Korean-Canadian Trade Relations, 1987-1997[1]

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The purpose of this paper is to examine South Korea's economic relations toward Canada from 1987 to 1997—a period of transition that not only encompassed the Sixth (1987-1991) and Seventh Five-Year Plans (1992-1997) but marked the transition from authoritarian rule to that of democratic elections in South Korea. This paper will argue Canada's interest in the dynamic economies of the Asia-Pacific and South Korea's interest in diversifying its political and economic relations—stimulated by shared political and democratic values—led to a dramatic increase in bilateral trade and investment between South Korea and Canada.

Keywords: South Korea, Canada, economic relations, bilateral trade, export policy

Introduction

The financial and economic crisis that struck the Korean economy in the second half of 1997 ended the era of double—digit economic growth for South Korea. It became clear to South Korean policymakers that a major restructuring of the economy would be required if South Korea was to return to a path of high and

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sustained rates of economic growth. The financial and economic crisis resulted in a reappraisal of the Korean model of economic development, with its focus on export-led economic growth. Recently, scholarly attention has been given to regionalism and the economic effects of bilateral free trade agreements (FTA). In conjunction with the increasing trend towards regional integration, the South Korean government viewed trade liberalization as being economically beneficial and that the establishment of FTAs with major trading partners would stimulate economic growth.

During the past three decades, South Korea's rapid economic growth has generated a substantial body of literature in development studies that explores the driving forces behind this economic achievement (Amsden 1989; Deyo 1989; Gereffi and Wyman 1990). Much of the development literature on South Korea's export-led industrialization has focused on the role of state economic intervention in guiding export-oriented industrialization development through strategic intervention in the economy (Black 1966; Rostow 1971; Evans 1979; Hofeinz and Calder 1982; Haggard and Chung 1983; Wade and White 1984), the role bureaucrats in economic decision-making (Johnson 1994), the comparative advantages that South Korea enjoyed and how it reaped the benefits of these advantages by using the world market (Westphal 1978; Little 1982; Balassa 1982), and the role of multinational corporations (*jaebeols*) in shaping South Korea's economic development (Kaufman 1979; Jones and Sakong 1980; Street 1984; Steers et al. 1989). Building on the previous work of strong developmental state theorists Wade (1990) proposed a governed market theory and provided both theoretical and empirical evidence in support of governed market theory over free market theory.

Scholars then began to compare and contrast South Korea's economic growth with the Latin American development experience (Lin 1985; Evans 1987; Kagami 1995). The shift from import substitution industrialization to an export oriented growth strategy led to lengthy analyses of growth patterns in developing countries during implementation of IMF and World Bank structural growth plans as neoclassical development theorists emphasized that international trade could provide a substitute for low aggregate domestic demand (Taylor 1988; Amsden and Hoeven 1995; Akyüz 1995; Toye 1995; Boratav et al. 1996; Amadeo 1997).

In recent years, a body of literature emerged concerning the relative merits of bilateralism and the implications for trade between countries. Many arguments about bilateralism focus on the perceived economic benefits of FTAs. These include, but are not limited to; trade creation, increased investment, lower domestic prices, and financial stability. Nordstrom (1995) found that preferential free trade agreements allow countries to deal more effectively with trading blocs. From there, the debate about preferential free trade agreements focused on the relative merits of bilateralism. Levy (1997) examined the majority-based politics model to test whether bilateral free trade agreements supplant global free trade. Interestingly, in the context of the Heckscher-Ohlin trade model of prohibitive external tariffs, Levy found that bilateralism neither encouraged nor inhibited global free trade. The case for bilateralism was then applied to South Korea when Cheong and Lee (1999) utilized a general equilibrium model to analyze the economic effect of the bilateral free trade agreement between Chile and Korea. Then Schiff and Winters (2003) detailed the trade-related growth effects of an FTA that would allow South Korea to expand trade through information, technology, and knowledge transfers that would increase productivity.

Despite the plethora of literature examining economic growth and bilateralism within the South Korean context, South Korea's nascent trading relationships within the emerging Asia Pacific community are relatively understudied within the realm of development studies. A review of the past literature reveals that there has been no serious study of South Korean-Canadian trading relations. Of the handful of publications (Roh 1985; Lee Jaymin 1989; Lee Youngsun 1989; Okazaki 1989) that have addressed trade between South Korea and Canada only Roh (1985) was not a byproduct of the "Korea and Canada: New Frontiers in the Asia-Pacific Era" conference sponsored by the East-West Center at Yonsei University.

