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Effects of Canada's General Preferential Tariff on the Canada-Korea Trade Relations*

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In 1974 Canada introduced the General Preferential Tariff which purposes to promote exports of developing countries by providing favorable tariff treatment for products from them. This paper assesses the effect of Canada's GPT on its imports from beneficiary countries with special reference to Korea, a beneficiary country. Canada's GPT is unique in that it does not impose quantitative limits on it, and the demand for GPT accorded products is elastic in Canada. This has raised Canada's GPT accorded imports from Korea. Korea has been successful in adjusting its industrial strategy so as to expand its exports toward GPT accorded products. Rapid increases in Canada's imports from Korea have contributed to the growth of Canada exports to Korea and the two-way trade. It appears that Canada's GPT achieves its objective to a substantial extent, and that it provides benefits to Canada as well.

I. Introduction

The Generalized System of Preferences (GSP) was adopted by the United Nations Conference on Trade and Development (UNCTAD) in 1968 and subsequently was supported by the General Agreement on Tariffs and Trade (GATT) in June 1971 when the contracting parties of the GATT approved a waiver to Article I of the GATT. Under this waiver, the contracting parties were permitted to accord more favorable treatment to products imported from developing countries than to similar products

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from developed countries. As envisaged at the time when the GSP was adopted by the UNCTAD, the objectives of the GSP with respect to developing countries were: (i) to increase their export earnings, (ii) to promote their industrialization, and (iii) to accelerate their economic growth. Following the lead of the EEC, Canada put the GSP into effect as of July 1, 1974, providing tariff preferences for developing countries. The Canadian GSP is technically known as the General Preferential Tariff (GPT).

It has been more than a decade since the introduction of the GPT in Canada. However, the role which the GPT could have played for the development of Canada's trade relations with beneficiary countries has received less than adequate attention as attested by the paucity of information on it. Nor has the GSP drawn much attention; no serious attempt has been made to evaluate it in light of the objectives. This may be becuase of a lack of relevant information and extremely high costs associated with generating required data.

Korea has been a designated beneficiary of the GPT, and its exports to Canada have increased exponentially since the introduction of the GPT. Recently, as Korea has been establishing its status as a newly industrialized country, it has been intermittently urged that Korea should be dropped off the list of designated beneficiary countries of the GPT. Hence, some important questions have recently been raised: To what extent would the exponential increases in Canada's imports from Korea have been attributable to the GPT? Would the revocation of Korea's beneficiary status of Canada's GPT or GSP in general adversely affect its exports to Canada or to other GSP donor countries? The objective of this paper is to address these questions. Specifically, this paper attempts to assess the extent to which Canada's GPT has contributed to the growth of imports from Korea and to point out some possible implications for Korea which would arise when Korea is excluded from the GPT or GSP beneficiary lists.

The study will proceed as follows. A detailed description of major features of Canada's GPT will be included in Section II. The possible effect of Canada's GPT on the development of Canada-Korea bilateral trade relations will be analyzed and assessed in Section III. Section IV presents the major conclusions of this study.

II. Major Features of Canada's General Preferential Tariff[1]

Prior to the introduction of the GPT in 1974, the Canadian Custom Tariff consisted of three schedules for any given tariff item: the British

Preferential (BP) schedule, the Most-Favoured-Nation (MFN) schedule, and the General Tariff schedule.[2] To implement the GPT a fourth column of tariff rates was introduced, namely, the GPT schedule. However, the GPT has not been made a permanent part of the Canadan tariff structure. Originally, it was put in place for a ten-year period, and then extended for another ten years until June 30, 1994 or on such earlier day as may be fixed by proclamation.[3]

As of October 3, 1987, 161 countries and territories were designated as beneficiaries of the GPT, and a list of beneficiaries is attached in Appendix. Forty-one territories are designated as "least developed developing countries" which are permitted to have the privilege of duty-free entry in respect of all goods to which the GPT applies.[4]

In calculating the tariff rates for those GPT beneficiaries, the main criterion employed by the Canadian Customs Tariff has been the prevailing MFN rate minus one-third. However, since the BP schedule, which was in general more preferential than the MFN, had already existed and provided benefits to many of the GPT beneficiaries, it was necessary to structure the GPT rates in such a way that they do not exceed the BP rates. Hence, the GPT rates were set "equal to the lesser of (a) the rates ... that would be applicable if goods are entered under the BP tariff, and (b) the rates that would be applicable if goods are entered under the Most-Favoured-Nation Tariff, reduced by one-third." As of 1979, the GPT schedule applied to 2,317 items out of 2,968 tariff items under the Canadian Customs Tariff. Of the 2,317 items, only 1,192 items were so-called "actual margin of preference" items for which the GPT rates were in fact less than the MFN rates. The rest of the GPT items (1,125) already

