



Submission No 8

Inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea

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Korea-Australia Bilateral Relations

Development in Korea-Australia Bilateral Relations

The year 2011 marks the 50th anniversary of diplomatic relations between Korea and Australia. Our bilateral relationship has been very strong ever since 17,000 young Australian soldiers fought for the freedom and democracy of the Republic of Korea during the Korean War 60 years ago. The noble sacrifices of the Australian soldiers, particularly the 339 heroes who bravely sacrificed their lives, are long and vividly remembered in the minds and hearts of the Korean people.

After the Korean War, the Korean people's vibrant spirit and educational aspiration made possible its rapid industrialization, which led Korea from a 200 dollar per capita GDP to a more than 20,000 dollar one within 40 years, with world leading high-tech and heavy industries including shipbuilding and automobiles. In November 2009, Korea joined the OECD Development Assistance Committee, becoming the only country that has turned from an Official Development Assistance recipient to a donor.

After the establishment of bilateral diplomatic relations in 1961, our two nations have continuously developed a solid relationship based on the common values of democracy, human rights and market economy.

Our strong and long standing bilateral economic and trade relationship has recently been upgraded, and the two countries are beginning to enjoy strong security and defence cooperation as well as upgraded political cooperation in many bilateral and multilateral areas.

During the last three years and a half, there were more than ten summit meetings including Prime Minister Kevin Rudd's visit to Seoul in August 2008, President Lee Myung-bak's visit to Australia in March 2009, and Prime Minister Julia Gillard's visit to Seoul in November 2010 and again in April this year. And there were more than ten phone calls between the leaders of our two countries, in tandem with frequent foreign and trade ministerial meetings. These frequent contacts of the two leaderships are particularly demonstrative of the upgraded bilateral relationship between our two countries.

As two middle powers, Korea and Australia can play a creative and pivotal middle-power role together in the Asia-Pacific region. Recently, Korea and Australia together have played a crucial role in letting the voices of emerging economies be heard by the G-8 great powers in dealing with the current global financial crisis at the G-20 meetings. Our two countries very successfully played a pivotal middle-power role to promote the summit as the premier forum for international financial cooperation at the Pittsburgh G20 summit in September 2009, and cooperated very closely at the Seoul G20 summit last November as well. Both countries will lead on other human security issues such as climate change, non-proliferation, PKO, natural disaster and humanitarian assistance, to name a few.

Bilateral people-to-people exchanges have also increased remarkably. In 2009, more than 200,000 Korean tourists visited Australia, ranking it the sixth largest inbound country to Australia. The number of Korean students studying in Australia has reached 35,000 in total, third in size after China and India. Korea have about 35,000 working holiday visa students working and studying in Australia, second in total after the United Kingdom. The number of Korean Australians now exceeds 100,000.

Bilateral Trade

Trade between Korea and Australia has expanded rapidly over the past two decades. Korean exports to Australia have experienced a relatively lower increase than Australian exports to Korea in recent years. This tendency was sustained in the following years, as shown in Table 1.

Table 1 Korea-Australia Trade 1990~2011 (May)

Year	Export to Australia	Import from Australia	Trade Balance
1990	956	2,589	-1,633
1995	1,569	4,897	-3,328
2000	2,606	5,959	-3,353
2001	2,173	5,534	-3,361
2002	2,340	5,973	-3,633
2003	3,272	5,915	-2,643
2004	3,378	7,437	-4,059
2005	3,812	9,859	-6,047
2006	4,692	11,309	-6,617
2007	4,691	13,232	-8,541
2008	5,171	18,000	-12,829
2009	5,243	14,756	-9,513
2010	6,642	20,456	-13,814
2011(May)	2,991	10,069	-7,078

(Korea International Trade Association, Million US\$)

Korea remains as Australia's third-largest goods export market, and fourth-largest overall trading partner, with total two-way trade of goods and services worth US\$27 billion in 2010. The two countries are highly complementary, as Australia exports various minerals, foods and energy products that underpin Korea's manufacturing-based industry, while Korea supplies Australia with consumer products such as cars, electronics and refined fuels as below.