The purpose of this paper is to examine bilateral trade between Canada and South Korea from 1987 to 1997 utilizing economic integration theory in order to test the hypothesis that bilateral cooperation between South Korea and Canada would lead to a FTA that would assist in attracting foreign direct investment and opening new export markets thereby facilitating trade. Studying bilateral trade between South Korea and Canada will provide valuable information that can be used to make inferences about future bilateral trade agreements between mid-level powers and to understand the potential importance of the South Korea-Canada trading relationship within the context of the global trading system and the influence small, mid-level powers have in the global trading system.

This paper will specifically address the question of whether trade policy opened the South Korean and Canadian economies to new export markets—capital, agricultural, and technology—that previously constrained economic growth in South Korea and Canada. It will also examine if Canada's interest in the dynamic economies of the Asia-Pacific and South Korea's interest in diversifying its trading relations—stimulated by shared political and democratic values—led to a significant increase in bilateral trade and investment between South Korea and Canada.

Trade Relations with the United States

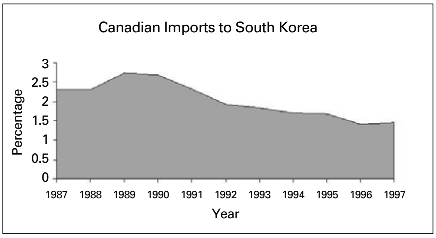
South Korea has long been one of the United States' key trading partners (Manyin 2002: 2). Yet, by the 1980s the relationship began showing signs of strains as disagreements over trade policy became increasingly bitter as the United States imposed a variety of import restriction measures on Korean exports in response to Korea's failure to reduce tariff rates, remove import barriers on manufactured goods and agricultural products, as well as eliminate obstacles to the introduction of foreign competition to service industries such as finance, insurance, and marketing.[2] Faced with the prospect of increasing contentious bilateral relations with its major trading partner, the United States, South Korea began to internationalize her economic relations as part of a realignment of external economic policy in an effort to stabilize its economy following the tumult of the late 1970s and early 1980s that has seen South Korea accumulate a foreign debt of US$50 billion to finance the import of technology and capital. Following his inauguration, President Roh Tae Woo set about implementing his *Nordpolitik* policy in 1988,[3] helping inaugurate the Asia-Pacific Economic Cooperation forum (APEC) process in 1989, and overseeing the joint entrance of the Republic of Korea and the Democratic People's Republic of Korea to the United Nations. Despite Roh Tae Woo's push for multilateral economic relations through diplomacy, considerable effort was put into further developing existing bilateral relations.

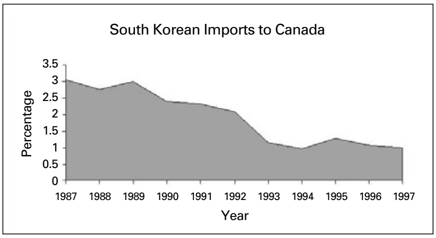
2. Beginning in the 1970s, the United States has imposed a series of restrictions on Korean exports: the Multi-Fiber Agreement (MFA) quota on textiles in 1974; an orderly marketing arrangement (OMA) on footwear between July 1977 and June 1981.
3. *Nordpolitik*, or Northern Policy, was the policy implemented by the government of Roh Tae Woo that sought to establish diplomatic and economic relations with the countries of Eastern Europe, the Soviet Union, and the People's Republic of China while continuing dialogue with North Korea.

Even though Canada has enjoyed diplomatic and economic relations with South Korea since 1963 as well as the establishment of a private economic cooperation council in 1972 and its first embassy in 1973, trade between South Korea and Canada remained at relatively insignificant levels until the mid 1980s for a variety of reasons. Various explanations have been posited—they include, but are not limited to—Canada's competitive position vis-á-vis Japan, the appreciation of the Korean won vis-á-vis the Canadian dollar as well as Canada's tariff structure which excluded most of Korea's exports from Canada's General Preferential Tariff System (GPT) (Lee Youngsun 1989: 212). Nonetheless, bilateral trade between Canada and South Korea gradually grew to the point that South Korea had become Canada's second largest trading partner in Asia behind Japan.

Even with the relative inattention given to bilateral trade between South Korea and Canada as well as prohibitive trade barriers, by 1987 two-way trade between South Korea and Canada reached US$2.4 billion making South Korea Canada's eighth largest export market and a major importer of Canadian natural resources (e.g., wood pulp, mineral fuels and oils, as well as organic chemicals) while Canada was the fifth largest export market of South Korea and an importer of automobiles, electrical machinery and equipment, iron, and steel. Despite the appearance of the relative importance of bilateral trade between South Korea and Canada, exports between South Korea and Canada accounted for a relatively low percentage of overall exports. South Korean exports to Canada have never accounted for more than 3% of Korea's total exports while Canadian exports to South Korea have never accounted for more than 2.75% of Canada's total exports.