1 This section draws in part heavily on a report by the Tariff Board, Canada, *The Generalized System of Preferences and the Canadian General Preferential Tariff, 1979.*

2 The British Preferential (BP) tariff refers to the rates of customs duties, if any, which apply to goods grown, produced or manufactured of any present and former commonwealth country, colony, protectorate, territory or trust territory to which the benefit of this tariff has been extended. The rates of duty levied under the BP tariff are lower than, or at most equal to, the rates imposed under the Most-Favoured-Nation tariff. The Most-Favoured-Nation (MFN) tariff refers to the rates of customs duties, usually at a level between the BP and General Tariff rates, which apply to goods grown, produced or manufactured of any British or foreign country, such as the United States, to which Canada has accorded Most-Favoured-Nation status. Korea normally belongs to this category unless the goods qualify for the GPT. The General (Gen.) tariff refers to the rates of customs duties, if any, which apply to all goods not entitled to admission under the BP tariff or the MFN tariff. For details, see the Tariff Board (1980), pp. 5-8.

3 *The Customs Tariff Act,* Canada, Sections 35 to 45.

4 Almost all of the countries accorded the GPT status by Canada are LDC's as defined by the U.N. criterion.

carried no tariff under the MFN schedule, thereby rendering the GPT immaterial.[5]

The Canadian legislation governing the GPT requires that in order to be eligible for the GPT, imported goods must be *bona fide* goods grown, produced, or manufactured in the country that has been accorded the benefits of the GPT.[6] Therefore, in order to obtain preferential treatments by the GPT, imported goods must be accompanied by a Certificate of Origin. This certificate must be signed by the exporter of the goods in the beneficiary country and certified by a government body of that country, or by other body approved by the beneficiary country and recognized by Canada. It is further required that in order to receive the GPT preferential rates, imported goods must be invoiced separately from other goods.

Canada's legislation governing the GPT contains a general escape clause as a safeguard provision (Section 38 of the Custom Tariff Act). This safeguard provision is conceptually based on GATT Article XIX, and enables Canada to limit or withdraw any tariff preferences accorded where goods entered at the GPT preferential tariff rates cause, or threaten to cause, serious injury to domestic producers of like or competitive products. Many agricultural commodities, some of industrial materials, most textile and clothing products, all leather footwear, and certain electronic tubes are excluded from the coverage of the GPT, primarily because of the perceived sensitivity of Canadian production of these commodities to import competition. In addition, since the GPT rates are not bound by the GATT, Canada can change the rates without negotiations, as deemed necessary.

Since July 24, 1980, the Tariff Board of Canda is empowered to conduct inquiries (under Section 4 (2) of the Tariff Board Act) upon receipt of petitions from Canadian producers claiming injury, or a threat of such injury, that results from imports entering under the GPT.[7] Although the GPT lies outside the purview of the GATT, the Tariff Board's examination of injury takes into account the objective economic criteria contained in the GATT Anti-Dumping Code and the Code of Subsidies and Countervailing Duties.[8]

[5] The Tariff Board, *The Generalized System of Preference,* p. 15.

[6] *The Customs Tariff Act,* Canada, Section 3.1 (1). According to the regulations contained in Revenue Canada (Customs and Excise) Memorandum D47-518-3 dated June 20, 1974, the value of materials, parts or produce originating outside the beneficiary country cannot exceed 40% of the ex-factory price of the goods as packed for shipment to Canada.

[7] See the Tariff Board, *Reference 158: Relating to the General Preferential Tariff, Part 1 (1981), pp. 1-5.*

[8] Such criteria include: "actual and potential decline in output, sales, market share, pro-

Finally, in conjunction with its GPT, Canada has not employed quantitative devices such as tariff rates quotas in order to restrict preferential imports though there is provision for tariff rates quota.[9] This makes Canadian trade policy different from those of other GSP donor countries such as the United States, Australia, Japan and the EEC which have applied such quantitative restraints together with the GSP. Certainly this would have contributed to the relative growth of exports to Canada from beneficiary countries.

III. Effects of the GPT on the Canada-Korea Bilateral Trade

Two-way trade between Canada and Korea has grown rapidly over the past two decades. As shown in Table 1, it has increased from $33 million in 1970 to $3.0 billion in 1987, a 92-fold increase (or a 30.4 percent annual increment) during the 17-year period. This can be compared with a 13 percent annual increment in Korea's world trade for the 1970-1985 period, illustrating the dramatic growth of Canada-Korea bilateral trade.[10] During the 1980s particularly after the recent economic recession was over in 1982, bilateral trade between the two countries has been increasing remarkably.[11]