Table 2 Korea-Australia Trade Top 10 Goods in 2010

Rank	Export	Import
1	Automobile	Coal
2	Articles of Petroleum	Iron Ore & Concentrates
3	Wireless Communication Apparatus	Crude Petroleum
4	Vessel, Ocean Structure and Part of Vessel, Ocean Structure	Copper Ore
5	Articles of Paper	Aluminium
6	Video Apparatus	Favourite Food
7	Gold Silver and Platinum	Meat
8	Electric Wire	Other Metal Ores
9	Automobile Parts	Natural Gas
10	Steel Flat-Rolled Products	Gold Silver Platinum

(Korea International Trade Association 2010, MTI Unit 3 scale)

Table 2 indicates that Australia's major export goods to Korea are coal, Iron ore and concentrates, crude petroleum, copper ore and aluminium. Further inclusions are favourite foods, meat, other metal ores, natural gas and gold, silver and platinum; the top ten commodities account for 81.8 per cent of Australia's exports to Korea. Hence commodities dominate Australia's exports to Korea, the demand for which is strongly influenced by the performance of the Korean economy and global commodity prices.

On the other hand, Korea has focused upon knowledge and skill intensive economic activities as the basis of comparative advantages and this is likely to have profound implications for the existing structure of bilateral trade, which is currently based on complementary economies. In this vein, as Table 3 indicates, Korea has a clear comparative advantage in several manufactured products including machinery (electrical as well as precision) and transport-related equipment industries.

Table 3 Korean Export to Australia by Industry 2009~2010

Industrial Sector	2008		2009		2010	
	Value	Share	Value	Share	Value	Share
Primary Industry	260	5.0	426	8.1	233	3.5
Light Industrial Products	340	6.6	333	6.4	347	5.2
Heavy Industrial Products	4,010	77.6	3,974	75.8	5,567	83.9
IT Goods	561	10.8	510	9.7	495	7.4
Total	5,171	100	5,243	100	6,642	100

(Korea International Trade Association, million US\$, %)

During the last two decades Australia's exports to Korea grew steadily, but dropped in 2009 with the onset of the global financial crisis as Korea entered into a relatively shorter term economic recession than the financial crisis in 1997. Korea's exports to the world fell 18.3 percent in November 2009 as compared to the same period in 2008, with shipments to China tumbling by 27.8 percent. The last double-digit drop of exports was in 2002, amid the bursting of the so-called US dot.com bubble.

The Korean economy is heavily dependent on exports, especially to the US. Although China is now Korea's largest trading partner, much of what China imports from Korea is re-exported to the global markets in the form of finished goods. The recession has also affected Korean heavy industries using Australian raw materials. Australia's exports of essential raw materials and basic foodstuffs suffered less than most other countries' exports. Total Korean imports from Australia fell 18 per cent in 2009, while Korea's imports from China made a 27.8 per cent decrease.

The Korean economy grew 6.2 percent last year, the fastest expansion in eight years, as exports remained robust and facility investment jumped amid improved consumer spending, according to the Bank of Korea. Korea's gross domestic product (GDP) was revised up from an earlier estimate of 6.1 percent for last year. It marked the fastest growth since the Korean economy expanded 7.2 percent in 2002. Compared to the bilateral trade amount in 2009, Australia's exports to Korea in 2010 increased by 38.6 per cent, while Korean exports to Australia increased 26.7 per cent. The smaller drop in 2009 and wider expansion in 2010 of trade with Australia relative to other suppliers

highlighted the strong complementarities of the two economies, implying demand for Australian exports, particularly raw materials and intermediate inputs, which would remain strong over the medium to long terms.

Bilateral Investment

Since the financial crisis in Korea of 1997-1998, the level of investment between Australia and the ROK has grown and diversified over the last decade. Australian investment in Korea reported to the Ministry of Knowledge Economy was US\$224 million in 2009, more than nine times the amount of investment in 2001. Korean investment in Australia was reported at US \$1.2 billion in 2009, more than ten times the level in 2000.