Bilateral Trade, 1987-1997





Source: Korean International Trade Association and Statistics Canada.

Both South Korea and Canada recognized the primacy of international trade and the beneficial effects of foreign trade had on their respective economies. Faced with the dilemma of increasing dependence on a single export market, the United States, South Korea and Canada began developing deeper mutual ties through trade with and investment in each other's economies in hopes of diversifying exports markets as well as stimulating economic growth and job creation.

The Antecedents of Change (Deterioration of Korea-U.S. Trade Relations)

Since the early 1960s the United States has been South Korea's most important trade partner. Bilateral trade between the two countries increased from US$477 million in 1962 to US$36 billion to 1987 as South Korea adopted an export-oriented development strategy that focused on labor-intensive manufacturing capitalizing on the abundant supply of a highly educated and motivated workforce. By the late 1980s, exports to the United States comprised 40% of South Korea's

Table 1 Partial Chronology of Korean-U.S. Trade Friction

Regulated Period	Types of regulation	Items
July 1974-June 1980	MFA quotas	Textiles
July 1977-June 1981	OMA	Footwear
1976-June 1982	Countervailing duties	Leather handbags
December 1978-June 1984	OMA	Color TV sets
January 1979-January 1984	Countervailing duties	Tires, tubes
1984-March 1992	VRA	Steel
1986-present	MFA quotas	Textiles
1987-present	Antidumping duties	Albums, color TV sets
January 1988	Withdrawal of GSP	
April 1988-present	Import prohibition order	Plastic bags
March 1989-present	Import prohibition order	EPROMs
June 1990-present	Antidumping duties	Acrylic sweaters
May 1991-present	Antidumping duties	Polyester films
December 1992-present	Antidumping duties	Welded stainless steel pipes and tubes

Source: Cho Soon, *The Dynamics of Korean Economic Development*, Washington, DC: Institute for International Economics, 1994, p. 169.

total exports (Kim Kihwan 1988: 12). In addition, the United States financed over 30% of South Korea's foreign direct investment.

Even though access to the U.S. export market was vital to the success of South Korea's outward-oriented development strategy, it did not prevent the development of trade friction between the United States and South Korea. As far back as the early 1970s, the United States began imposing a variety of import restriction measures against Korean imports in an attempt to open South Korean markets to foreign competition in key sectors in which the United States held a competitive edge.

It is no surprise then that trade friction between South Korea and the United States coincided with the two major oil shocks of the 1970s which brought about a significant rise in inflation in the U.S. economy. This rise in inflation not only increased the cost of imported goods and services but also affected bilateral trade between the United States and South Korea (Cypher 1984: 7-8).

By 1987, the United States had begun running trade deficits with a number of East Asian countries including South Korea. Facing the prospect of record high interest rates through the imposition of credit controls coupled with rising inflation produced a rise in protectionist sentiment in the United States as increasing levels of unemployment focused popular discontent against the growing trade deficits with South Korea. Perceived as "a second Japan," Korean exporters came under close scrutiny by the United States Congress. As a consequence of increased lobbying by key domestic constituencies, including powerful labor unions hurt by the growing trade imbalance, the United States started pressuring South Korea to open its markets through a variety of measures (Schott 1989: 91; Kim Kihwan 1988: 11; Il Sakong 1993: 130-31). The United Stated imposed voluntary export restraints (VERs) against a wide range of Korean exports that included textiles and steel; initiated actions under Section 337 of the Tariff Act of 1930 reciprocity to gain access to the South Korean insurance market and secure intellectual property rights protection; Section 301 of the Trade Act of 1974 or "Super 301," later amended by the 1988 Omnibus Trade and Competitiveness Act to gain bilateral and transferred cases to the General Agreement on Trade and Tariffs (GATT), all which were designed to pressure the South Korean government to reduce tariff rates and remove import restrictions, as well as lift entry barriers to service industries.

By the late 1980s trade relations between South Korea and the United States had deteriorated to the point that the United States eventually withdrew the Generalized System of Preferences (GSP) from Korean exporters in 1988. Then, during the years 1988-1991, the United States placed several items including plastic bags, erasable programmable read-only memory (EPROM) chips, acrylic sweaters, and polyester film under import prohibition orders and anti-dumping duties (Cho Soon 1994: 166). South Korea increasingly saw American efforts at restricting Korean exports as signs of protectionism, especially in light of Koreans perceptions that they unilaterally opened their markets and received little or nothing in return.