Table 1 also shows that imports from Korea during the 1970-1987 period increased more rapidly than that of two-way trade. That is, imports increased by 32.7 percent per annum, as compared to 30.4 percent for the

fits, productivity, return on investments, or utilization of capacity; factors affecting domestic prices, actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital or investment and, in the case of agriculture, whether there has been an increased burden on government support programmes." Up to December 1986, the Tariff Board had conducted 13 inquiries into imports from Korea under the GPT. Out of 13 inquiries, the Board had decided nine cases in favor of Canadian petitioners. Subsequently, the Canadian government has withdrawn the GPT benefits for 17 tariff items associated with the nine inquiries either from Korea or from all beneficiary countries. This indicates that the success rate is quite high for Canadian petitioners, and goods entered under the GPT are vulnerable to inquiry. Commodities involved in these 13 inquiries and their corresponding decisions will be provided upon request.

9 The imposition of a "tariff rate quota" in respect of imports from GPT beneficiary countries means that imports are admitted up to a pre-determined level in any period of 12 consecutive months at the existing GPT rate, and thereafter MFN tariff rate is applied.

10 Kwon, O.Y., *The Korean Mineral Market: Opportunities and Marketing Strategies for Canada,* Kingston, Ontario: Centre for Resource Studies, 1987, p. 25.

11 It should be noted that, although Canada's bilateral trade with Korea accounts for a small portion of Canada's total trade, Korea was Canada's fifth largest trading partner in 1985. Canada was Korea's fourth largest trading partner in 1985, even though only about 3 percent of Korea's total trade involved Canada. For this, see Kwon (1987), p. 26.

Table 1

CANADA-KOREA BILATERAL TRADE VOLUME, 1970-1987
(Canadian $ million)

Year	Two-way Trade	Canada's Exports to Korea	Canada's Imports from Korea	Trade Balance
1970	33	19	15	4
1971	44	25	19	5
1972	77	33	44	(10)
1973	156	66	91	(25)
1974	207	72	135	(63)
1975	249	82	166	(84)
1976	424	120	304	(184)
1977	467	144	323	(179)
1978	580	217	363	(146)
1979	830	367	463	(96)
1980	927	512	414	98
1981	1,055	447	608	(161)
1982	1,074	488	586	(99)
1983	1,355	563	791	(228)
1984	1,878	726	1,152*	(427)
1985	2,393	786	1,607	(821)
1986	2,722	973	1,749	(777)
1987	3,022	1,178	1,844	(666)
Average Growth (%)	30.4	27.5	32.7	N/A

* Figures are rounded.
(a): ( ) in Korea's favour.

Sources: Statistics Canada, *Imports by Countries,* (Catalogue No. 65-006); *Exports by Countries,* (Catalogue No. 65-0030.
Bank of Canada, *Bank of Canada Review 1987.*

bilateral trade. What is important for this study is not only the rapid growth of Canada's imports from Korea since the inception of Canada's GPT, but also the marked change in the composition of imports from Korea. As shown in Table 2, total imports from Korea amounted to $166.1 million in 1975. Out of this total amount, $75.3 million of imports entered under the GPT tariff items. These imports are referred to as "GPT covered" imports (Table 2). As mentioned earlier, not all imports

Table 2

AANALYSIS OF CANADIAN IMPORTS FROM KOREA: IMPORTS UNDER GPT BENEFITS VS. NON-GPT, 1974-1987

(Unit: $ million, Canadian)

Year	(1) GPT Covered Imports* from Korea	(2) GPT Accorded Imports** from Korea	(3) Non-GPT Imports from Korea	(4) Total Imports from Korea	(5) Total Imports from all Countries	(6) Imports from Korea as % of Total Imports
1974	N/A	N/A	N/A	135.0	30,904	0.44
1975	75.3	50.8	115.3	166.1	33,961	0.49
1976	133.3	95.7	208.4	304.0	36,608	0.83
1977	147.8	107.9	214.9	322.8	41,523	0.78
1978	185.9	136.6	226.4	363.0	49,048	0.74
1979	267.0	201.7	261.2	462.9	61,158	0.76
1980	243.6	195.7	218.7	414.4	67,904	0.61
1981	342.4	274.0	334.2	608.2	77,140	0.79
1982	308.1	248.0	338.4	586.4	66,739	0.88
1983	368.5	302.2	489.2	791.4	73,098	1.08
1984	701.2	604.0	548.3	1,152.3	91,493	1.26
1985	1,162.5	1,042.6	564.4	1,607.0	102,641	1.57
1986	1,152.7	1,011.2	738.3	1,749.4	110,205	1.59
1987	936.4	763.6	1,080.4	1,844.0	115,149 (P)	1.60
Average Growth (%)	23.4	25.3	20.4	22.2	10.6	N/A

* GPT covered imports refer to imports on which GPT rate reductions could apply.

