

Time for an Australia-South Korea Free Trade Agreement (FTA)?

Australia has implemented FTAs with the United States and New Zealand; is currently negotiating an FTA with China; and has recently completed a joint FTA feasibility study with Japan (usually a precursor to negotiating an FTA). This means Australia has implemented, is negotiating or has laid the groundwork to negotiate an FTA with each of its top five export destinations—except South Korea.

This research note looks at the domestic political impediments in South Korea that are preventing progress towards an FTA and at the prospects that this may change in the near future.

South Korea-Australia Trade

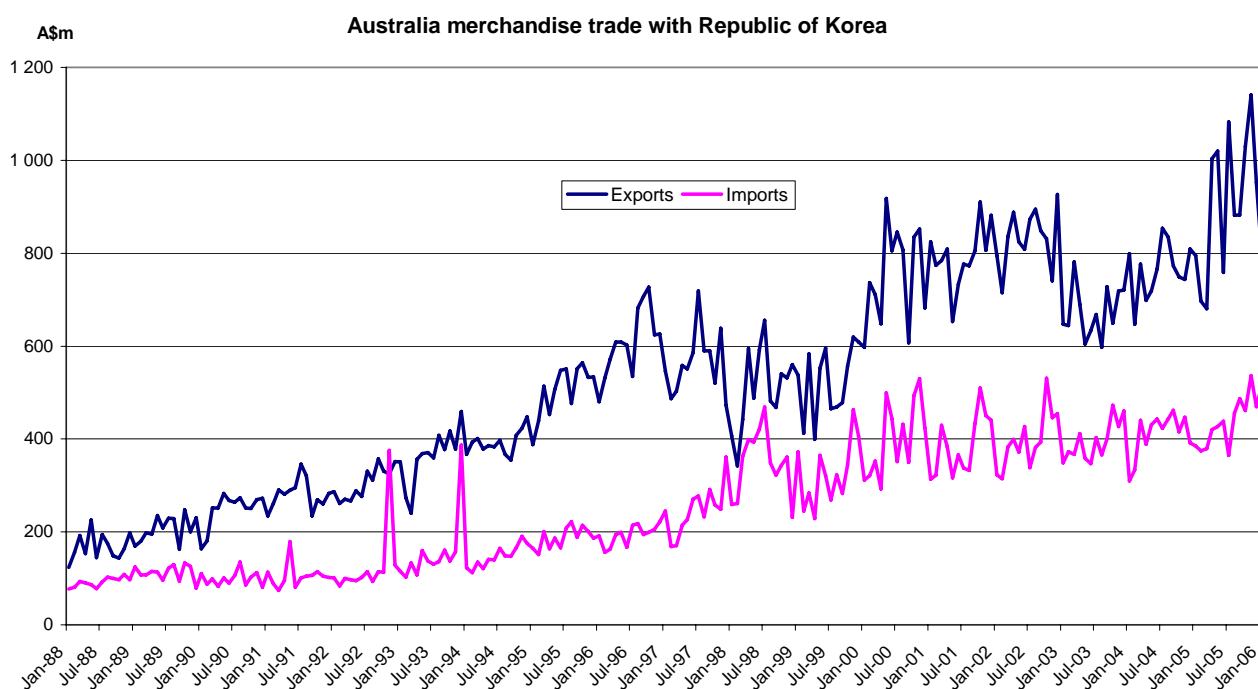
Australia and South Korea have enjoyed a highly successful and complementary trade relationship for over 30 years. Australian raw materials; predominantly coal, crude petroleum, iron ore, non-monetary gold, and aluminium; exported to South Korea return in the form of elaborately transformed

manufactures, including passenger motor vehicles, telecommunications equipment and televisions. South Korea is also an important market for Australian agricultural produce, with strong growth potential, if current high levels of agricultural protection were to be reduced.

In 2004–05, South Korea was Australia's third largest goods export market and Australia's ninth largest source of goods imports.

Despite the strong record in merchandise trade, trade in services has remained relatively low. Services trade between the two countries is dominated by tourism and education services, with banking and financial services only recently growing in importance.