The end of the Cold War brought about new dynamics in trade (the emergence of the formally socialist economies of Eastern Europe, the former Soviet Union, China, and Vietnam) and saw the integration of national economies and the emergence of regional trading blocs (e.g., Europe 1992 and the U.S.-Canada Free Trade Agreement). Coupled with an increase in protectionist sentiment in its primary export market, South Korea was forced to rethink its export policy: to diversify its trade partners and restructure the composition of its exports to higher value-added industrial goods in order to stabilize inflation domestically as well as to increase export markets (Jin Nyum 1988: 27-32). As such, both the South Korean and Canadian export policy sought to increase bilateral trade through the establishment of comprehensive trade accords designed to capitalize on the favorable business environments in their respective countries.

South Korean Trade Policy, 1987-1997

During the late 1970s and early 1980s, the South Korean government export policy gradually shifted from the export of labor-intensive manufactured goods to an export policy that emphasized gradual export substitution in capital skill-intensive industries (Lee Jaymin 1989: 152). The shift in policy was a change from earlier policy in that emphasis went from maximizing export growth to strengthening competitiveness. The government introduced a variety of legislative measures designed to restructure competitive industries, introduce market mechanisms, stimulate private initiatives, and enhance price stability.

At the beginning of the 1980s, the second oil crisis and Korean domestic political turmoil gave rise to difficulties as the Korean government experienced its first negative growth since the implementation of the first development plan and a huge current account deficit. The government undertook a series of structural adjustment measures to enhance economic efficiency. The priority of Korean economic policy shifted from growth to stability and actively encouraged the adjustment of duplicated investment and the liquidation of troubled enterprises. At the same time, opening of the economy and deregulation were pursued on a case-by-case basis as part of the move towards private initiative in economic management.

By the late 1980s exports accounted for 40% of South Korea's GNP and were concentrated in a few labor-intensive industries (e.g., textiles, consumer electronics, steel, automobiles) vulnerable to foreign protection from the United States in response to perceived unfair trade practices as key constituencies (labor unions) hurt by cheap Korean imports lobbied Congress for the imposition of trade sanctions unless South Korea opened its markets. Then, during the three-year period from 1989 to 1992, Korean exporters faced a reversal of the "three lows," the low value of the U.S. dollar, low international interest rates, and low international oil prices all hurt Korean exports.

Following his inauguration, Roh Tae Woo sought the internationalization of the South Korean economy through diplomacy. As such, Roh built upon Park Chun Hee's economic diversification strategy known as *Nordpolitik* policy (Northern Policy) to help enhance South Korea's competitiveness by increasing and diversifying trade relations with hitherto untapped markets of the Socialist bloc while still engaging North Korea diplomatically. Diplomatically, Roh's *Nordpolitik* policy was successful in inducing North Korea to be jointly admitted to the United Nations with South Korea in 1992. Economically, it bore fruits in opening the markets of Eastern Europe, the former republics of the Soviet Union, and the People's Republic of China. Seoul extended US$3 billion worth of loans to Moscow while Beijing emerged as the largest destination of Korean direct foreign investment. By 1989, the Sino-Korean bilateral trade relationship had grown to US$3 billion dollars. In October 1990 Beijing and Seoul opened trade offices. By 1991 bilateral trade continued to grow at double-digit annual rates to over US$31.5 billion driven by Chinese demand for Korean exports (e.g., electronics, computers, and semi-conductors) (Snyder 2003: 70).

The election of Kim Young Sam did not alter South Korea's trade policy as the Kim administration continued on the course set forth by Roh Tae Woo, emphasizing globalization, diversification, and regional cooperation. Democratic governance, labor flexibility, transparency, separation of ownership, market rules and accountability all became key issues as South Korea continued to rapidly transform its export-based economy. One of Kim's initial achievements was initiating the Canada Korea Special Partnership.

Domestically, the winds of change were forcing the South Korean government to come to terms with political democratization. The bilateral trade problems with the United States in the early 1980s created difficulty for the government who had unilaterally inaugurated import liberalization programs to reduce tariff and non-tariff barriers to placate the United States in hopes of increasing access to the American market. The opposition seized upon the growing popular discontent to either delay the implementation of the programs or to prevent new programs from being introduced. Even though living standards had improved during the 1980s, growing income inequality manifested itself in class conflict as the Korean working class, tired of self-sacrifice and long working hours, found its voice through labor unions and socioeconomic interest groups that proved influential in forming powerful lobbying groups that fought for wage increases while demanding shorter working hours.[4]

Feeling the increasing protectionist sentiment in its primary export market coupled with domestic discontent, the Korean government felt that they needed to sustain economic growth to continue the transformation of the Korean economy. As such, the Korean government, with its policy goal of building an "open trading country," committed to maintaining friendly trade relations with its trading partners, pursued a dual track of initiatives; bilateral and multilateral trade agreements as a means to diversify their export base. As a pretext to improve two-way trade between South Korea and Canada, the Korean government reduced import tariffs hoping to facilitate trade.