From Australia, companies such as Macquarie Bank and ANZ Bank have a significant presence in Korea, and play active roles in funds management and infrastructure investment. Korean investors are involved mostly in resource development in import and distribution.

Table 4 Bilateral Direct investment

Year	Australia to Korea*		Korea to Australia**	
	Case	Amount	Case	Amount
1991	2	508	24	181,182
1995	13	6,852	41	59,022
2000	30	78,883	43	123,078
2001	32	23,395	33	11,573
2002	23	2,286	30	55,244
2003	31	129,399	46	186,775
2004	27	54,727	46	80,087
2005	25	51,419	76	132,619
2006	30	923,535	82	177,897
2007	24	46,981	120	155,372
2008	35	68,549	142	653,753
2009	33	224,515	130	1,251,568
2010	24	7,008	110	764,787

(* Ministry of Knowledge Economy, ** Korea EXIM Bank, Thousand US\$)

The amount of direct Australian investment in Korea from 2000 to 2010 was around 1.6 billion US dollars, as reported to the Ministry of Knowledge Economy. The Korean service sector had the biggest share, estimated at around 1.3 billion US dollars; the manufacturing sector combined with the construction and utility infrastructure sectors were 344 million US\$.

Korea's industrial sector has an excellent workforce and is well established in areas including electronics, machinery, cars, vessels, medical equipment and so on, offering excellent opportunities

for investment. Within the same time period, different patterns of investment into Korea by other major trade partners are evident, as shown Table 5.

Table 5 Accumulated Foreign Direct Investment into Korea during 2000~2010

Investor Origin	> 1 million		1 ~ 10 million		10 ~ 100 million		100 million <		Total	
	event	amount	event	amount	event	amount	event	amount	event	amount
US	4,511	810	868	2,806	308	8,711	64	16,913	5,720	29,241
Japan	4,575	983	972	3,125	230	6,276	31	7,845	5,771	18,229
Netherland	375	83	252	1,102	142	4,796	29	7,221	784	13,204
UK	566	135	198	648	75	2,134	16	6,481	853	9,398
Germany	613	118	236	908	91	2,841	15	2,640	952	6,506
Singapore	628	131	224	778	74	2,429	9	1,625	934	4,962
France	351	86	112	425	58	1,636	5	1,893	526	4,040
Canada	406	810	62	203	25	654	10	2,873	503	3,785
Malaysia	334	96	172	713	58	1,883	4	869	557	3,560
China	6,422	431	81	217	9	304	6	2,123	6,515	3,075
Hong Kong	669	147	172	509	33	823	6	1,470	879	2,949
Belgium	78	15	46	199	30	829	5	1,808	154	2,851
Australia	272	35	33	113	10	315	3	1,201	318	1,666

(Ministry of Knowledge Economy, million US\$)

In terms of direct investment into Australia, Korea made substantial investments in Australia, particularly in the natural resources sector, and is seeking to establish more opportunities for partnership with Australian companies in order to secure a reliable supply of energy and mineral resources.

Korean Investment in Australian Resources Sector

Resource commodities (energy and mineral products) plus simply-transformed metals such as aluminum and copper accounted for over 70 per cent of Australian merchandise exports to Korea. The largest export items in 2009-10 were coal (\$4.3bn), iron ore (\$2.9bn), crude petroleum (\$1.9bn) and aluminum (\$780m).

In 2009-10, Australia was Korea's number one supplier of coal and iron ore. Australia also exports crude petroleum, uranium and aluminum in large amounts. Korean companies such as POSCO, the Korea Resource Corporation (KORES), the Korea Gas Corporation (KOGAS) and SK Energy (SKE) import a huge amount of resources such as coal, iron ore, petroleum and natural gas which contribute to Korea's sustained economic development. In fact, about one third of the mineral resources consumed in Korea are imported from Australia, especially from Western Australia and Queensland.

KORES provides technical and financial assistance for private sector investment in resources projects. On 3 March 2006, KORES and the then Invest Australia signed a Memorandum of Understanding (MoU) aimed at “mutual cooperation for the exchange of information on mineral resources investment opportunities in Australia.” Invest Australia opened an office in Seoul in February 2007.