Bilateral investment has also lagged behind the strong merchandise trade relationship. In 2004, South Korean cumulative investment in Australia amounted to \$1.3 billion and Australian cumulative investment



International trade in goods and services, Australia, ABS (5368.0)

in South Korea amounted to \$2.5 billion.¹ Recent efforts by the South Korean Government to further liberalise the foreign investment regulatory regime may encourage stronger Australian investment.

There are also indications that the future of the trade relationship may not be as rosy as the past. The South Korean economy is currently transforming from an industrial base to a knowledge intensive services base.² Accordingly, the demand for raw material inputs to industry that currently dominate the trade relationship, may grow at less than the current rates and may eventually decline. To date, attempts to diversify the relationship have had only limited success.

A key component of the current Australian Government strategy to strengthen the relationship is the pursuit of a bilateral FTA. On visits to South Korea Prime Minister John Howard, Foreign Minister Alexander Downer and Treasurer Peter Costello have all raised the issue. More recently, the newly appointed Australian Ambassador to South Korea, Peter Rowe, noted that the conclusion of an FTA would remain a primary diplomatic initiative during his tenure.³

Domestic political impediments in South Korea

In South Korea, Australia is popularly perceived as an idyllic holiday destination, a relatively inexpensive location to study English, and a highly efficient agricultural producer. However, there is little knowledge of Australia or the potential of the Australian economy beyond these perceptions.⁴ Australia is not seen as a major economic partner and, above all else, it is perceived as a threat to South Korean farmers.⁵

Australia is South Korea's 11th largest export destination and its 6th largest source of imports. However, in South Korea as elsewhere, public interest focuses on exports—despite the important

contribution that imports of Australian raw materials make to South Korean industry. Consequently, the economic relationship with Australia is not accorded the significance it arguably deserves.

The competitiveness of Australian agriculture has been cited as the primary reason why South Korea is currently not interested in FTA negotiations with Australia.⁶ This was reiterated by the South Korean Ministry of Foreign Affairs and Trade (MOFAT) in a press briefing following the visit of Australian Foreign Minister Alexander Downer in November 2005.⁷

Australia has on several occasions been the target of farmer protests. In 2001 and 2002 violent protests against the importation of Australian live cattle received national media coverage.⁸ Further, given Australia's prominent position as a key *demandeur* in international agricultural trade liberalisation negotiations, it is often framed negatively in the South Korean media, as in the *Korea Times*: 'On the other side of South Korea are the U.S. and the Cairns Group, consisting of 18 strong agricultural nations like Australia, calling for a dramatic reduction of all tariffs on agricultural produce'.⁹

In South Korean politics the agricultural sector wields power disproportionate to its contribution to the economy. This was demonstrated in opposition to the ROK-Chile FTA, in which opposition from the agricultural sector ensured negotiations were slow and difficult, and that the final agreement underwent substantial debate in the National Assembly.¹⁰ In January 2004, during the final vote, 71 out of 271 National Assembly members opposed its ratification.¹¹ This was despite agriculture accounting for only 3.6 per cent of GDP and rural workers representing less than 8.8 per cent of the workforce in 2003.¹²

In South Korea, many residents in the urban centres have familial or direct connection to rural

Table 1: Competitors in South Korean agricultural market and FTA negotiation status

Product	Australian exports in 2005 (USD million)	Export competitors having completed or currently in FTA negotiations with South Korea
Meat and meat preparations	554	United States, Canada, Chile, China
Dairy products and birds, eggs	61	United States, Canada
Cereals and cereal preparations	241	China, United States, Canada, Philippines
Animal feed	24	India, United States, China, Indonesia, Philippines, Canada, Malaysia
Live animals	4	United States, Japan, China, Canada
Sugar, sugar preparations and honey	256	Indonesia, China, United States, Thailand, Japan

Source: Korea International Trade Association (KITA) Database.