Canadian Trade Policy, 1987-1997

Canada's relationship with the United States has long dominated Canadian trade. Over time, Ottawa became increasingly concerned with the extent of the dependence on a single export market, the United States, and sought to diversify its international trade as a means to protect itself against increasing protectionist sentiment in the United States. In order to break the dependence on a single export market, Liberal Prime Minister Pierre Trudeau transferred the trade and promotion activity that had been done by the Department of Industry, Trade, and

4. For a discussion on growing disparity in wealth and income in South Korea during the 1980s see works by Il Sakong (1990: 10-4), Yoo Jong Goo (1990), and Danny M. Leipziger, A. F. Shorrocks, and S. Song (1992).

Commerce to External Affairs in February of 1982. Exports were placed at the top of Canada's foreign policy priorities. The emphasis on exports increased as the primary objective with the election of Progressive Conservatives led by Prime Minister Brian Mulroney.

The National Trade Strategy announced by the Conservative government in the fall of 1985 was designed to improve Canada's status a trading nation as Canada historically maintained a protectionist trade policy. This protectionist political stance hindered Canadian producers and service providers as they were at a competitive disadvantage in the global marketplace. After exhaustive consultation with industry, the Canadian government made the decision to broaden its export base as Canada was highly dependent on the United States as a source of demand for its manufacturing output as well as agricultural, energy, and other raw material products. The National Trade Strategy sought to stimulate economic growth through the elimination of high tariff rates as the Canadian government committed to open markets to improve market access to export markets and establish a stronger rules-based system. It became clear Canada's economic well-being depended on economic growth, job creation, and its ability in attracting new investment and technology Government economists projected that the economic gains from tariff elimination would offset the loss of jobs. The government also hoped that Canadians would view liberalization as being beneficial and that establishing stable export markets would diversify the economy as well as bring economic growth and job creation in the long term.

Canada had been slow to recognize the potential for trade with the newly industrialized economies of Asia. As such, Prime Minister Brian Mulrony sought to expand Canada's nascent trading relationships with its natural trading partners in Asia, including South Korea. The Canadian government viewed the establishment of bilateral trade with South Korea as a way to tap into the value chain of globally competitive production and the supply of Korean corporations, a new export market for raw materials and key competitive technologies as well as employing South Korea as a strategic base to establish and exploit a manufacturing base in Asia. As such, the number of trade missions was increased and government ministers began to visit Seoul regularly, as the Canadians were keen to make up for lost time. Business groups, such as the Canada-Korea Business Council, regularly offered the government advice on policy. Canada's initial apprehensiveness at further developing bilateral trade relations with South Korea was eased by the transition from authoritarian rule to democracy following the election of President Roh Tae Woo in 1987.

In order to create a stronger base for economic expansion, Canada began to initiate trade liberalization at the bilateral and regional levels. Trade policy went through a process of deregulation. The process of gradual economic and trade liberalization was aimed at revitalizing the economy and improving the prospect of attracting foreign direct investment. The Foreign Investment Review Agency was reorganized as the Investment Canada Review Agency with the mandate to help foreign investors. An International Trade Advisory Committee comprised of private business people and the Department of External Affairs launched the "Pacific 2000" trade initiative that targeted specific products and countries to help Canada compete in what was seen as the "Pacific Century" by working out trade and major investment strategies in Asia.

In the early 1980s, Canadian exports to South Korea dramatically increased because of the prices of natural resources (e.g., raw materials, agricultural products) that comprised the majority of Canadian exports to South Korea. By 1987, Canadian exports to South Korea amounted to CAD$1.2 billion. The main exports consisted of natural resources (about one-fifth of total exports), which fueled South Korea's continued economic growth.

Under sustained pressure from the deregulated U.S. service industries (i.e., financial services, and telecommunications), Canada sought to transform its service sector to stimulate the reform process. As such, Canada sought to capitalize on its competitive advantage in telecommunications vis-á-vis Asian markets. In an effort to diversify their export markets as well as to facilitate access to the Korean telecommunications industry, Canada placed emphasis on expanding trade in the technology sector in South Korea. The establishment of the Industrial Technological Cooperation Committee within the Canada-Korea

Table 2 Major Canadian Exports to South Korea—1987

	CAD $000,000	%
Live animals	.10	0.0
Food, Feed, Beverages and Tobaccos	172.45	14.8
Crude materials, Inedible	447.71	38.4
Fabricated materials, Inedible	368.58	31.6
End products, Inedible	90.47	7.7
Special transactions, Trade	88.10	7.5
Total	1,167.41	

Source: Statistics Canada.