** GPT accorded imports refer to imports on which actual GPT rate abatements are granted.

(P) Preliminary figure.

Sources: Statistics Canada, *Imports by Countries*, Catalogue No. 65-006; *Imports by Commodity Class and Tariff Item* (computer printout). Tariff Board, *The Generalized System of Preferences and the Canadian General Preferential Tariff.* Bank of Canada, *Bank of Canada Review 1987.*

entering under the GPT tariff items are actually granted with the GPT rates; in order to obtain the preferential GPT rates, imports must meet certain requirements and be accompanied by certificates of origin. In 1975, for instance, out of $75.3 million of total GPT covered imports from Korea, $50.8 million of imports were, in effect, qualified for and received the GPT rates. Imports which are actually granted the GPT rates are called "GPT accorded." imports. Imports which are not covered by the GPT rates are called "non-GPT" tariff items, and subject to MFN or BP tariff rates.

The trend of imports from Korea as shown in Table 2 reveals some changes in its characteristics. First, during the 1975-1987 period, total imports from Korea increased by 22.2 percent per year, as compared to a 10.6 percent growth rate of the total Canadian imports. As a result, Korea's share of the total Canadian imports increased from 0.49 percent in 1975 to 1.60 percent in 1987. Second, as compared to non-GPT imports from Korea, GPT covered imports from Korea increased much more rapidly particularly up to 1986.[12] In 1975, the value of GPT covered imports from Korea were about half the value of non-GPT imports. Since 1975, however, GPT covered imports grew at 23.4 percent per year until 1987, as compared to an 20.4 percent growth rate for non-GPT imports, and as a result, the former exceeds the latter since 1984. Third, as compared to GPT covered imports from Korea, GPT accorded imports increased more rapidly over time. During the 1975-1987 period, the former increased by 23.4 percent per year, and the latter by 25.3 percent. It appears therefore that the rapid increase in Canada's imports from Korea are attributable to the rapid increases in GPT covered and GPT accorded imports.

The above stated change in the import composition will be examined from an exporter (Korean) perspective. Table 3 evidently indicates that Korean exporters have sought to take advantage of the GPT. Column 1 of Table 3 indicates that Korean exporters have concentrated on exports covered by the GPT. The ratio of GPT covered imports to total imports from Korea gradually increased from 45.4 percent in 1975, to 65.9 percent in 1986, but declind to 50.8 percent in 1987 apparently because of a marked decrease in imports of passenger cars. Column 3 shows the gradual increases in the ratio of GPT accorded imports to GPT covered imports from 67.4 percent in 1975 to 87.7 percent in 1986, but declined somewhat to 81.5 percent in 1987. These changes may indicate two

12 The precipitous increase in GPT covered and GPT accorded imports from Korea in 1985 and marked decreases in them in the next two years are attributable to imports of "special transactins," which appear to be mainly automobiles from Hyundai Corporation in Korea.

Table 3

GPT UTILIZATION BY KOREA, 1975-1987

Year	GPT Covered as % of Canada's Total Imports from Korea	GPT Accorded as % of Canada's Total Imports from Korea	GPT Accorded as % of GPT Covered Imports (Utilization ratio)
1975	45.4	30.6	67.4
1976	43.8	31.6	71.9
1977	45.8	33.3	73.0
1978	51.2	37.8	73.5
1979	57.7	43.6	75.5
1980	58.8	47.3	80.4
1981	56.3	45.1	80.0
1982	52.6	42.3	80.5
1983	46.6	38.2	82.0
1984	60.9	52.4	86.1
1985	72.3	64.9	89.7
1986	65.9	57.8	87.7
1987	50.8	41.4	81.5

Source: Derived from Table 2.

things. First, Korean exporters have further concentrated on GPT items which meet the GPT requirements. Second, Korean exporters have learned how to comply with the GPT rules and regulations.

The above observations indicate that Canadian consumers are conscious of the price competitiveness resulting from the GPT rates. The resulting lower relative price of imports from Korea as compared to Canadian domestic products would lead Canadian consumers to substitute lower priced imports for the domestically produced items. Likewise, there would be a tendency for Canadian consumers to substitute lower priced imports from Korea for imports from non-beneficiaries. The former is referred to as the trade-creation effect, and the latter the trade diversion effect.[13] Through these effects, Korea might have an improved access to

[13] For a further elaboration of the concepts of trade creation and diversion effects, see Baldwin and Murray (1977). Viewed from the conceptual perspective, the magnitude of the trade creation effect of GPT would depend on, among others, the proportional decrease in the tariff, the import demand elasticity in the donor country, the initial level of imports,

the Canadian market. It appears therefore reasonable to conclude that the high growth of Canada's imports from Korea is attributable significantly to Canada's GPT.