Table 2: Composition of Australian exports to South Korea (AUD million)

	2002	2003	2004
Total Exports	10 800	8940	10 029
Total merchandise	9983	8084	9150
- Primary products	5228	4100	5452
- Manufactures	1974	1780	1471
- - Simply transformed manufactures (STMs)	1036	783	642
- - Elaborately transformed manufactures (ETMs)	938	997	845
- Other merchandise	2781	2203	2226
Services	817	856	879

Source: Department of Foreign Affairs and Trade, Australia's Trade with East Asia, 2004.

hometowns. At the height of South Korea's industrialisation (1970–1995) an average of 380 000 people per year left the agricultural sector to find better employment elsewhere.¹³ The cultural significance of this rural connection plays an influential role in political support for farmers in the wider population.

The Australian Government has worked hard to allay perceptions of Australia as threatening to South Korean farmers. Research undertaken by the Department of Foreign Affairs and Trade (DFAT) notes that only 5 per cent of Australian agricultural exports to South Korea are sensitive.¹⁴ In rice production, a key rallying point for South Korean anti-trade demonstrators, Australia is a minor player, accounting for a meagre 0.2 per cent of global production. Three of Australia's four largest agricultural exports (wheat, sugar and cotton) already have tariff rates of 3 per cent or less.¹⁵ Further, it argues that the impact on sensitive sectors, including fruit and dairy is ameliorated by seasonal differences and product differentiation.

Prospects for a South Korea–Australia FTA

Despite the current strong domestic political opposition in South Korea to negotiating an FTA with Australia, there are indications that this situation may change.

On 2 February 2006, South Korea and the United States announced that they will commence FTA negotiations after a 90 day consultation period, with an aim to complete negotiations by June 2007.¹⁶

This will inevitably attract strong domestic political opposition from the South Korean agricultural sector. The stated aim of the United States, which is to open the South Korean rice and beef markets, has already resulted in protests by farmers.¹⁷ Opposition to closer economic relations with the United States is also

intertwined with the wider anti-American sentiment that has pervaded South Korean society since 2000.¹⁸

However, strong support from industry, business and small to medium-size enterprise (SME) exporters seeking better access to the world's largest economy may give the South Korean Government the power to push a deal through.

The successful negotiation, ratification and implementation of an FTA with the United States would also reinforce structural reform already underway in the agricultural sector. To date, structural reform of the sector has proven difficult due to both demographics and the structure of land ownership.

The majority of South Korean farms are small-scale family owned operations, with the average size in 2003 being 1.4 hectares, impeding efficiencies through economies of scale.¹⁹ Further, almost one in five of the rural population is considered elderly.²⁰ Accordingly, the sector suffers from steady rates of demographic decline, a limited ability to adapt to innovative practice and reform, as well as poor labour mobility. Consequently, the effectiveness of reform encouraging larger scale farming operations (and the associated productivity increases) has been limited.

A successful FTA deal with the United States would complement government initiated structural reform, as cheaper agricultural imports push inefficient small-scale operators out of the market. It may also have the effect of reducing the strength of lobby groups opposed to an FTA with Australia. Australian agricultural exports that are considered sensitive in the Korean market, primarily beef and dairy, would more than likely already be partially liberalised as a result of an FTA with the United States.

As noted by the United States Government Foreign Agricultural Service (FAS), Australia and the United

States are rivals in the South Korean agricultural market.²¹ Greater access for United States farmers through a successful FTA could reduce Australian market share (Table 1 lists the key areas of agricultural competition).

The impact of a South Korea-United States FTA on certain Australian exports could be immediate. As a pre-condition to commencing negotiations, the United States requested that South Korea end a ban on United States beef imports, which was imposed in December 2003 following the outbreak of Bovine Spongiform Encephalopathy, or 'mad-cow disease'. While the ban was in place, Australian (and New Zealand) beef exports significantly increased.²² United States beef exports were expected to resume in April 2006, however, the discovery of further mad cow disease cases in the United States has delayed the decision.²³

The key issue for all Australian exporters will be to ensure that a successful FTA deal between the United States and South Korea is rapidly followed by an Australia-South Korea FTA—before they are displaced from the South Korean market.

South Korean President, Roh Moo-Hyun may make a visit to Australia in 2006. While at this stage it would seem unlikely that an announcement on the commencement of FTA negotiations will be forthcoming, steady progress in ROK-US negotiations, may create an unexpected opportunity for Australia.

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