Special Partnership was designed to lay the foundation for an improved business climate for Canadian advanced technology firms.

In order to capitalize on the highly mechanized and commercialized nature of agriculture, Canada sought to its diversify its agricultural exports but was unable to capitalize on the comparative trade advantage vis-á-vis American agricultural exports, except for wheat. Forestry and fisheries exports to South Korea remained stagnant. Over the ten-year period from 1987 to 1997, the composition of Canadian exports did not vary greatly, though the share of machinery and transport equipment increased relative to overall exports.

Despite the implementation of the Free Trade Agreement (FTA) with the United States a year earlier, by mid-1990 the Canadian economy was plunging into deep recession. The Prime Minister's popularity ratings kept falling as a series of political miscalculations—the impact of the cost of the goods and services tax in January 1991; the rejection of the Charlottetown accord; and worsening trade relations with the United States—as the electorate lost faith in Mr. Mulroney's ability to deliver on his election promises. As it became obvious that the Prime Minister had virtually no chance of winning, Mr. Mulroney tendered his resignation as both prime minister and Conservative Party leader on February 24, 1993. Led by Jean Chrétien, the Liberals handily beat the Conservative Party in the following October parliamentary elections that reduced the latter to two seats in parliament.

The election of Prime Minister Jean Chrétien did not fundamentally alter Canada's export policy as the Liberal Party viewed economic relations with Asia as a key element in Canada's economic recovery plan. Government policy concentrated on economic recovery. Thus, gaining access to the South Korean market was deemed of strategic importance for the future economic growth of the Canadian economy. As such, Prime Minister Chretien proved instrumental in establishing the Canada Korea Special Partnership in November of 1993 with Kim Young Sam during the 1993 Asia Pacific Economic Cooperation forum (APEC) summit.

South Korea-Canada Trade Relations

South Korea and Canada viewed foreign trade as an engine for growth and job creation, yet both were highly dependent on trade with the United States exporting 40% and 85% of their total exports to the United States respectively. As a consequence of the overdependence on a single export market, both South Korea and Canada felt vulnerable to protectionist sentiment in the United States and were eager to diversify their export markets. As such, South Korea and Canada sought to further develop trade ties and investment in each other's economies as a means of stimulating economic growth. The growing Canadian-Korean relationship was formally recognized in 1993 when South Korean President Kim Young Sam and Canadian Premier Jean Chrétien inaugurated the Canada Korea Special Partnership. Canada's interest in South Korea as an export market lay in Canada's comparative advantage as an exporter of natural resource products which fueled South Korean industrial exports while South Korea viewed Canada as a market for skilled labor intensive products such as textiles and clothing, electronics, as well as iron and steel.

As late as the 1970s, trade between South Korea and Canada was insignificant in comparison to South Korea's bilateral trade with the United States (e.g., in 1975 trade between South Korea and Canada totaled CAD$195 million) (Okazaki 1998: 86). By 1987, Canada had become the fifth largest export market as well as a major source of natural resources for Korean industrial products. Bilateral trade between South Korea and Canada continued to increase year-over-year more than doubling from CAD$2.4 billion in 1987 to CAD$5.8 billion in 1997 as the Blue House adopted globalization as a national economic strategy. Although Canada and South Korea were members of the Asia-Pacific Economic

Table 3 Annual South Korean-Canadian Trade Statistics (in Million CAD$)

Year	Korean Exports	Canadian Exports	Trade Balance
1987	1,450	947	503
1988	1,692	1,196	496
1989	1,882	1,680	202
1990	1,730	1,465	265
1991	1,892	2,110	- 218
1992	1,427	2,013	- 586
1993	1,721	2,199	- 478
1994	2,239	2,504	- 265
1995	2,736	3,204	- 468
1996	2,817	2,729	88
1997	3,035	2,838	- 177

Source: Republic of Korea Customs Service and Statistics Canada.