The extent to which the Canadian GPT has affected its imports from Korea depends not only on Canada's import demand elasticity but also on Korea's export supply elasicity. In other words, the overall trade creation and diversion effects resulting from the GPT should be analyzed from the supply side as well as the demand side. Although rigorous estimation of the supply and demand elasticities is beyond the scope of this study, an investigation has been undertaken to shed some light on the demand and supply side effects separately.

Canada's total GPT accorded imports from the world have increased substantially more rapidly than her overall imports. During the 1975-87 period, the former increased by 18.5 percent per year (Table 4), while the latter increased by 10.6 percent per year (Table 2). As a result, the proportion of Canada's total GPT accorded imports to her overall imports increased from 0.8 percent in 1975 to 1.7 percent in 1987 (Table 4). This indicates that Canada's GPT has a positive effect on GPT accorded imports probably because of Canada's elastic demand for them.

Table 5 shows that GPT or GSP accorded imports from Korea by Canada, EEC, Japan, and the United States increased more rapidly than their total imports from Korea. During the 1977-85 period, total GSP imports from Korea by EEC, Japan and the United States increased by 16.6 percent per year, while their overall imports from Korea increased by 13.6 percent. This may indicate that the trade creation and diversion effects of GPT and GSP are generated throughout the donor countries. Table 5 also indicates that the trade creation and diversion effects of Canada's GPT has been higher than those of GSP provided by other major donor countries such as EEC, Japan and the United States. As shown in Table 5, Canada's GPT accorded imports from Korea increased by 32.8 percent per year during the 1977-1985 period, and their share of Canada's total imports from Korea also increased from 33.3 percent of 1977 to 64.9 percent in 1985. Total GSP accorded imports by EEC, Japan, and the United States, however, increased only by 16.6 percent, and their share of the total imports from Korea was declining particularly in the 1980s from 28.4 per-

and the export supply elasticity. Similarly the trade diversion effect would depend on the initial levels of donor country imports from the beneficiary and non-beneficiary countries, the proportional decrease in the tariff, the substitution elasticity, and the supply elasticities of the beneficiary and non-beneficiary countries. For a special model developed in order to measure the extents of these effects, see Baldwin and Murray (1977).

Table 4

GPT BENEFITS RECEIVED BY 10 LEADING BENEFICIARIES: CANADA'S GPT ACCORDED IMPORTS (Cdn $ mill.)

Beneficiaries*	1975	1980	1985	1987	Cumulative Total (1980-87)	Annual Growth (%) (1975-87)
1. Korea**	50.8	195.7	1,042.6	763.6	4,442.3	25.3
	(19.4)	(22.3)	(48.0)	(38.2)	(36.4)	
	[14.3]	[14.9]	[13.5]	[16.3]	[16.1]	[19.8]
2. Hong Kong	48.0	186.3	294.1	310.7	2,080.0	16.8
	(18.4)	(21.2)	(13.5)	(15.2)	(17.1)	
3. Brazil	11.8	60.9	128.5	192.9	987.2	26.1
	(4.5)	(6.9)	(5.9)	(9.6)	(8.1)	
4. China	n.a.	24.3	89.3	142.5	551.3	34.3
		(2.8)	(4.1)	(7.1)	(4.5)	
5. Singapore	27.6	116.1	136.3	95.5	891.6	10.9
	(10.6)	(13.2)	(6.3)	(4.8)	(7.3)	
6. India	8.6	25.6	38.6	53.2	269.5	16.4
	(3.3)	(2.9)	(1.8)	(2.7)	(2.2)	
7. Malaysia	35.2	50.1	95.9	51.1	563.4	3.1
	(13.5)	(5.7)	(4.4)	(2.6)	(4.6)	
8. Argentina	3.9	17.7	40.6	41.2	234.2	21.6
	(1.5)	(2.0)	(1.9)	(2.1)	(1.9)	
9. Mexico	6.8	33.2	33.2	38.3	326.2	15.5
	(2.6)	(3.8)	(1.5)	(1.9)	(2.7)	
10. Thailand	0.8	5.4	26.7	38.0	149.0	37.9
	(0.3)	(0.6)	(1.2)	(1.9)	(1.2)	
Sum of above (Top 10)	193.5	715.3	1,925.8	1,727.0	10,494.7	20.0
	(74.1)	(81.4)	(88.6)	(86.1)	(86.0)	
Total GPT imports	261.5	878.4	2,171.9	2,000.2	12,194.7	18.5
GPT imports/total imports (%)	0.8	1.3	2.1	1.7	1.7	

* Figures inside round brackets are the shares of individual countries of Canada's total GPT accorded imports. Data throughout 1975-87 period are available upon request.

** For Korea, the figures inside square brackets are Korea's shares of Canada's total GPT accorded imports, excluding Korea's automobiles, televisions, radios, telephones, and other telecommunication equipment.

