Scientific and Technical Instrumentation	31,030	28,450	41,833	64,209	91,644
Products	564,284	628,598	620,022	691,068	663,630
Total	2,017,097	2,016,766	1,994,482	2,268,598	2,806,427

Source: Statistics Canada

Trade in goods – Canadian imports from Korea (CAD thousands)

	2001	2002	2003	2004	2005
Motor Vehicles, Trailers, Bicycles, Motorcycles and Other Similar Vehicles	1,097,898	1,360,795	1,531,901	1,801,565	1,708,945
Electrical or Electronic Machinery and Equipment	1,189,323	1,256,081	1,376,791	1,483,241	1,416,640
Nuclear Reactors, Boilers, Machinery and Mechanical Appliances	786,614	735,386	834,711	809,659	816,774
Iron and Steel	117,262	168,647	140,764	180,503	186,887
Rubber and Articles Thereof	118,939	136,630	145,572	164,769	170,772
Plastics and Articles Thereof	81,222	106,790	111,772	125,948	169,212
Articles of Iron or Steel	128,225	118,141	131,668	151,722	160,840
Optical, Medical , Photographic, Scientific and Technical Instrumentation	91,039	72,329	68,253	82,196	99,225
Organic Chemicals (Including Vitamins, Alkaloids and Antibiotics)	20,214	20,745	19,963	42,430	50,536
Knitted or Crocheted Clothing and Articles of Apparel	174,744	150,547	97,437	82,620	44,567
Other Products	799,360	738,565	649,257	901,048	550,070
Total	4,604,839	4,864,658	5,108,088	5,825,699	5,374,467

Source: Statistics Canada

**A FREE TRADE AGREEMENT WITH KOREA:
KOREA ECONOMIC PROFILE**

Trade in services – Canadian exports to Korea (CAD thousands)

	2000	2001	2002	2003	2004
Commercial services	149,000	198,000	192,000	183,000	171,000
Travel services	238,000	284,000	269,000	251,000	273,000
Transport and government services	181,000	199,000	182,000	173,000	262,000
Total	568,000	681,000	643,000	607,000	706,000

Source: Statistics Canada

Trade in services – Canadian imports from Korea (CAD thousands)

	2000	2001	2002	2003	2004
Commercial services	140,000	77,000	60,000	125,000	106,000
Travel services	28,000	27,000	31,000	66,000	60,000
Transport and government services	135,000	125,000	125,000	105,000	184,000
Total	303,000	229,000	216,000	296,000	350,000

Source: Statistics Canada

Bilateral investment (CAD thousands)

	2001	2002	2003	2004	2005
Canadian direct investment in Korea	725,000	749,000	698,000	1,364,000	779,000
Korea's foreign direct investment in Canada	269,000	274,000	336,000	360,000	364,000

Source: Statistics Canada

- Investment from Korea represents 0.09% of total FDI in Canada.
- Investment in Korea represents 0.17% of total Canadian direct investment abroad.
- In 2004, 26% of Korean FDI went to the U.S., and 22% went to China.
- Less than 2% of total Korean FDI went to Canada and Mexico.

Top sectors attracting Korean investment in Canada

1. Mineral resources (mining)
2. Manufacturing (raw material processing, auto parts)
3. Trade and retail (marketing, sales, and distribution)
4. Services (educational services)
5. Hotels and restaurants

Source: Overseas direct investment statistics yearbook, Korea Export-Import Bank

Top sectors attracting Canadian investment in Korea

1. Manufacturing (auto parts, electronics and telecommunications equipment)
2. Mineral resources processing
3. Services (including public services)
4. Transportation
5. Real estate and construction

Source: Korean National Statistics Office