Table 4 Canadian Exports to and Imports from South Korea

Major Canadian Exports to South Korea (1997)	Major Canadian Imports from South Korea (1997)
1. Mineral Fuels, Oils and related products	1. Electrical Machinery and Equipment
2. Wood Pulp	2. Boilers and Mechanical Appliances
3. Organic Chemicals	3. Vehicles and Parts other than Railway
4. Inorganic Chemicals and Radioactive Elements	4. Iron, Steel and articles thereof
5. Nickel and articles thereof	5. Clothing and Apparel
6. Aluminum and articles thereof	6. Ships, Boats, and Floating Structures
7. Ores, Slag, and Ash	7. Rubber and articles thereof
8. Electrical Machinery and Equipment	8. Man-Made Filaments
9. Animal and Vegetable Fats and Oils	9. Optical, Photo, and Precision Instruments
10. Fertilizers	10. Man-Made Staple Fibres

Source: Statistics Canada.

Cooperation (APEC) since its inception in November 1989, it was not until 1993 that they formalized their bilateral economic relationship. The partnership was designed as a means of increasing and strengthening economic ties between South Korea and Canada. A Special Partnership Working Groups (SPWG) was established to identify and remove barriers to trade and investment in each other's markets.

In the years following the conception of the Canada Korea Special Partnership, Canada placed increasing emphasis on expanding trade with South Korea's growing technology sector. In 1996, the Canada-Korea Arrangement for Industrial and Technological Cooperation was signed to help build Canada's role in South Korea's growing service and advanced technology sector. In January 1997, Canadian Prime Minister Jean Chretien led a delegation of 500 executives, politicians, and educators on a trade mission to East Asia that included a stop in South Korea. By the end of the trip to Seoul, Team Canada members had come away with 73 contracts worth a total of CAN$600 million (Came 1997: 46-47).

Conclusion

The years 1987-1997 saw strong two-way growth in trade between Canada and South Korea. The opening new overseas export markets as well as the mutual flow of FDI into Canada and South Korea highlighted the evolution of bilateral trade. South Korea's interest in bilateral trade with Canada was driven by the use of a prospective bilateral free trade agreement as a means opening a new and potentially lucrative export market. On the other hand, Canadian interest in South Korea was driven and stimulated by the prospect of gaining access to the globally competitive production and supply of Korean goods, the opening of a new export market for raw materials and key competitive technologies, as well as establishing South Korea as a strategic base for Canadian exports in Northeast Asia.

This period was a critical period in the integration of the South Korean and Canadian economies into the global trading system. In order to sustain economic growth and shield their economies against protectionist pressures in their major export markets, the United States and the EU, South Korea and Canada sought the deeper integration of their economies into the global trading system through bilateral trade and FDI as economic growth depended on increased penetration of secondary markets outside of the United States and the EU.

The twenty years prior to 1987 saw an annual average increase of 30% in bilateral trade between South Korea and Canada. The following ten-year period from 1987 to 1997 saw the consolidation of the gains made in the previous two decades as trade between South Korea and Canada more than doubled from CAD$2.4 billion in 1987 to CAD$5.8 billion in 1997, but actually decreased in terms of the overall percentage of total exports of South Korea and Canada. Although bilateral trade volume continued to increase each year over year between 1987 and 1997, it fell far short of the amount of bilateral trade needed to exceed the ambitious goal of CAD$13.5 by the year 2000 set during President Kim Young Sam's state visit to Canada in October 1995.

Major Korean exports to Canada coincided with skilled labor-intensive industries (e.g., electrical machinery, transportation equipment, and textiles) where South Korea held comparative advantage. Conversely, major Canadian exports to South Korea (e.g., food, crude materials and fuel, chemicals, and nonferrous metals) coincided with industries where Canada held a comparative advantage. The balance of payments between South Korea and Canada underwent cyclical change due to the fluctuations in the prices of natural resources products (e.g., agricultural and food products as well as capital goods such as aluminum and nickel), Canada's main exports. South Korea ran a trade surplus in the years 1987 to 1990, followed by five years of running a deficit (1991-1995), which was then followed by years of alternating surplus and deficit (1996-1997). Even the financial and economic crisis that struck the South Korean economy in the second half of 1997 did not stop 1997 from being the second largest in terms bilateral trade volume between South Korea and Canada.

Given the evidence of the strong two-way growth in trade, Canada and South Korea would likely benefit from a bilateral FTA because their industrial structures are somewhat complementary. In addition, a bilateral FTA would lead to increased export opportunities with the removal of tariff and non-tariff barriers, which would lead to a wide range of economic effects other than trade creation. A bilateral FTA would create opportunities for the exploitation of sector-specific economies of scale; increased competition (resulting in efficiency and innovation); and information, technology and knowledge transfer that would increase productivity and stabilize the South Korean and Canadian export markets. Moreover, a bilateral FTA would likely trigger an investment creation/expansion effect by reducing economic and political risks as well as transaction costs, thereby promoting foreign direct investment.