Sources: Statistics Canada, *Imports by Countries,* Catalogue No. 65-006, Imports by Commodity Class and Tariff Items (computer printout), and Tariff Board, *The Generalized System of Preferences and the Canadian General Preferential Tariff;* and unpublished Documents (computer printout).

Table 5

GSP (OR GPT) ACCORDED IMPORTS FROM KOREA BY MAJOR GSP DONOR COUNTRIES (Cdn $ mill.)

GSP Donor Countries	1977[1]	1980[2]	1985[3]	Annual growth (%) (1977-85)*
Canada: GPT imports from Korea	107.9	195.7	1,042.6	32.8
(% of total imports)	(33.3)	(47.3)	(64.9)	[19.3][4]
EEC: GSP imports	370.5	999.9	1,196.5	16.8
(% of total imports)	(24.7)	(33.7)	(27.0)	[10.3]
Japan: GSP imports	591.5	1,407.7	1,789.0	14.8
(% of total imports)	(27.1)	(39.6)	(28.9)	[9.8]
U.S.A.: GSP imports	565.3	906.8	2,259.4	19.1
(% of total imports)	(15.4)	(17.6)	(16.5)	[16.7]
Total GSP imports by EEC, Japan, U.S.A. from Korea	1,527.3	3,314.3	5,244.9	16.6
(% of total imports from Korea)	(20.7)	(28.4)	(21.6)	[13.6]

* Growth rates inside square brackets are those for overall imports from Korea by the respective countries.

Sources: (1) Tariff Board, *The Generalized System of Preferences and the Canadian General Preferential Tariff,* p. 35.

(2) OECD, *The Generalized System of Preference: Review of the First Decade,* p. 90.

(3) Obtained from Korea Trade Centre, Toronto, Ontario, from an unpublished source.

(4) Economic Planning Board, Korea, *Major Statistics of the Korean Economy, 1988.*

cent in 1980 to 21.6 percent in 1985 (Table 5). These may indicate that Canada's GPT has been more generous than the other group of countries over time. As a result, the import effects of Canada's GPT was higher and increased more rapidly over time, as compared to GSP provisions of EEC, Japan and the United States. This would have happened because Canada has not employed quantitative limits such as tariff rate quotas which restrict the preferential imports, whereas the other countries have employed them.[14]

14 These donor countries have various provisions of imposing quantitative limits on GSP

It is interesting to note that the United States withdrew the benefits of its General System of Preference (GSP) from Korea as of January 2, 1989. In view of the effects of Canada's GPT on its imports from Korea, it is highly likely that Korean exports to the United States might have been adversely affected by the withdrawal of Korea from the beneficiary list of the GSP of the United States. In the United States market Korean commodities would be substituted by domestically produced goods and/or by those from GSP beneficiaries. This will increase the supply elasticity of Korean exports to Canada, thereby further increasing Canada's imports of GSP accorded products from Korea.[15]

Since the inception of Canada's GPT, Korea has been the largest beneficiary of it, and her share of the benefits has increased over time. As shown in Table 4, Korea's cumulative GPT benefits, measured in terms of GPT accorded imports, amounted to $4.4 billion during the 1980-87 period, and they accounted for 36.4 percent of Canada's total GPT accorded imports. Out of the ten leading beneficiaries which accounted for 86.0 percent of Canada's total GPT accorded imports during the 1980-87 period, Korea's share was markedly high. Furthermore, when Canada's total GPT accorded imports from all beneficiaries increased by 18.5 percent per year from 1975 to 1987, GPT accorded imports from Korea increased by 25.3 percent per year (Table 4). As a result, Korea's share of Canada's total GPT accorded imports increased from 19.4 percent in 1975 to 38.2 percent in 1987. This would indicate that the rapid increases in Canada's GPT accorded imports from Korea is also attributable to Korea's competitive edge in exporting GPT accorded items to Canada.

One exceptionally important GPT item from Korea is automobiles which account for a significant portion of GPT benefits received by Korea. Canada's imports of automobiles from Korea from 1984 (the first year of automobile import from Korea) to 1987 amounted to $1.4 billion, accounting for 30.4 percent of Korea's total benefits of $4.4 billion during the 1980-87 period (Table 4).[16] Since car prices are significantly important

imports from individual developing countries. If, for example, a product is imported from a particular beneficiary country into the donor country by more than a certain amount in a given year, that country may become ineligible for GSP treatment with respect to that product in the following year. The amount is defined in terms of either the maximum value of imports or the market share of imports.

15 According to a survey conducted by the Korean Traders Association, 15 percent of the U.S. buyers located in Korea would move away from Korea once Korea is dropped from the GSP beneficiary country list of the United States. This was cited in *The Korea Times,* February 25, 1988.