At the present, many large Korean corporations in mining-related businesses, including KORES, POSCO and SK, have a number of significant investments in Australian resource projects. Most Korean investments in mining are in joint ventures, but some are through wholly owned subsidiaries. Korea’s equity investment projects in Australia’s resources industry are listed in Table 6 below.

Korean companies have acquired equity in 10 and 12 coal mines in Queensland and New South Wales, respectively. Previously, the equity investments were typically 10 per cent or less of the total investment in a project. The level of equity investments has, however, significantly increased in recent years. POSCO has equity of 20 per cent in the Mount Thorley mine and KORES has 50 per cent in the Springvale mine. 95 per cent of the stakes in the Wyong coal mines are owned by Korean companies with KORES taking 82.25%, SK Networks 8.5%, and Kyung Dong 4.25% of the shares.

Iron ore is another resource in which Korean companies are increasing their investments in Australia. In January 2010, POSCO and STX signed a cooperative contract to jointly invest in the development of an iron ore mine in Roy Hill, Western Australia. The Roy Hill iron ore mine is a large-scale mine with an iron ore reserve of 2.4 billion tonnes. POSCO is to be annually provided with over 10 million tonnes of iron ore from 2014. In addition to the equity position, it is planned that POSCO and STX will participate in the engineering, procurement and construction of the Roy Hill Project.

There are also important deals for LNG. In 2009, KOGAS, the world’s biggest LNG buyer, signed a preliminary agreement to purchase 1.5 million tons annually for 15 years from the Gorgon LNG project starting in 2014. In regards to the Gorgon LNG project, Hyundai Heavy Industry, the world’s biggest shipbuilder, will build modules for the LNG plant for the Gorgon project by 2013.

KOGAS also entered into an agreement with Chevron Australia to acquire a minority interest in the Wheatstone Gas Project in July 2010. As part of the acquisition, the Wheatstone Gas Project will supply KOGAS with 1.5 million tonnes of LNG over a 20-year period and KOGAS will acquire a five per cent equity interest in the project.

More recently, KOGAS committed to buy a 15 per cent stake in the Gladstone LNG project and agreed on a long-term supply deal in December 2010. KOGAS will also import 3.5 million tonnes of LNG per year from Gladstone for 20 years starting in 2015.

Australia is a country with which Korea foresees continuing a strong and sustained partnership. This is driven to a large extent by Korea’s need to achieve a stable supply of energy and resources. Australia’s abundant mineral and energy resources supplies, stable political situation, sound infrastructure and the know-how in exploiting and developing resources make it an attractive investment market for Korea. Korean investments in Australia are expected to increase further, fuelled by its strong demand for natural resources.

Table 6 Korea's equity investment projects in Australia's resources industry

Resources	Project	Location	Company	Stake (%)	Annual Production (1000 tonnes)	Stage
Coal	Integra	NSW	POSCO	3.6	3,000	Production
Coal	Drayton	NSW	DAESUNG	5	5,000	"
Coal	Mt. Thorley	NSW	POSCO	20	3,000	"
Coal	Charbon	NSW	SK	5	1,000	"
Coal	Springvale	NSW	KORES, SKE	50	3,100	"
Coal	Ensham	QLD	LG	5	7,400	"
Coal	Clarence	NSW	SKE	15	2,000	"
Coal	Foxleigh	QLD	POSCO	20	2,200	"
Coal	Carborough Downs	QLD	POSCO	5	750	"
Coal	Minerva	QLD	KORES	4	2,500	"
Coal	Angus Place	NSW	KORES	50	3,600	"
Coal	Macarthur	QLD	POSCO	10	4,600	"
Coal	Ravensworth	NSW	POSCO	10	2,100	"
Coal	Moolarben	NSW	KORES	9	7,000	"
Coal	Narrabri	NSW	KORES	7.5	1,000	"
Coal	Cockatoo	QLD	KORES	14.84	600	"
Coal	Wyong	NSW	KORES	95	-	Development
Coal	Togara North	QLD	KORES	33.3	-	"
Coal	Athena	QLD	KORES	15	-	Exploration
Coal	Taraborah	QLD	KORES	100	-	"
Coal	Bandanna	QLD	SAMTAN	10	-	"
Coal	Bylong	NSW	Kepco	100	-	"
Zinc	Mount Garnet	QLD	Korea Zinc	4.4	76	Production
Zinc	Townsville	QLD	Korea Zinc	100	220	"
Iron ore	POSMAC	WA	POSCO	20	22,000	"
Iron ore	Jack Hill	WA	POSCO	12.3	1,600	"
Iron ore	Roy Hill	WA	POSCO	5.0	-	Exploration
Iron ore	API	WA	POSCO	24.5	-	"
Uranium	Marree	SA	KORES	50	-	"
Uranium	Callabonna	NSW	SKE	15.6	-	"
Nickel	White Cliff	SA	KORES	50	-	"
Copper	Bulia	QLD	KORES	100	-	"
Copper	Toomba West	QLD	SKE	100	-	"
Magnesite	Rockhampton	QLD	Wonjin	100	-	"
Magnesite	Marlborough	QLD	Wonjin	100	-	"
Total	35					