The financial and economic crisis of the late 1990s resulted in the reappraisal of the Asian model of economic development with its focus on industrialization through exports. Even though bilateral trade between Canada and South Korea was mutually beneficial for both countries as each was successful in attracting foreign direct investment and securing new export markets, it is of interest that both Canada and South Korea chose to pursue an FTA with Chile rather than with each other. The reason that South Korea chose Chile as its first FTA partner instead of Canada was the minimal effect that agricultural imports would have on South Korea's politically influential agricultural sector. Agricultural imports from Chile accounted for only 0.22% of total agricultural imports, while Canadian exports accounted for 4.6 % of agricultural imports to South Korea. On the other hand, Canada chose Chile as an FTA partner based on areas in which Canada held its competitive advantage, such as telecommunications equipment, paper, gas-powered trucks, denim, and lentils. After implementing its FTA agreement with Chile, Canada continued to increase its market share in the Chilean market, gaining at the expense of the USA, the European Union, and Japan. Canada has also become the second largest investor in Chile.

Nonetheless, on November 19, 2004, Prime Minister Martin and South Korean President Roh announced that Canada and South Korea would begin talks to explore the feasibility of negotiating an FTA. Exploratory discussions took place in Seoul, January 25-26, 2005 and then in Ottawa, March 31-April 2005. On July 16, 2005, Canadian International Trade Minister Jim Peterson and his South Korean counterpart, Trade Minister Kim Hyun-chong, formally announced the launch of bilateral free trade negotiations.

Appendix-Important Dates

December 1987: For the first time in its history, South Korea has a democratic transition when former general Roh Tae Woo is elected president on December 16, 1987.

January 1988: Commercial bank interest rates in South Korea are formally decontrolled.

April 1988: Only 361 products require approval for import from the South Korean government.

August 1988: South Korea records a record US$11.4 billion trade surplus following the Seoul Olympics.

January 1992: On January 3, 1992, the South Korean government opens Seoul's stock market to foreign investment.

December 1992: Kim Young Sam of the DLP (Democratic Liberal Party) wins the presidential election. His "first civilian government" starts a large-scale reform movement, trying to eliminate widespread corruption and to integrate the ROK economically and politically into global frameworks.

January 1993: The South Korean government declares globalization to be part of its national strategy. Restrictions on foreign investments are gradually eliminated and eventually 2,000 rules and regulations are abolished or amended during President Kim's term.

February 1993: Brian Mulroney resigns as prime minister and Conservative Party leader.

October 1993: The Conservative Party experiences a crushing defeat in the October elections, winning only two seats. The Liberals win and Jean Chretien becomes prime minister.

November 1993: South Korean President Kim Young Sam and Canadian Prime Minister Jean Chrétien sign the Canada Korea Special Partnership.

February 1994: The government of Canada announces a three-year review of the tariff would be carried out with the objectives of a) making it more responsive to the competitive pressures facing Canadian industry as a result of freer trade and, b) lessening the regulatory burden and associated costs to both the government and the business community by making the system simpler and more transparent and predictable.

April 1994: The Uruguay Round (1986-1994) of the General Agreement on Trade and Tariffs (GATT) concludes.

The Special Partnership Working Group is launched by former Canadian Minister for International Trade Roy McLaren and South Korean Minister of Trade, Industry, and Energy Chulsu Kim.

May 1995: At the 13th Meeting of the Korea-Canada Business Council in Gyeongju, 100 delegates from both countries meet to discuss ways to increase bilateral trade in the fields of telecommunications, aviation, transportation, finance, environment, and energy.

July 1995: Canada implements the Agreement on Internal Trade (AIT) that applied to most federal government departments and crown corporations. Notably the Canada-Korea Telecommunications Agreement is exempt from the AIT.

October 1995: President Kim Young Sam and Prime Minister Jean Chrétien hold a summit meeting in Ottawa and agree to a wide variety of accords and agreements aimed at increasing ties between Seoul and Ottawa.

November 1996: The Organization for Economic Cooperation and

	Development (OECD) formally invites South Korea to join its ranks. When Seoul accepts, it will become only the second Asian member—after Japan—of the "rich nations' club."
January 1997:	The Canada-Korea Arrangement for Industrial and Technological Cooperation is signed to help build Canada's role in South Korea's growing service and technology sectors.
	Prime Minister Jean Chretien leads a high-level trade delegation of 500 executives, politicians and educators to visit South Korea. The group signs 73 contracts worth CAN$600 million.
June 1997:	Canada-Chile Free Trade Agreement becomes effective.
September 1997:	Teams Korea visits Toronto to develop trade and investment in South Korea.

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