16 The total imports from Korea under the "special transactions" item are regarded as automobiles imports. Statistics Canada, (1987), *Imports by Country,* Catalogue 65-006.

in Canadian household budgets, the Canadian demand elasticity of automobiles would be high, raising the trade creation and diversion effects of GPT. Furthermore, none of Canada's GPT beneficiaries other than Korea has exported automobiles to Canada. This would have placed Korea at an advantageous position.

Another set of important GPT items from Korea are televisions, radio sets, phonographs, telephones and telegraph equipment, and other telecommunication and related equipment. Canada's cumulative imports of these items from Korea during the 1980-87 period amounted to $1.1 billion, accounting for 25.4 percent of the total.[17] In other words, these items and automobiles accounted for 55.8 percent of Korea's total GPT benefits during the 1980s. It should be noted, however, that even without automobiles, televisions, radios, telephones, and other telecommunication equipments, Korea has fared better than other beneficiaries in taking advantage of Canada's GPT. Excluding these items, Korea's share of Canada's total GPT imports during the 1980-87 period was 16.1 percent, as compared to 17.1 percent for Hong Kong, the second highest overall beneficiary (Table 4).

Given that the Canada's GPT and GSP from other donor countries have continuously been operative since their inceptions in early 1970s, it is likely that the planning authorities in Korea would have taken into account the benefits of the preferential tariff in their planning of industrialization, and encouraged export commodities which are eligible for the preferential tariff. This may be reflected in the current Korean industrialization strategy which steers its economy toward high technology export-oriented industries (e.g., automobiles, television, telephone, and telecommunication), while gradually phasing out traditional export items such as textiles, clothings and all leather footwear which are excluded from the GPT/GSP eligibility lists. It this respect, Korea has been more successful than those other beneficiaries, indicating Korea's successful economic planning and strategy.

The rapid increases in Canadian imports from Korea, which appear to be substantially attributable to Canada's GPT, would also have generated Korea's demand for Canadian exports. There are marked differences in resources endowment between Canada and Korea, and the two economies exhibit a high complementarity.[18] In view of this, it is likely that Canadian exports particularly of agricultural and mineral products to Korea

17 Statistics Canada, (1987), *Imports by Country*, Catalogue 65-006.

18 For a detailed analysis of the complementarity of the Canadian and Korean economies and its recent development, see Kwon (1987), Ch. 3.

would have increased together with Canadian GPT imports from Korea. This appears to be reflected in relatively rapid increases in Canadian exports to Korea as compared to those of the United States, Japan, and EEC countries. Table 6 shows Korea's trade performance with Canada and with those other major GSP donor countries for the 1970-87 period. As the three year averages are compared for the 1970-72 and the 1985-87 periods, Korea's overall exports to Canada increased by 27.1 percent per year as compared to 24.2 percent for her exports to the United States, Japan and EEC. Korea's imports from Canada also increased more rapidly as compared to her imports from those other GSP donor countries. The former increased on an annual average by 23.4 percent, while the latter increased by only 17.9 percent. What is interesting is that Korea's imports from Canada increased much more rapidly than her imports from the United States, although the complementarity between the Korean and U.S. economies is quite similar to that between the Korean and Canadian

Table 6

ANNUAL GROWTH RATE (%) OF KOREA'S TRADE WITH CANADA, U.S., JAPAN, AND EEC FROM 1970/72 TO 1985/87
(Based on the U.S.$ value)

	Canada	U.S.	U.S., Japan and EEC*
Korea's Exports to	27.1	24.1	24.2
Korea's Imports from	23.4	17.7	17.9
Korea's Two-way trade with	25.5	21.3	20.6

* EEC includes U.K., France, Italy, W. Germany and Netherlands throughout the period.
Source: Economic Planning Board, Korea, *Major Statistics of the Korean Economy, 1988.*

economies. Finally, the two-way trade increased more rapidly between Korea and Canada at 25.5 percent as compared to 20.6 percent for the two-way trade between Korea and those other GSP donor countries. Therefore, as a result of more generous Canada's GPT than GSP provisions of EEC, Japan, and the United States, the overall trade effects of Canada's GTP was higher and increased more rapidly over time, as compared to those of GSP provided by the other group of donor countries.

IV. Conclusions

In response to UNCTAD's adoption of the GSP designed to improve

accessibility of developing countries to the markets of developed countries, Canada introduced its own scheme, known as the GPT in 1974. Korea has been designated as a beneficiary from the beginning, and is now one of the 161 beneficiary countries and territories. The tariff margins from the preferential tariff rates for the products covered under the GPT would have reduced prices of imports from Korea relative to those of competing goods either manufactured in Canada or imported from non-beneficiary countries. The decrease in the relative price would have caused substitution effects in favor of imports from Korea, thereby generating trade creation and trade diversion effects.