Future Economic and Trade Relations

Future opportunities through Bilateral FTA

As we can see in the preceding parts, Korea and Australia are on a promising path towards a strong cooperative and mutually beneficial economic relationship. Our two countries can further strengthen a highly complementary and growing bilateral trade and investment relationship through the conclusion of the bilateral Free Trade Agreement (FTA) negotiations which have been undertaken since May 2009.

An FTA which reduces or removes trade barriers provides a valuable opportunity to increase bilateral trade and investment flows. An improved trade and investment environment would also lead to potential commercial business opportunities for the mutual benefit of both countries. According to the Joint FTA Feasibility Study by ITS Global and the Korean Institute for International Economic Policy released on 17 April 2008, the Australian industries which contribute most to increases in Australian output are meat, dairy products, and non-ferrous metals. For Korea, the manufacturing industries contributing most to the overall expansion of production include, in particular, metal products, machinery, and motor vehicles and parts industries.

Service exporters could benefit from greater liberalisation of and access to the services market through the removal of specific barriers. The reduction or removal of regulatory barriers on services would also lead to improved trade flows across goods and services of interest to both economies. A bilateral FTA offers significant opportunities to strengthen and build on the bilateral relationship, to reap mutually beneficial outcomes through closer economic integration, especially in the areas of IT, automotive, communication, education, tourism and financial services.

According to the Joint FTA Feasibility Study, comprehensive bilateral liberalisation will boost the present value of real GDP between 2007 and 2020: Australia's real GDP by US\$22.7 billion and ROK's real GDP by US\$29.6 billion.

Currently, the Bilateral FTA negotiations are in the final stage. President Lee Myung-bak and Prime Minister Julia Gillard agreed to finalize the negotiations within this year. The Bilateral FTA will contribute to enhancing our overall relationship, and bring our two countries closer together, not only in terms of trade and investment, but also in terms of culture and values. If both countries take into due consideration our mutual interests and sensitivities, they can successfully conclude with a win-win FTA.

Areas for Future Cooperation

The 2010 Korea-Australia Dialogue was held from May 26 to 27 2010 in Seoul. Dialogue participants engaged in in-depth and fruitful discussions on ways to further strengthen the bilateral relationship between Korea and Australia – including foreign and security policies, trade and economic links and cultural and people-to-people exchanges. Participants agreed that Korea and Australia should not only expand bilateral trade but also diversify the bilateral economic relationship in various fields, including services, investment, and energy. Participants identified a number of areas for diversifying economic cooperation, stressing that both countries should work together, *inter alia*, to lower institutional barriers in order to achieve substantial economic cooperation:

- Information technology of Korea and biotechnology of Australia;
- Exploration and development of energy resources, including LNG;
- Renewable energy resources, including solar and wind power;
- Establishment of a financial hub through the opening of the Korean capital market;
- Investment in energy and mineral resources in Australia; and
- Investment and participation of Korea in building infrastructure in Australia.