The overall trade creation and diversion effects of Canada's GPT have analyzed from the demand (Canada) and supply (Korea) perspectives. The demand of GPT accorded products appears to be elastic in Canada thereby increasing the demand for them as their prices decline due to preferential tariff rates. Unlike other leading GSP donor countries, Canada has not employed quantiative limits on the GPT treatment. This has certainly contributed to the relatively higher growth of Canada's GPT accorded imports as compared to GST accorded imports by other donor countries. As compared to leading GPT beneficiary countries, Korea has been most succesful in adjusting its economic and industrial strategy over time so as to expand its export baskets toward GSP/GPT accorded products such as automobiles, televisions and telecommunication equipment. Finally, rapid increases in Canada's imports from Korea have contributed to the growth of Canada's exports to Korea particularly in the area of agricultural and mineral products for which Canada has comparative advantages. As a result, the two-way trade between Canada and Korea has increased at a remarkable extent in recent years.

In light of evidence demonstrated in the study, a conclusion may be drawn that the GSP as well as Canada's GPT have achieved their objectives to a substantial extent. This leads to another conclusion. That is, if Korea becomes excluded from the beneficiary lists of either the GSP or the GPT, its export drive should be adversely affected.

Appendix

Countries Entitled to Enter Goods under the General Preferential Tariff as of March 1, 1988

Afghanistan +
Algeria
Angola
Anguilla *
Antigua and Barbuda *
Antilles, Netherlands
Argentina
Ascension *
Bahamas *
Bahrain
Bangladesh * +
Barbados *
Belize *
Benin +
Bermuda *
Bhutan +
Bolivia
Botswana * +
Brazil
British Indian Ocean Territory *
Brunei Darussalam *
Bulgaria
Burkina Faso +
Burma +
Burundi +
Cameroon
Cape Verde +
Caroline Islands
Cayman Islands *
Central African Republic +
Chad +
Chile
China, People's Republic of
Christmas Islands *
Cocos (Keeling) Islands *
Colombia
Comoros +
Congo
Cook Islands *
Costa Rica
Côte d'Ivoire
Cuba
Cyprus *
Djibouti +
Dominica *
Dominican Republic
Ecuador
Egypt
El Salvador
Emirates, United Arab
Equatorial Guinea +
Ethiopa +
Falkland Islands *
Fiji *
Gabon
Gambia * +
Ghana *
Gibraltar *
Grenada *
Guam
Guatemala
Guinea +
Guinea-Bissau +
Guyana *
Haiti +
Honduras
Hong Kong
India *
Indonesia
Iran, Islamic Republic of
Iraq
Israel
Jamaica *
Jordan

Kampuchea, Democratic
Kenya *
Kiribati * +
Korea, Republic of
Kuwait
Lao People's Democratic Republic +
Lebanon
Lesotho * +
Liberia
Macao
Madagascar
Malawi * +
Malaysia *
Maldives +
Mali +
Malta *
Mariana Islands
Marshall Islands
Mauritania
Mauritius *
Mexico
Montserrat *
Morocco
Mozambique
Nauru *
Nepal +
New Caledonia and Dependencies
Nicaragua
Niger +
Nigeria *
Niue
Norfolk Island *
North Africa, Spanish
Pakistan *
Panama
Papua New Guinea *
Paraguay
Peru
Philppines
Pitcairn *
Polynesia, French
Qatar
Romania
Rwanda +
St. Christopher (St. Kitts) and Nevis *
St. Helena and Dependencies *
St. Lucia *
St. Vincent and the Grenadines *
Samoa, American
Samoa, Western * +
Sao Tome and Principe +
Sengal
Seychelles *
Sierra Leone * +
Singapore *
Solomon Islands *
Somalia +
Southern and Antarctic Territories, French
Sri Lanka *
Sudan +
Suriname
Swaziland *
Syrian Arab Republic
Tanzania, United Republic of * +
Thailand
Togo +
Tokelau Islands *
Tonga *
Trinidad and Tobago *
Tristan Da Cunha *
Tunisia
Turkey
Turks and Caicos Islands *
Tuvalu * +
Uganda * +
Uruguay
Vanuatu *
Venezuela
Viet Nam
Virgin Island, British *
Virgin Islands, U.S.A.
Yemen Arab Republic +
Yemen, People's Democratic Republic of +

Yugoslavia	Zambia *
Zaïre	Zimbabwe *

* Denotes GPT beneficiary countries and territories whose goods are also eligible for entry under the BP Tariff.

+ Denotes GPT beneficiary countries and territories designated as Least Developed Developing Countries whose goods are eligible for duty-free entry.

Source: Customs Tariff, Schedule III, March 1, 1988.

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